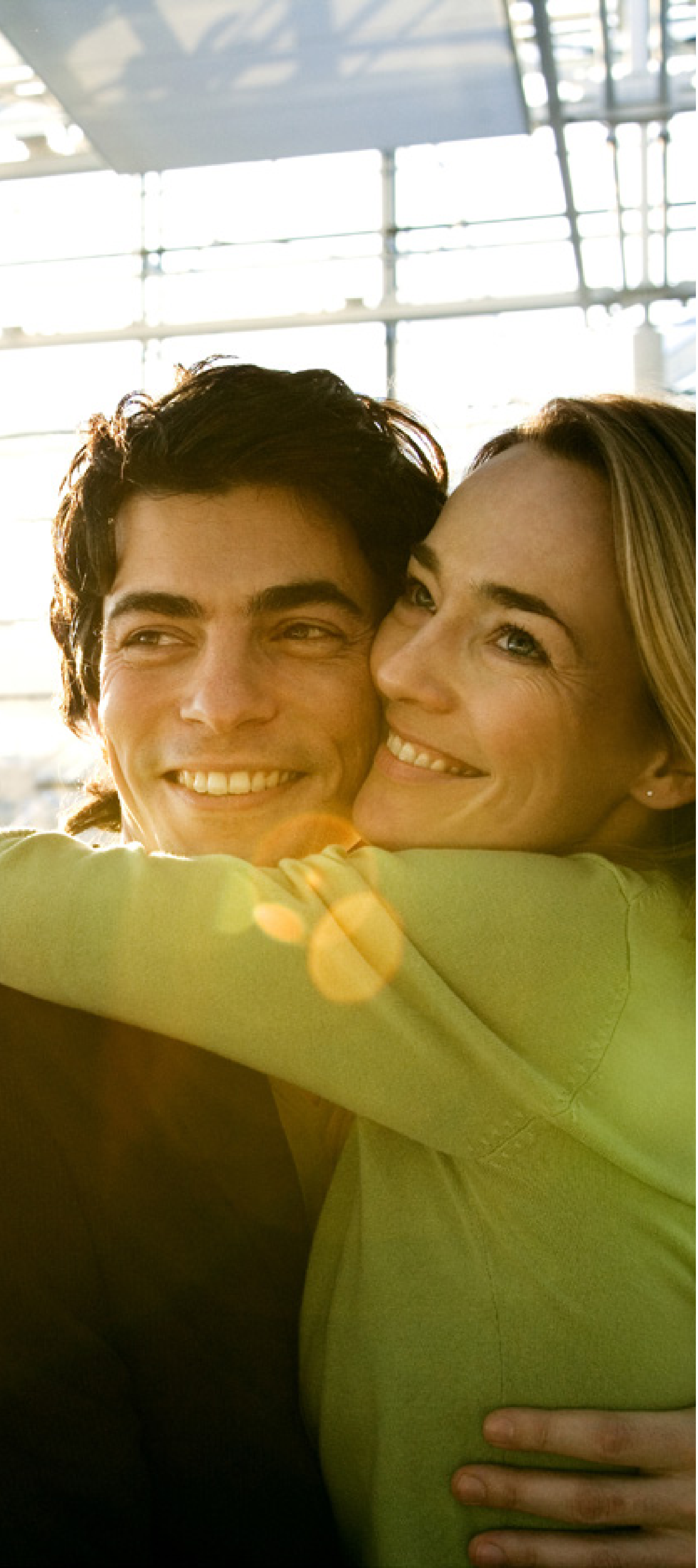
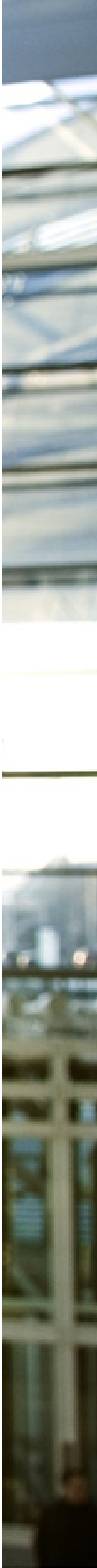




TAP GROUP

2013 Annual Report

Index

TAP GROUP


Train to City
Cash Machine
Shops & Cafés

MESSAGE OF THE CHAIRMAN OF THE GENERAL AND SUPERVISORY BOARD

The year of 2013 was marked by a slight slowdown in global economic growth.

The European economic climate showed however some consistent signs of gradual recovery in the second half of the year, with a positive impact on the evolution of air traffic. The price of fuel, on the one hand, following some oscillation in the first few months, tended to stabilise in the second half of the year, thus averting, at least temporarily, the spectre of another price increase.

The impact of this slight improvement of the economic outlook for European air transport in 2013 was nonetheless mitigated by a disruptive combination of global factors – outside the management control of airline companies – which have strongly conditioned the evolution of the sector.

The transformative impact of these factors on the fundamentals of the Industry have led to profound changes in traditional business models, intensifying competition and changing the structure and functioning of the market.

As a result, although the Industry registered an overall increase in profits in 2013, the financial equilibrium of many companies and the general profitability of the sector suffered a serious setback.

Among the various structural changes underway, some gained particular recognition in 2013: the continued global expansion of LCCs (low cost carriers); the progressive incursion of LCCs into the long-haul market, initially focused on Southeast Asia but now tentatively extended to the North Atlantic; the rapid growth of Middle East companies, true long-haul LCCs of modern times; the acceleration of the hybridisation of the LCC and FSC (full service carrier) models; the continuation of the consolidation movements in the Industry, through the growing establishment of specific bilateral partnerships, which transcend the current framework of global alliances; the invasive effects in the commercial, sales and distribution areas arising from technological innovation in the information and telecommunication fields.

In this general context of the sector, the very positive performance of TAP in 2013 is noteworthy.

TAP stood out amongst its European counterparts, significantly consolidating the expansion of its air transport operation in 2013, reflected in the substantial increase in the number of passengers transported (5%, against 1.6% in AEA) and ticket revenues (4.9%). A fact that is all the more notable insofar as it resulted from the better use of installed capacity, which remained constant (increase of 2.9 p.p. in the load factor, to 81.1%).

In addition, the reduction in fuel expenditure and the efficiency gains obtained in cost items controllable by the Company enabled it to accommodate the one-off cumulative effect of the increase in salary costs relative to 2012 as a result of the resumption of the payment of Christmas and holiday allowances in 2013.

In 2013, TAP, S.A. thus achieved not only a positive net income – which occurs for the fifth consecutive year – but also an encouraging increase in profit (34 million euros, against 24 million euros in 2012).

In the majority of other Group companies there was also a positive evolution, with the recoveries under way in the two loss-making associated companies, TAP M&E Brazil and SPdH, having continued. In the case of SPdH, the progress already achieved enabled it to reach break-even over the course of the financial year, having closed – for the first time since 2006 – its annual accounts with profit.

The general improvement of the performance of the associated companies of TAP was reflected in the consolidated net income of the Group, which reached a materially balanced situation in 2013.

In addition, despite some inevitable degree of exposure to geopolitical risk, rigorous treasury management made it possible to assure, over the course of the year, sufficient levels of liquidity for the operations of the Group and to also significantly reduce net debt.

The favourable evolution of the economic and financial indicators of TAP in 2013, particularly in the second half of the year, justified the upward revision of some of the assumptions of the Company's strategic plan. This resulted in decisions to accelerate investments provided for in the strategic plan and to bring forward and reinforce plans to open new routes and increase frequencies in existing destinations, decisions which reflect the management's commitment to improving the economic performance of the Company in the medium and long term.

It is therefore concluded that – in spite of the ups and downs of the Industry, in a state of permanent flux, in spite of the volatility of relevant markets, growing competitive pressures, uncertainties on the legal front, and the weakness of the socio-economic climate – TAP has reached the end of 2013 in a stronger position, as a company that is more solid and prepared to meet the immense challenges it is facing.

This has only been possible due to the collective contribution of everyone – the Management, Workers and Employees of TAP – which dedicated their very best efforts and talent to serving the Company. In the name of the General and Supervisory Council, I would like to express our heartfelt gratitude to all of you.

Manuel Pinto Barbosa

In spite of the ups and downs of the industry, in a state of permanent flux, in spite of the volatility of relevant markets, growing competitive pressures, uncertainties on the legal front, and the weakness of the socio-economic climate – TAP has reached the end of 2013 in a stronger position

2013 AT THE TAP GROUP – A RETROSPECTIVE AND A LOOK TOWARDS THE NEAREST FUTURE

"TAP has managed to successfully navigate last year's difficult waters, with the Air Transport area achieving remarkable growth, despite the adverse conjuncture, with increased occupancy rates and much better results than those recorded in the prior year"

Fernando Pinto

Chairman of the Executive Board of Directors of TAP Group

Highlights regarding TAP Group business in 2013 primarily concern the steep increase in the number of passengers and the positive results achieved, in a year where no investment was made in supply growth. How were these goals achieved, particularly when considering the poor economic performance of Portugal and Europe?

Fernando Pinto – At a time Portugal and Europe are experiencing serious economic difficulties, TAP has managed to change its positioning and achieve growth. This is even more significant when considering that, according to all available indicators, business variations for most airlines have remained close to twice the GDP variations in the corresponding Countries. Nevertheless, TAP was able to overcome these adverse circumstances, mostly by adjusting their offer in regions with smaller potential and increasing the number of flights to popular destinations. The number of available seats remained unchanged throughout in 2013; what we effectively achieved was to improve our performance by adjusting our flight offer, without increasing our fleet.

Competition increased considerably, mostly as a result of the significant growth of low-cost airlines in Portugal, partly as a result of our own success. TAP decisively contributed to turning Portugal into a more popular tourist destination. Moreover, Portugal is undergoing a serious recovery process, despite all the difficulties experienced. I would even go as far as saying that, as a result of this success, Portugal has attracted greater attention on a global level, which ultimately had a positive impact on tourism and business.

The fact that TAP has not been affected by the adverse economic conditions currently faced by Portugal and other European countries is also a result of the geographical expansion of our routes. Despite having decreased in Portugal, ticket sales increased in strong markets, such as Germany, France and the United Kingdom, which were less affected by the economic crisis. Our increased focus on specific European destinations, primarily Scandinavian and Eastern European Countries, also contributed to this success.

Moreover, TAP business also increased in Africa and Brazil, having benefitted from the 2014 World Cup and the 2016 Olympic Games. I must also mention the United States, as our flights to Miami, one of our most recent destinations, have caused the number of passengers flying to this country to nearly double.

In this sense, TAP has managed to successfully navigate last year's difficult waters, with the Air Transport area achieving remarkable growth, despite the adverse conjuncture, with increased occupancy rates and much better results than those recorded in the prior year.

A certain degree of service disruption occurred in the summer of 2013. Did the steep increase in the number of passengers transported without increasing the fleet cause a decline in service quality?

FP – In overall terms, quality increased remarkably in 2103, particularly when the three most relevant indicators are considered.

Firstly, let us consider baggage service quality. We managed to reach an irregularity level of 10 baggage items per thousand passengers, which is not only very good for a hub company, but also made us one

of the best hubs in Europe in 2013. Secondly, the flight regularity indicator, which reflects the cancellation percentage, reached 99%, one of the best values in recent years. Finally, punctuality was 74%, a value slightly below expectations, but which we hope to improve.

Nevertheless, I must admit that we experienced a few difficulties regarding in-flight services during the peak season, primarily as a result of two circumstances. Firstly, it is a well-known fact that the number of flights always increases in the summer. The summer of 2013 was no different, although the number of aircraft remained constant. Secondly, the restrictions imposed by the State Budget Law caused Cabin Crews to be reduced to a minimum, a situation that was aggravated by an increase in absenteeism.

Together, these circumstances led to the absence of an attendant on several flights, causing in-flight services to be missing. This doubtlessly damaged the Company's image during this period.

Despite all the problems, the number of carried passengers increased considerably and operating income was very satisfactory, especially when compared to other companies, which reported poorer results in 2013, while TAP business managed to improve…

FP – TAP managed to improve business by making better use of available seats and charging suitable fares. Companies often need to reduce their fares dramatically if they wish to remain competitive. Although fares were lowered, the increase in passenger numbers made up for this reduction. TAP was able to offer better prices to Customers, which led to greater demand. We also proceeded with our efforts to increase Company efficiency. In fact, I should mention that 2013 was the last of a relevant three-year period during which we managed to reduce operating expenses by 250 million euros.

Still concerning TAP SA, the Maintenance & Engineering unit suffered a steep decline in income…

FP – That is correct, M&E Portugal, which is independent from the unit we operate in Brazil, suffered a considerable decline in income, which had a negative impact on results. This decline was due to a significant increase in competition within this sector, with the entry of companies financed by Middle Eastern Countries into the market. Moreover, these companies operate globally, which has brought competition to an entirely new level in all tenders on which we bid.

Regarding engine maintenance, which has always been TAP's greatest strength, the third-party engine servicing area suffered a 40% decline. Although business apparently started to pick up by the end of the year, this recovery was still not sufficient to offset the initial losses. Performance levels for the remaining areas, i.e. aircraft and parts maintenance, were satisfactory.

Regarding the TAP Group, the Maintenance area in Brazil improved its performance slightly, with increases of approximately 20% in service provision revenues and operating income, although the final balance was not as good as we would have liked, mostly as a result of extraordinary items, which have nevertheless been decreasing steadily. In this sense, it is undeniable that TAP Maintenance & Engineering Brazil is undergoing a solid recovery process.

> "We seek to develop new solutions that will benefit final customers, namely by focusing on social networks and implementing solutions suited to mobile devices, as well as self-check-in solutions, amongst other initiatives. Moreover, we also seek to improve technological solutions aimed at internal customers"

Regarding subsidiaries, Groundforce also experienced a significant recovery, already showing profits and continuing to provide increasingly better services. A more efficient company, Groundforce has already achieved the expected results, under a new shareholder and running mostly on private capital.

Having performed on a par with TAP, Cateringpor provided services of exceptional quality and surpassed all expectations. Lojas Francas de Portugal (Duty Free Shops) also achieved exceptional results. In this sense, I would like to underscore the significant contribution given by these companies, as well as UCS and Megasis, to the overall results of the TAP Group.

Regarding customer service, did TAP continue to be a pioneering company in 2013?

FP – Concerning this area, we continuously pursue innovative technologies. In this sense, we seek to develop new solutions that will benefit final customers, namely by focusing on social networks and implementing solutions suited to mobile devices, as well as self-check-in solutions, amongst other initiatives. Moreover, we also seek to improve technological solutions aimed at internal customers, namely by implementing technological platforms whose remarkable performance has resulted in extraordinary improvements in efficiency.

An alleged human capital flight as a result of restrictions imposed by the State Budget and salary cuts was prominently featured in the media. Is this a fact? And to which extent was TAP affected?

FP – About 30 out of 930 Aircraft Maintenance Technicians left the company in 2013, which obviously caused problems, since these are highly specialised employees, who have acquired a vast and very value experience over the years. Anticipating this situation, and since AMTs are trained by TAP, we organised training courses that would allow us to replace leavers. Despite experiencing some difficulty recruiting new technicians as a result of the restrictions imposed by the State Budget, we were able to speed up this process with the Government's support. As highly qualified professionals, TAP technicians are widely sought after and sometimes leave, a situation that also occurs with pilots. In fact, 37 out of 900 pilots left, which has forced TAP to organise more intensive training courses since 2012. Some employees have also retired and more will do so in the future; however, TAP has been changing and adjusting its strategy, namely in what concerns training plans, albeit maintaining its high quality standards.

Have the austerity measures imposed made it more difficult to manage the TAP Group?

FP – This is doubtlessly a concern, especially because the State Budget Law applies to all sectors and all State-owned companies. However, the unique character of TAP must be taken into account. As a Company that operates on a global level, TAP needs to be sufficiently flexible to compete on a global scale, which involves being equipped with the same resources as other airlines and operating according to market laws. This includes all issues where personnel is concerned, which is why we must ensure our salaries are on a par with the sector average. In fact, we cannot afford to lower salaries to an extent where we would no longer be able to attract and retain qualified professionals. Moreover, we must eliminate limitations if we wish to grow and face the challenges presented by the competitive market in which we operate.

A series of additional restrictions included in the State Budget would also have created considerable difficulties to our business, had they been adopted without any adjustments. Intense negotiations with the Government were required in order to address these issues; however, I must say that we met with the full understanding and assistance of the Government in implementing the required changes and adjustments.

According to the media, TAP's value increased as a result of a revaluation carried out in 2013. Can you tell us by how much?

FP – I cannot give you a precise figure, as this depends on several factors, namely market conditions; however, indices alone should be able to provide a reasonable estimate. EBIDTAR, an important criterion to calculate a value multiplier, increased, whereas liabilities, which reduce a company's value, decreased. When considered together, these factors clearly result in increased value. Moreover, TAP has reached a different growth level. At the end of a positive year, as was 2013, the Company is obviously more solid and better able to face future challenges.

What is the Company's outlook?

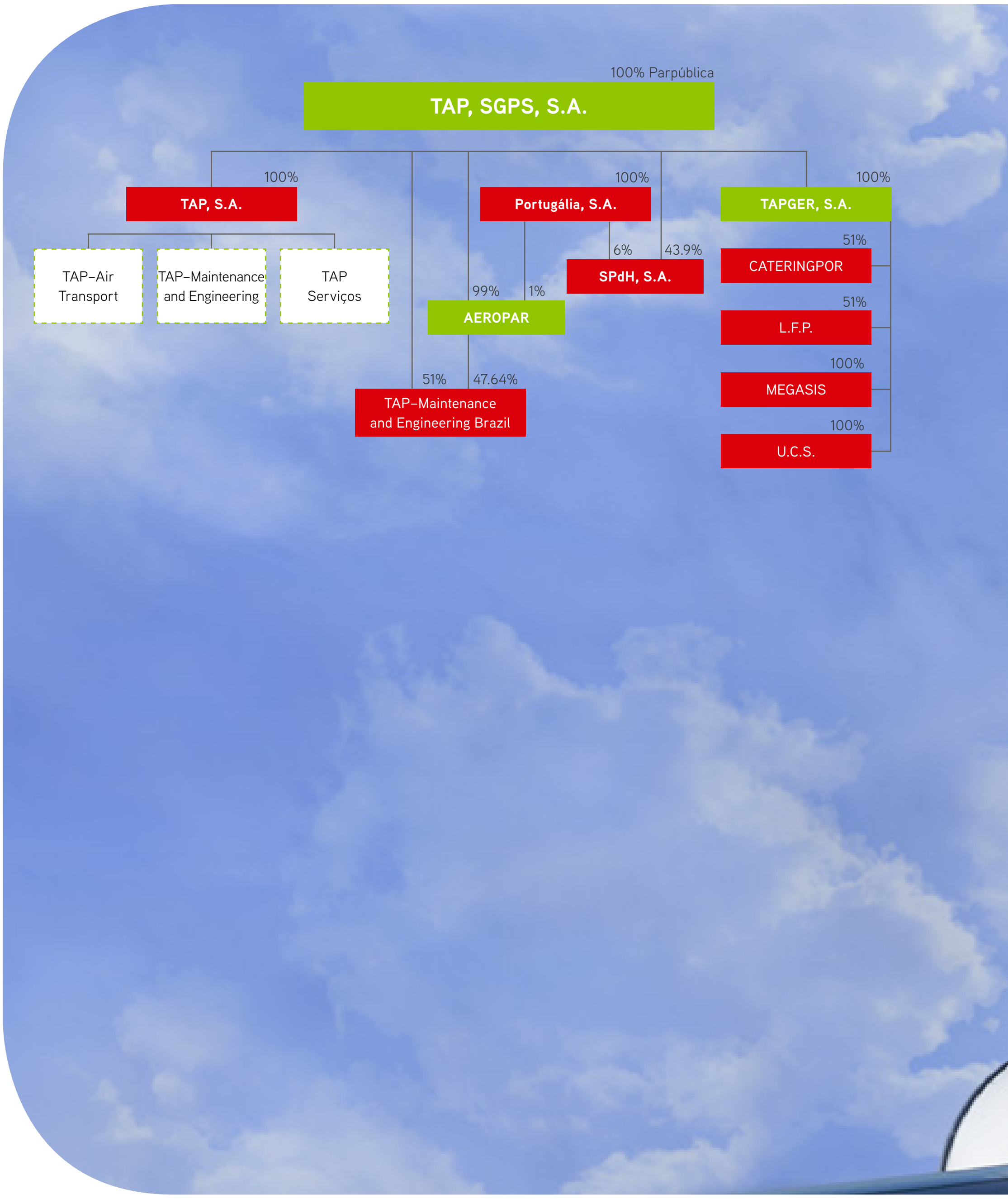
FP – We intend to launch 11 new routes in 2014, namely two to Brazil, one to Colombia, one to Panama and the remaining seven to European destinations. We expect to add six aircraft to our fleet, which represents huge growth, after which we will need to consolidate our operations. These are our perspectives for the near future, which are indeed very encouraging.

"As outlook, we intend to launch 11 new routes in 2014, namely two to Brazil, one to Colombia, one to Panama and the remaining seven to European destinations. We expect to add six aircraft to our fleet, which represents huge growth"

SHAREHOLDER STRUCTURE OF TAP GROUP

December 31, 2013

At the end of 2013, the Group of companies that were part of the consolidation perimeter of the TAP holding was made up of TAP-Transportes Aéreos Portugueses, SGPS, S.A. and its subsidiaries, according to the organisational diagram.




PORTUGAL

CORPORATE GOVERNANCE

Corporate governance in 2013 was characterised by the need to respond to the challenges that the economic climate in Portugal and in the Euro Zone have placed on management.

Following the suspension of the privatisation process, the Company had to resume its activity during a challenging period for the business and, at the same time, subject to the strict guidelines imposed on state-controlled companies. Particular note should be made of salary issues, with pay cuts, elimination of subsidies followed by the contrary ruling of the Constitutional Court, definition of rules for prior control of expenses, which called for exceptional assessment and adaptation efforts from the Executive Board of Directors, with a view to matching said guidelines with the objectives of growth and operating efficiency of TAP, but also strong collaboration between the corporate governance bodies. It is also important to point out the efforts in obtaining funds for investments that are vital for the growth of TAP's activity. This endeavour, as well as the reasons for the proposed measures, merited the consent of the shareholder and of the regulatory bodies, thereby ensuring the stability of the Company in the pursuit of its sustainable growth path.

In this context, the executive management did not waver its commitment to and resolve in the development of the Company's Strategic Plan, having assumed the challenges facing it, without neglecting the adverse contingencies it had to consider within the scope of the many management options adopted. It was thus possible to proceed with the investments projected for the renewal of the fleet, the expansion to new routes, as well as ensure social peace in the Company (to which the reinstatement of subsidies contributed significantly).

The Executive Board of Directors relied on the cooperation, monitoring, supervision and informed counselling of the General and Supervisory Board, in all the matters that it is responsible for pursuant to the articles of association, as well as on the qualified contribution of the Specialised Commissions (Auditing and Sustainability and Corporate Governance), and of the task forces specifically created by this Council to handle specific issues. The institutional relationship between the two bodies, underpinned by seven years of experience of the two-tier model of corporate governance, was thus strengthened.

The information on the Company's regulations, Articles of Association and activities of the Governing Bodies is available for consultation at the TAP Group's website www.flytap.com.

Executive Board of Directors

Fernando Abs da Cruz Souza Pinto
Chairman

Luís Manuel da Silva Rodrigues
Member

Fernando Jorge Alves Sobral
Member

Luiz da Gama Mór
Member

Manoel José Fontes Torres
Member

Michael Anthony Conolly
Member

GOVERNING BODIES

TAP–TRANSPORTES AÉREOS PORTUGUESES, SGPS, S.A.
TAP, S.A.

Through deliberation at the General Meeting Committee of 2nd June, 2009, for the three-year period 2009-2011.

General Meeting Committee

Chairman	Paulo Manuel Marques Fernandes
Vice-Chairman	António Lorena de Sèves
Secretary	Orlanda do Céu S. Sampaio Pimenta d' Aguiar

STRUCTURE OF THE EXECUTIVE BOARD OF DIRECTORS, THE GENERAL AND SUPERVISORY BOARD AND THE SPECIALISED COMMISSIONS

Executive Board of Directors

Chairman	Fernando Abs da Cruz Souza Pinto
Member	Fernando Jorge Alves Sobral (requested termination, taking effect on 30 September 2013)
Member	Luís Manuel da Silva Rodrigues
Member	Luiz da Gama Mór
Member	Manoel José Fontes Torres
Member	Michael Anthony Conolly

General and Supervisory Board

Chairman	Manuel Soares Pinto Barbosa
Member	Carlos Alberto Veiga Anjos
Member	João Luís Traça Borges de Assunção
Member	Luís Manuel dos Santos Silva Patrão
Member	Maria do Rosário Miranda Andrade Ribeiro Vítor
Member	Rui Manuel Azevedo Pereira da Silva
Member	Vítor José Cabrita Neto

Through deliberation of the General and Supervisory Board, in a meeting on 26th June, 2009.

Specialised Auditing Commission

Manuel Soares Pinto Barbosa
João Luís Traça Borges de Assunção
Rui Manuel Azevedo Pereira da Silva

Specialised Sustainability and Corporate Governance Commission

Manuel Soares Pinto Barbosa
Carlos Alberto Veiga Anjos
João Luís Traça Borges de Assunção
Luís Manuel dos Santos Silva Patrão
Maria do Rosário Miranda Andrade Ribeiro Vítor
Rui Manuel Azevedo Pereira da Silva
Vítor José Cabrita Neto

General and Supervisory Board

Manuel Soares Pinto Barbosa
Chairman

Carlos Alberto Veiga Anjos
Member

João Luís Traça Borges de Assunção
Member

Luís Manuel dos Santos Silva Patrão
Member

Maria do Rosário Miranda Andrade Ribeiro Vítor
Member

Rui Manuel Azevedo Pereira da Silva
Member

Vítor José Cabrita Neto
Member

Company Secretary

Through deliberation of the Executive Board of Directors, in a meeting on 23rd June, 2009.

Company Secretary
Orlanda do Céu S. Sampaio Pimenta d' Aguiar

Alternate Company Secretary
Alda Maria dos Santos Pato

Meetings of the Board of Directors

During 2013, 14 meetings were held by the Executive Board of Directors of TAP, SGPS, S.A. and 19 meetings were held by the Executive Board of Directors of TAP, S.A..

Main Deliberations of the Boards of Directors in 2013

TAP, SGPS, S.A.	Creation of the Continuous Improvement Programme
	Approval of the 2013 Amending Budget
	Approval of the Plan of Activities and Budget for 2014
TAP, S.A.	Creation of the Optimisation and Performance – Continuous Improvement area
	Approval of LoIs relative to leasing contracts of 2 A330 aircraft and 2 A320 aircraft
	Change to the Purchase and Sale Agreement of A330 and A350 celebrated on 31 December 2005 between Airbus S.A.S. and TAP

Supervision of the Company

Official Accountant

Through deliberation at the General Meeting Committee of 2nd June, 2009, for the three-year period 2009-2011.

TAP–Transportes Aéreos Portugueses, SGPS, S.A.

Permanent	Oliveira, Reis & Associados represented by José Vieira dos Reis
Alternate	Fernando Marques Oliveira

TAP, S.A.

Permanent	Oliveira, Reis & Associados represented by José Vieira dos Reis (until 4 December 2013)
	Oliveira, Reis & Associados represented by Joaquim Oliveira de Jesus (since 5 December 2013)
Alternate	Fernando Marques Oliveira

COMPLIANCE WITH LEGAL GUIDELINES

MANAGEMENT OBJECTIVES

No objectives were defined by the holder of the shareholder function, through deliberation of the general meeting.

FINANCIAL RISK AND DEBT MANAGEMENT

Years	2009	2010	2011	2012	2013
Financial costs (€)	(46,558)	(44,977)	(44,524)	(55,271)	(46,993)

Remunerated Liabilities (€)	2012	2013	Var. (abs.)	Var. (%)
Non-current Liabilities	775,390	660,131	(115,259)	-14.9%
Loans received	775,390	660,131	(115,259)	-14.9%
Current Liabilities	258,674	390,512	131,838	51.0%
Loans received	258,674	390,512	131,838	51.0%
Total Remunerated Liabilities	1,034,064	1,050,643	16,579	1.6%

RECOMMENDATIONS OF THE SHAREHOLDER

There were no recommendations of the shareholder issued at the time of approval of the accounts for 2012.

REMUNERATIONS

// The remuneration of the Governing Bodies of TAP is set by the General Meeting (see article 11 of the Articles of Association of TAP, SGPS).

// The members of the Executive Board of Directors and General and Supervisory Board are remunerated, exclusively, for positions held at TAP, S.A., and do not earn any remuneration for positions held at TAP, SGPS or at any other TAP Group company.

Of the Governing Bodies

Board of the General Meeting

Mandate (Start – End)	Position	Name	Annual Remuneration	
			Fixed Remuneration Status (1)	Gross Paid
2009-2011 (*)	Chairman	Paulo Manuel Marques Fernandes	640 €	1,280 € (2)
	Vice-Chairman	António Lorena de Sèves	400 €	800 € (2)
	Secretary	Orlanda do Céu Silva Sampaio Pimenta d'Aguiar	330 €	660 € (2)

(1) Established value of the attendance voucher; (2) Value corresponds to a General Meeting at TAP, SGPS and a General Meeting at TAP, S.A.
(*) See number 4 of article 391 of the Companies Code

General and Supervisory Board

Mandate (Start – End)	Position	Name	Appointment	
			Doc.	Date
2009-2011 (*)	Chairman	Manuel Pinto Barbosa	General Meeting	02.Jun.09
	Member of the GSB	João Borges de Assunção	General Meeting	02.Jun.09
	Member of the GSB	Carlos Veiga Anjos	General Meeting	02.Jun.09
	Member of the GSB	Luís Patrão	General Meeting	02.Jun.09
	Member of the GSB	Maria do Rosário Vítor	General Meeting	02.Jun.09
	Member of the GSB	Rui Azevedo Silva	General Meeting	02.Jun.09
	Member of the GSB	Vítor Cabrita Neto	General Meeting	02.Jun.09

(*) See number 4 of article 391 of the Companies Code

Name	Annual Remuneration					
	Variable	Fixed (*)	Other	Reduction Law 12-A/2010	Reduction (State Budget Law)	Gross after Reductions
Manuel Pinto Barbosa	n.a.	126,000.00 €	–	6,300.00 €	11,970.00 €	107,730.00 €
João Borges de Assunção	n.a.	98,000.00 €	–	4,900.00 €	9,310.00 €	83,790.00 €
Carlos Veiga Anjos	n.a.	98,000.00 €	–	4,900.00 €	9,310.00 €	83,790.00 €
Luís Patrão	n.a.	98,000.00 €	–	4,900.00 €	9,310.00 €	83,790.00 €
Maria do Rosário Vítor	n.a.	98,000.00 €	–	4,900.00 €	9,310.00 €	83,790.00 €
Rui Azevedo Silva	n.a.	98,000.00 €	–	4,900.00 €	9,310.00 €	83,790.00 €
Vítor Cabrita Neto	n.a.	98,000.00 €	–	4,900.00 €	9,310.00 €	83,790.00 €

(*) Only for remuneration, with there being no entitlement to representation expenses

Name	Meal Allowance	Social Benefits				
		Social Protection Scheme		Health Insurance	Life Insurance	Personal Accident Insurance
		Identify	Value			
Manuel Pinto Barbosa	n.a.	Social Security	16,726.92 €	n.a.	n.a.	n.a.
João Borges de Assunção	n.a.	Social Security	16,726.92 €	n.a.	n.a.	n.a.
Carlos Veiga Anjos	n.a.	National Pensions Fund		n.a.	n.a.	n.a.
Luís Patrão	n.a.	Social Security	16,726.92 €	n.a.	n.a.	n.a.
Maria do Rosário Vítor	n.a.	Lawyers and Solicitors Welfare Fund		n.a.	n.a.	n.a.
Rui Azevedo Silva	n.a.	Social Security	16,726.92 €	n.a.	n.a.	n.a.
Vítor Cabrita Neto	n.a.	Social Security	16,726.92 €	n.a.	n.a.	n.a.

Board of Directors

Mandate (Start – End)	Position	Name	Appointment	
			Doc.	Date
2009-2011 (*)	Executive Chairman	Fernando Pinto	General Meeting	02.Jun.09
	Executive Director	Michael Conolly	General Meeting	02.Jun.09
	Executive Director	Manoel Torres	General Meeting	02.Jun.09
	Executive Director	Luiz Mór	General Meeting	02.Jun.09
	Executive Director	Jorge Sobral (1)	General Meeting	02.Jun.09
	Executive Director	Luís Rodrigues	General Meeting	02.Jun.09

(*) See number 4 of article 391 of the Companies Code
(1) Requested termination due to retirement, taking effect on 30 September 2013

Name	EGP				OPRLO	
	Fixed [Y/N]	Classification [A/B/C]	Salary Value (monthly)	Representation Expenses Value (monthly)	Identify Entity [identified/n.a.]	Payer [O/D]
Fernando Pinto	Y	Exempt (1)	–	–	–	–
Michael Conolly	Y	Exempt (1)	–	–	–	–
Manoel Torres	Y	Exempt (1)	–	–	–	–
Luiz Mór	Y	Exempt (1)	–	–	–	–
Jorge Sobral	Y	Exempt (1)	–	–	–	–
Luís Rodrigues	Y	Exempt (1)	–	–	–	–

Note: EGP – Public Manager Status; OPRLO – Option for Remuneration of Place of Origin; O/D: Origin/Destination
(1) Under the terms of RCM 36/2012 of 15 March 2012

Name	Annual Remuneration					
	Variable	Fixed (*)	Other	Reduction Law 12-A/2010	Reduction (State Budget Law)	Gross after Reductions
Fernando Pinto	–	420,000.00 €	–	21,000.00 €	39,900.00 €	359,100.00€
Michael Conolly	–	280,000.00 €	–	14,000.00 €	26,600.00 €	239,400.00 €
Manoel Torres	–	280,000.00 €	–	14,000.00 €	26,600.00 €	239,400.00 €
Luiz Mór	–	280,000.00 €	–	14,000.00 €	26,600.00 €	239,400.00 €
Jorge Sobral	–	243,551.16 €	–	12,177.56 €	23,137.36 €	208,236.24 €
Luís Rodrigues	–	280,000.00 €	–	14,000.00 €	26,600.00 €	239,400.00 €

(*) Only for remuneration, with there being no entitlement to representation expenses

Name	Meal Allowance	Social Benefits					Other	
		Social Protection Scheme		Health Insurance	Life Insurance	Personal Accident Insurance		
		Identify	Value				Identify	Value
Fernando Pinto	1,135.32 €	Social Security	16,726.92 €	978.00 €	18,361.84 €	1,093.54 €	Accommodation expenses in Portugal – gross value	85,205.76 €
Michael Conolly	1,053.00 €	Social Security	77,093.87 €	978.00 €	33,416.00 €	1,093.54 €	Accommodation expenses in Portugal – gross value	85,205.76 €
Manoel Torres	1,024.92 €	Social Security	77,093.87 €	978.00 €	27,739.26 €	1,093.54 €	Accommodation expenses in Portugal – gross value	85,205.76 €
Luiz Mór	996.84 €	Social Security	77,093.87 €	978.00 €	13,840.55 €	1,093.54 €	Accommodation expenses in Portugal – gross value	85,205.76 €
Jorge Sobral	767.52 €	Social Security	49,456.10 €	978.00 €	13,746.30 €	817.90 €	–	–
Luís Rodrigues	1,151.28 €	Social Security	16,726.92 €	978.00 €	4,307.49 €	1,093.54 €	–	–

Name	Mobile Communication Expenses		
	Defined Annual Ceiling	Annual Value	Comments
Fernando Pinto	9,000.00 €	7,026.16 €	includes expenses related to internet
Michael Conolly	9,000.00 €	765.36 €	
Manoel Torres	9,000.00 €	1,706.24 €	
Luiz Mór	9,000.00 €	4,893.27 €	
Jorge Sobral	9,000.00 €	1,348.80 €	
Luís Rodrigues	9,000.00 €	3,192.11 €	

Costs related to Vehicles								
Vehicle fleet for use by the Executive Board of Directors and general support services of the Governing Bodies	Conclusion of individual contracts for use of vehicles	Reference value of the vehicle	Mode	Starting Year	End Year	Number of Instalments	Value of the Monthly Rent [a]	Annual Value
12-ND-38	N	53,899.53 €	Renting	2012	2016	48	1,059.44 €	12,713.40 €
88-NC-57	N			2012	2016	48	1,059.44 €	12,713.40 €
21-EM-43	N	51,027.65 €	Acquisition	2007	n.a.	n.a.	n.a.	n.a.
66-EJ-82	N			2007	n.a.	n.a.	n.a.	n.a.
69-EJ-08	N			2007	n.a.	n.a.	n.a.	n.a.
10-FQ-07	N			2008	n.a.	n.a.	n.a.	n.a.
14-IM-45	N			2009	n.a.	n.a.	n.a.	n.a.

a) Value of insurance €98.62/month, included in the monthly instalment rent (€1,059.44)

Name	Defined annual Plafond for fuel of the vehicle fleet allocated to the Governing Bodies	Annual costs of the vehicle fleet allocated to the Governing Bodies		
		Fuel	Tolls	Insurance
Fernando Pinto	24,000.00 €	17,616.00 €	6,731.80 €	€ 1,183.44 for rented vehicles (value included in the rent); from € 803.65 to € 1,112.29 for vehicles owned by TAP
Michael Conolly				
Manoel Torres				
Luiz Mór				
Jorge Sobral				
Luís Rodrigues				

Name	Annual costs related to Work Travel				
	Accommodation cost	Daily allowances	Other		Total travel cost (Σ)
			Identify	Value	
Fernando Pinto	3,439.90 €	3,870.75 €	Transport	607.34 €	7,917.99 €
Michael Conolly	1,068.11 €	2,776.54 €	Transport	914.73 €	4,759.38 €
Manoel Torres	0.00 €	697.05 €	Transport	55.00 €	752.05 €
Luiz Mór	4,555.86 €	2,766.40 €	Transport	254.45 €	7,576.71 €
Jorge Sobral	1,177.07 €	2,072.70 €	Transport	400.78 €	3,650.55 €
Luís Rodrigues	3,675.59 €	4,211.05 €	Transport	1,163.57 €	9,050.21 €

Supervision and Audit

TAP, SGPS

Mandate (Start – End)	Position	SROC identification		Appointment		Contracted Remuneration	Number of mandates held in the company
		Name	Number	Doc.	Date		
2009-2011 (*)	Certified Accountant	Oliveira, Reis & Associados, represented by José Vieira dos Reis	359	General Meeting	02.Jun.09	€ 13,800.00 + VAT (at the legal rate in force)	2
2009-2011 (*)	Certified Accountant Alternate	Fernando Marques Oliveira	207	General Meeting	02.Jun.09		2

(*) See number 4 of article 391 of the Companies Code

TAP, S.A.

Mandate (Start – End)	Position	SROC identification		Appointment		Contracted Remuneration	Number of mandates held in the company
		Name	Number	Doc.	Date		
2009-2011 (*)	Certified Accountant	Oliveira, Reis & Associados, represented by José Vieira dos Reis (until 4 Dec 2013)	359	General Meeting	2.Jun.2009	€ 32,100.00 + VAT (at the legal rate in force)	2
		Oliveira, Reis & Associados, represented by Joaquim Oliveira de Jesus (as of 5 Dec 2013)	1056				
2009-2011 (*)	Certified Accountant Alternate	Fernando Marques Oliveira	207	General Meeting	2.Jun.2009		2

(*) See number 4 of article 391 of the Companies Code

External Auditor

TAP, SGPS

External Auditor identification	Date of Hire		Annual Remuneration (€)
Name	Date	Period	Value of Services Rendered
PricewaterhouseCoopers & Associados	8.Aug.2008	Year 2013	11,000 € + VAT (at the legal rate in force)

TAP, S.A.

External Auditor identification	Date of Hire		Annual Remuneration (€)
Name	Date	Period	Value of Services Rendered
PricewaterhouseCoopers & Associados	8.Aug.2008	Year 2013	69,050 € + VAT (at the legal rate in force)

PUBLIC MANAGER STATUTE

Article 32 of the Public Manager Statute, relative to the non-use of Company credit cards and the non-reimbursement of personal representation expenses, is being complied with.

PUBLIC PROCUREMENT

// *Application of the public procurement rules*
TAP Group companies are not covered by the Public Procurement Code.

// *Internal procedures established for the procurement of goods and services*
Purchases and Sales Directives and Competencies – The areas of purchases, as departments responsible for the procurement process, are responsible for supervising compliance with applicable legislation, as well as with the directives in force at TAP, in their respective areas of intervention. The regulation foresees the delegation of powers, in order to fulfill the different responsibilities in the area of purchases within the Company.

// *Concluded contracts of a value greater than 5 M€*
Contracts requiring prior approval from the Court of Auditors, until 31 December 2013, as determined in article 47 of the Organisation and Procedural Law of the Court of Auditors, at TAP, S.A.:

- // Pax Handling (Orly Airport);
- // Ramp Handling (Orly Airport);
- // Cleaning of aircraft (Lisbon Airport).

All of the above contracts received the approval of the Court of Auditors.

NATIONAL PUBLIC PURCHASING SYSTEM (SNCP) AND VEHICLE FLEET OF THE STATE

TAP is not covered by the National Public Purchasing System (SNCP). Regarding the management of the vehicle fleet of Group Companies, the *Purchases and Sales Manual* of TAP Group requires compliance with the guidelines laid down in Law number 66-A/2012 of 31 December.

PRINCIPLE OF UNITY OF THE STATE TREASURY

TAP Group is not subject to compliance with the Principle of Unity of the State Treasury; see Order number 1760/2013–SET of 19.09.2013.

AUDITS CONDUCTED BY THE COURT OF AUDITORS

The Company was not subject to audits conducted by the Court of Auditors.

SEE SITE

The information is available on the official site of TAP and is entered into the Economic and Financial Information Collection System (SIRIEF); TAP is not subject to this reporting on the SEE site.


PORTUGAL

MANAGEMENT REPORT
TAP, SGPS, S.A.

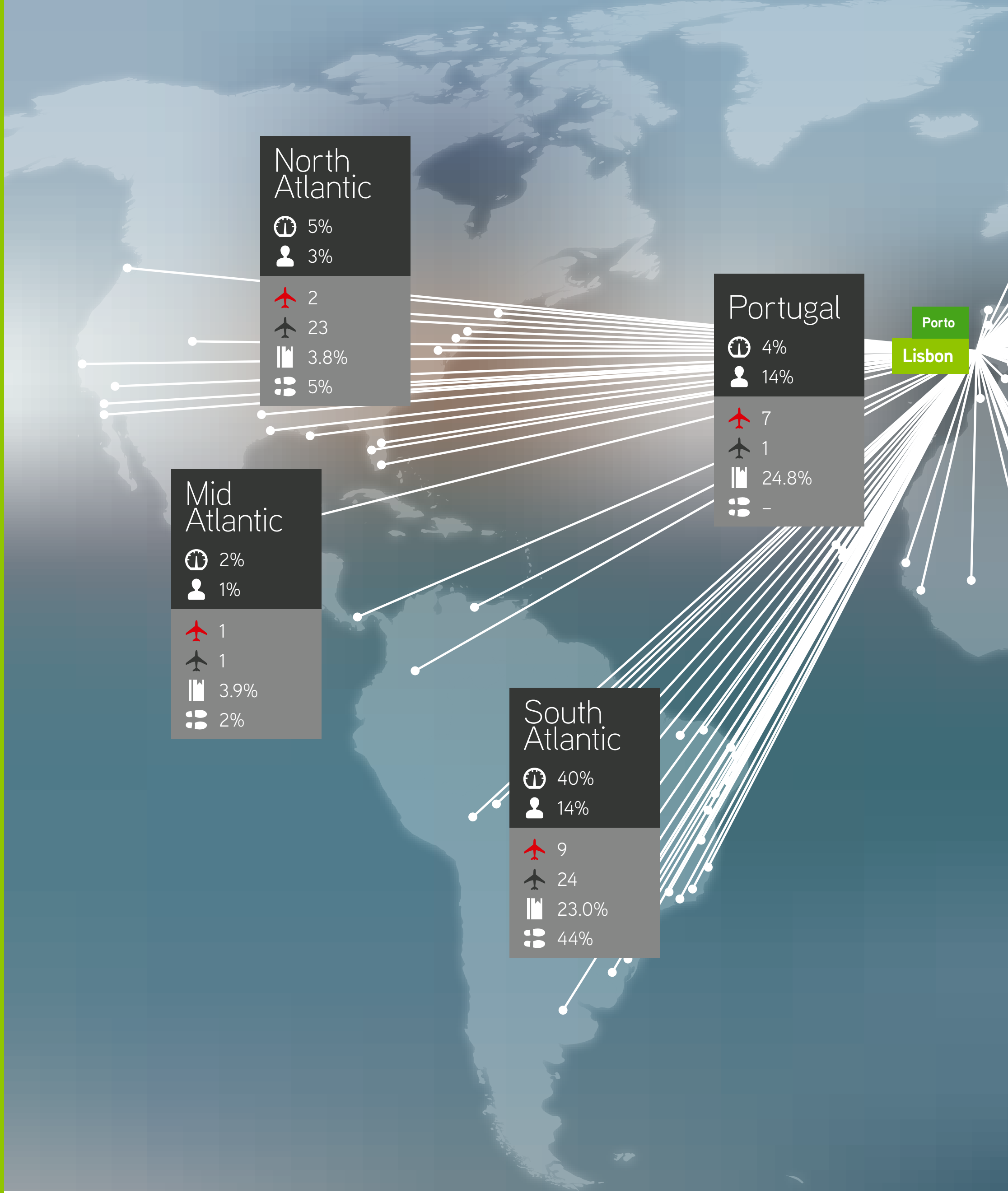
198
Destinations
77 with TAP operation
104 Europe (10 Portugal)
65 Americas
21 Africa
8 Middle East and Asia

71
Aircraft
16 long-haul operation
16 regional operation (Portugália)

10.7 million
Passengers

82.4 thousand tons
Cargo and Mail

50
Third Party Customers Maintenance
35 airline companies



Growth strongly reinforced particularly in external market

Annual compound average growth rate 2003-2013

External Market

12.3%

Sales and Services Rendered
EUR million

TAP, SGPS, S.A.
PROFILE

TAP will focus on the Air Transport service and its complementary activities, consistently aiming at investor return and leadership of the niche market in which it operates. TAP will offer its Customers a quality product and will always be the best choice for those who want to use its services and one of the best companies to work for.

The Company will act in accordance with its commitment to society and the environment.

TAP, SGPS, S.A. is a company whose aim is the management of shareholdings in other companies. The following contribute to the Group's results:

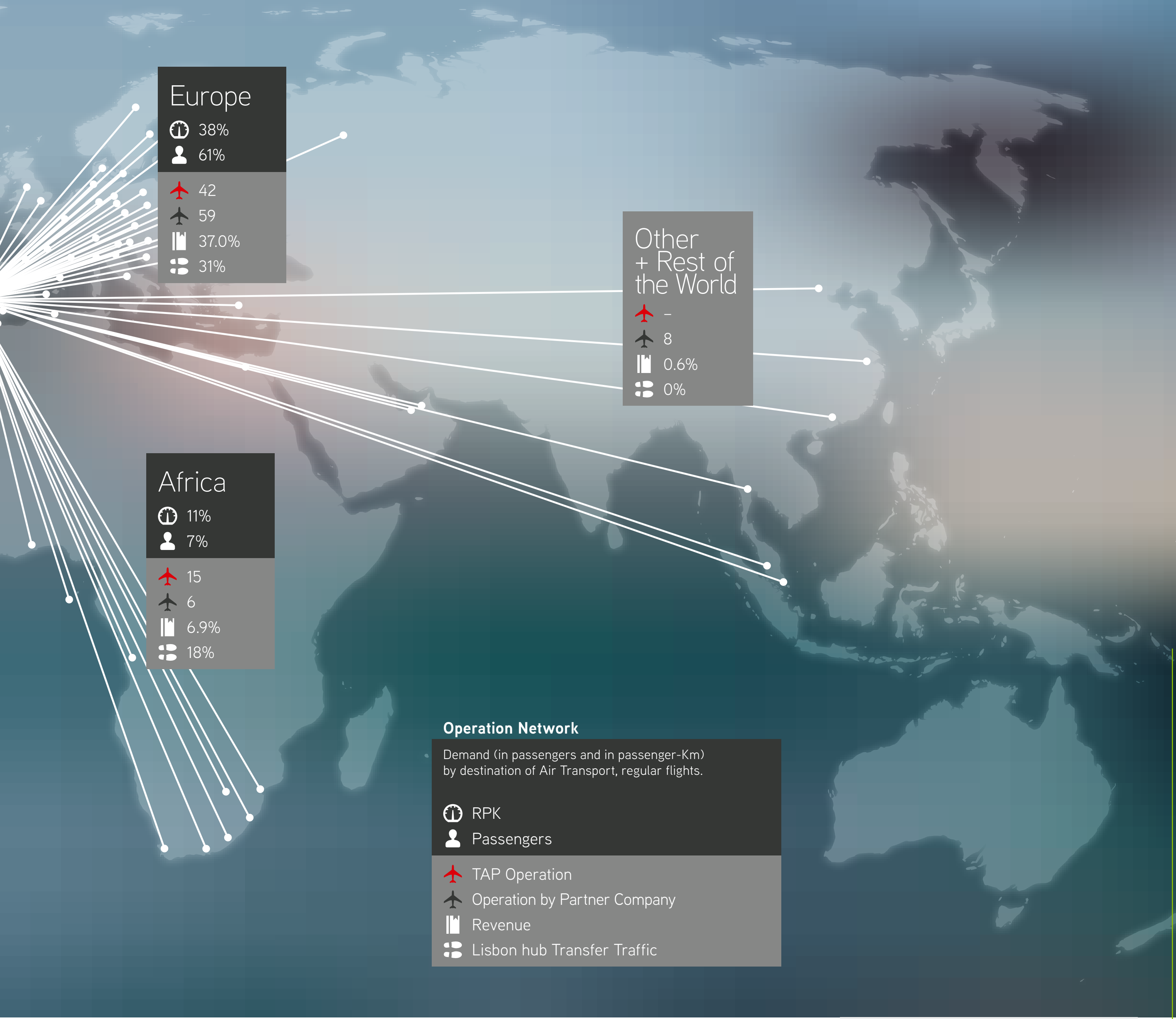
// TAP–Transportes Aéreos Portugueses, S.A. (TAP Portugal), whose main activity is air passenger and cargo transport, also provides services to third party customers through its Maintenance business, in Portugal, and in Brazil through the Group company TAP–Manutenção e Engenharia Brasil, S.A.;

// A group of companies which carry out their activities in areas linked to the Group's core businesses – Air Transport and Maintenance and Engineering –, with a view to controlling the service chain.

Following its strategic direction, TAP's priority is to fulfil its Customers' expectations, promoting their loyalty and maintaining strong ties with Portugal, a focus that corresponds to the market niche in which its competitive position is most established.

TAP Portugal is an international airline company which operates from its base in Lisbon, a city which, due to its geographic location, is a privileged access platform to markets located in other Continents, and also operates from Porto airport, its second operational hub.

In the development of its network, the Company pursues a niche strategy, connecting Europe to a growing number of destinations located in Africa, in North, Central and South America, and in the latter is the leading European air carrier flying to Brazil.



TAP Group ended 2013 with a net income of -5.9 million euros, an improvement of 19.6 million euros relative to the -25.5 million euros recorded in the previous year.

At the operating level, before interest and taxes, the Company recorded 44.1 million euros, reflecting an improvement of 3.3 million euros relative to 2012.

Particular note should be made of the fact that by the end of 2013, TAP had more than doubled its size in relation to 2000, with its offer having grown by approximately 160% over this period.

Over the course of the financial year, TAP Group (TAP, S.A. and other associated companies) had an average number of staff of 12,631, having ended the year with 12,856 employees.

Turnover
EUR million

	2013	2012	var. (%)
Air Transport	2,346.5	2,255.9	4.0
Maintenance Third Parties Assistance **Portugal**	74.2	114.5	(35.2)
Maintenance Third Parties Assistance **Brazil**	72.6	70.8	2.5
Duty Free	162.5	154.4	5.2
Catering	7.0	6.0	17.3
Other Activities of TAP, SGPS, S.A.	8.7	19.1	(54.4)
TOTAL	**2,671.5**	**2,620.7**	1.9

Reinforcement of sales in markets abroad

In 2013, TAP Group strengthened the positioning of its contribution to the volume of national exports, with a total contribution of 2,374.3 million euros of sales and services rendered in markets abroad, 7.0% more than in 2012.

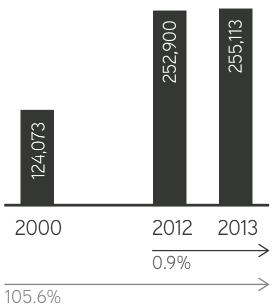
Sales and Services Rendered
EUR million

	2013	2012	var. (%)
External market(*)	2,374.3	2,218.7	7.0
Other markets	294.8	399.4	(26.2)

(*)TAP companies reporting directly to the Bank of Portugal

KEY FIGURES

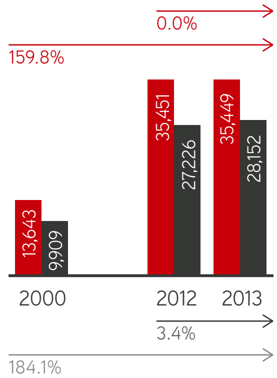
Flight Hours
Own aircraft



255,113 hours

The number of flight hours by the TAP fleet totalled more than 255 thousand, a 0.9% increase relative to 2012.

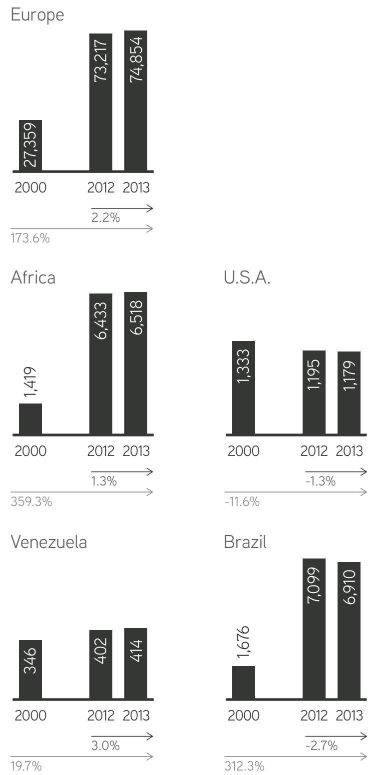
Supply (ASK)
Demand (RPK)
10^6



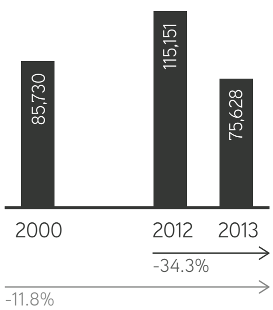
35,449 million ASK **28,152** million RPK

The capacity of the operation remained similar to the previous year, with demand having increased by 3.4%.

Frequency evolution



Maintenance Revenues
EUR 10^3

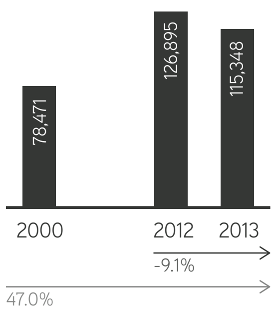


75,628 EUR thousand

The total sales and services rendered by TAP–Maintenance and Engineering Portugal, reflecting the continuing fragile state of the maintenance market, recorded a decrease of 34%.

Note – Values for 2012 and 2013 in accordance with the IFRS (International Financial Reporting Standards).

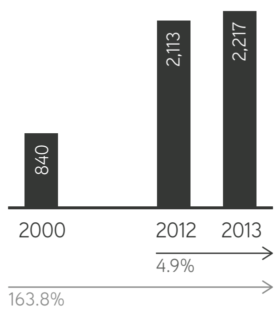
Cargo Revenues
EUR 10^3



115,348 EUR thousand

Transported cargo revenues registered a contraction of 9.1%, reflecting the climate of economic depression in the air cargo market.

Passenger Revenues
EUR 10^6

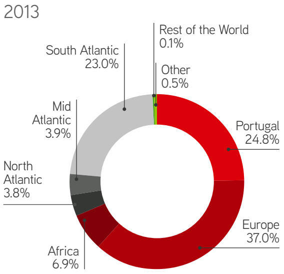


2,217 EUR million

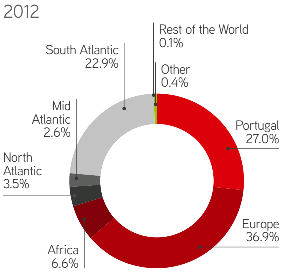
Passenger revenues increased by 4.9%, reflecting the increase in demand, namely, for the routes of the Europe and Africa regions.

Ticket Sales

2013

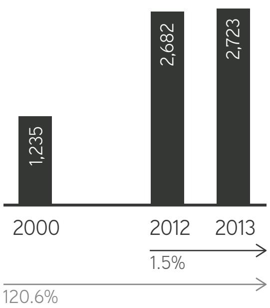


2012



Operating Revenues and Gains

EUR 10^6



2,723

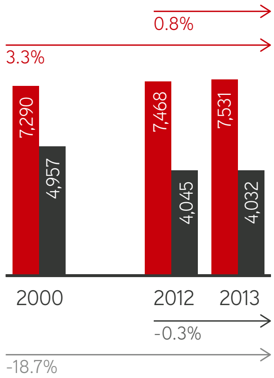
EUR million

The operating revenues and gains of Group companies as a whole reflected the effect of the increase in demand levels.

Note – Values of 2012 and 2013 according to the IFRS (International Financial Reporting Standards).

Human Resources (TAP, S.A. + PGA, S.A.)

Total ■ Ground Staff ■



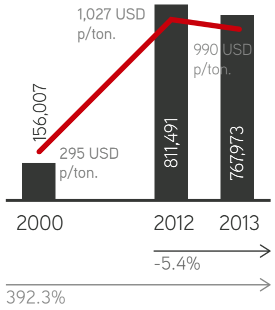
7,531

Employees

In view of the growth of the business since 2000, the evolution of the Staff of TAP, S.A. + PGA, S.A. reflects the general increase in the Company's productivity levels.

Fuel

EUR 10^3



767,973(*)

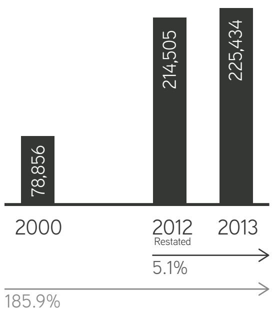
EUR thousand

The behaviour of oil prices, due to the effect of the exchange rate appreciation of the euro relative to the USD, was reflected in fuel costs at TAP, S.A..

(*) Includes charges relative to the acquisition of the CO_2 emission allowances

EBITDAR

EUR 10^3



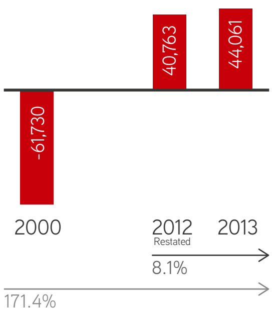
225,434

EUR thousand

Net operating cash flow to deal with financial charges and investments for TAP Group companies increased by 10.9 million euros.

Net Operating Income

EUR 10^3



44,061

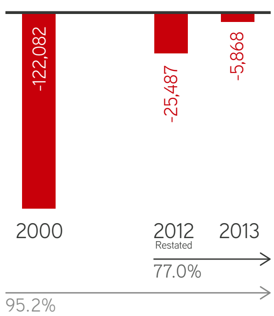
EUR thousand

Operating income, reflecting the persistent efforts from Group companies in improving efficiency, increased by 3.3 million euros.

Note – Values of 2012 and 2013 according to the IFRS (International Financial Reporting Standards).

Net Income

EUR 10^3



-5,868

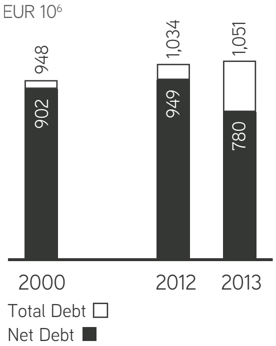
EUR thousand

In spite of the continually high fuel prices, the increase in efficiency achieved over the last few years was reflected in the net income of TAP Group, which stood close to balance.

Note – Values of 2012 and 2013 according to the IFRS (International Financial Reporting Standards).

Debt

EUR 10^6



1,051

EUR million

Total net debt reflects the continuous effort placed on the capacity to reduce the Company's indebtedness.

SUSTAINABLE DEVELOPMENT OF TAP GROUP

SOCIAL RESPONSIBILITY

Participative management model fostering social recognition

Under its strategic vision, in undertaking to be the *best company to work* for, TAP seeks to enhance the impact of the activity of all its Employees and, in this way, base its sustainable development on a model of participatory management and social recognition, through their improved performance and greater contribution towards competitiveness and results. In this way, one of the three pillars of the mission of TAP – *to be one of the best companies to work for* – is reinforced.

TAP promotes a participative management model fostering social recognition, which reconciles the performance and competitiveness of the business with the well-being and harmony of the employee. There are various internal promotion programmes that symbolise the commitment to quality of the TAP brand, seeking to distinguish the employees who most stand out in conveying this value.

The success that TAP has achieved in the market and amongst its Customers, associated to the national and international awards which it has received arises, essentially, from the fact that its employees identify with the values and attitudes of the Company, where People play a determinant role in the Construction of a Positive Organisation. The level of positive attitude and personal growth, fostered by the development of positive psychological skills, such as self-confidence, hope, optimism and resilience, are skills that when developed and managed effectively, enhance team performance and yield.

With a view to the personal motivation, safety and well-being, and respect for balance between professional and personal/family life, TAP offers a considerable range of social benefits. In particular, the internal medical clinic, health and life insurance, nursery, canteen, and a social service providing support and counselling to current and former employees.

Commitment to citizenship and social responsibility

Within the scope of its commitment to citizenship and social responsibility, TAP has invested in Teleworking, which permits working from home. In this way, by assuring the intended levels of productivity, it also provides greater support to the family. Note should also be made of collaboration agreements with various social support institutions, aimed at promoting the integration of disabled people in business environments, with various areas of the Company offering jobs suited to the special needs of workers and interns from these institutions. In 2013, under a philosophy of social inclusion and responsibility, the Human Resources of TAP provided training to employees whose activity involves interacting with deaf people, in order to promote greater interaction amongst all.

Among other Organisational Citizenship Conduct (CCO), TAP has met the appeals of society and of the economic and social environment, by continuing to foster, intensively, traineeships with a view to developing and integrating young unemployed people in the Company. With regards to actions with an external impact, over the years, TAP has supported the charitable and civic action of its employees within the community, generating a sense of belonging in those who share the Company's values. In this way, TAP intends, once again, to be a space of professional and personal fulfilment.

On the other hand, TAP Group, hand in hand with other initiatives, promotes the pool of corporate volunteers, which includes the *Voluntários com Asas* (Volunteers with Wings), the Assistance Team and the Care Team. The first aims to mitigate the difficulties of those most in need, through an enormous number of actions in support of the community, while the second provides assistance at the airport, in peak operating and extremely irregular situations, and the Care Team focuses on situations of possible emergency.

This is, therefore, TAP's personality in the area of social responsibility.

ENVIRONMENTAL RESPONSIBILITY

World Water Day (22 March)

Through the children's drawing competition *Water, the Source of Life*, the children of TAP Group employees were alerted to the scarcity of water in the world and the importance of preserving this natural resource.

World Environment Day (5 June)

With the action *Water footprint of food: from choice to waste*, TAP sought to raise the awareness regarding the importance of choosing and preparing food with a low water footprint, i.e. food which consumes less water during its life cycle.

TAP's CO_2 Emissions Compensation Programme continues to draw amazement with its good results. In 2013, TAP's passengers voluntarily offset over 15 thousand tons of carbon dioxide (CO_2), which significantly exceeds the objective of 5 thousand tons established for the year under analysis.

For more information on TAP's environmental activities, please read the "Environmental Perspective" chapter in the Sustainability Report of TAP.

At TAP-Maintenance and Engineering, the commitment to the improvement of environmental performance was maintained, with the consolidation of the strategy defined in 2012, through the missions: *Waste Mission, Green Hangar Mission, Savings Mission* and *Mission + Environment*. These missions were maintained as strategic pillars of the environmental policy of the Business Unit, complemented with some investment in terms of infrastructures and the continued effort in employee training.

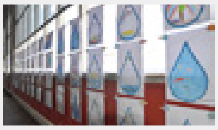
The *More Environment Mission* and *Green Hangar Mission* sought to raise environmental awareness, reinforcing the investment in the disclosure of environmental contents. The *Waste Mission* focused on the optimisation of the waste storage and collection processes, in order to minimise the probability of spillage or environmental incidents during the handling of waste. Paper consumption reduction, of more than 11%, exceeded the objective, as a result of the information campaigns conducted under the *Savings Mission* throughout the year. The reduction of energy consumptions, with environmental and economic benefits, has been a priority for Maintenance and Engineering since 2010.

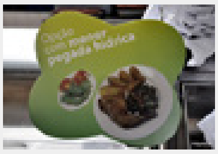
The first energy audit was conducted to the premises covered by the Environmental License, with various improvement opportunities having been identified, which were translated into the Energy Rationalisation Plan, a 6-year Plan which is expected to reduce consumption by 6%, in line with the legal requirements. The first Execution and Progress Report was prepared in 2013, with reference to the first two years of the Plan, indicating a reduction of consumption of about 16% – a highly encouraging result – mainly due to the investments made in terms of lighting. In terms of infrastructures, new painting and sanding cabins were acquired and installed in the Component Maintenance area, assuring compliance with the best environmental practices. In turn, with the aim of improving/increasing the repair capacity of the Cabin Interior Workshop, a study was begun in 2013 to define the best solution for the remodelling of the coating application and sanding cabins, an investment that is planned for 2014.

The recovery process of scrap from obsolete material that was written-off and maintained on the premises was concluded, generating economic gains for the Aircraft Maintenance area through the recovery of recycled materials.

The treatment of industrial effluents from the Electrolytic Treatment Workshop and the Engine Workshop, carried out at the WWTP (Wastewater Treatment Plant) of the Business Unit, reached 1,026 m^3, with the quality control of the final effluent being assessed whenever there are discharges and through quarterly monitoring, according to the Environmental License in force. The efficiency of the treatment processes is checked regularly and the processes are altered, when necessary, according to the characteristics of the effluent under treatment. Every six months, and as foreseen in the Environmental License, two monitoring campaigns were conducted for fixed source emissions and, as a preventative pollution measure, two additional campaigns for the fixed source associated to the degreasing process at the Electrolytic Treatment Workshop. Also noteworthy are the employee awareness raising actions related to environmental themes, through the dissemination of the *Environmental Newsletter* and the affixation of posters, as well as the creation of a new training action in Environmental Management and the maintenance of a training action in Industrial Waste Management, enabling 538 employees to receive training, involving a total of 43 training actions. The Environment Office of Maintenance and Engineering was invited by NOVA School of Statistics and Information Management (ISEGI-NOVA), in partnership with the University of Pardubice–Czech Republic, to take part in the Scientific Panel of the Summer Course Sustainability Management in the Air Passenger Transport Sector, being responsible for the coordination and presentation of the module with reference to the Environmental Aspects and Impacts on Maintenance Operations – *Good Practices for the Reduction of Fuel Consumption.*

In 2013, International Year of Water Cooperation, TAP gave priority to disclosure and awareness raising on the environment at Group companies specifically concerning sustainable water consumption.





KEY FACTS

During 2013, the Company continued its efforts to maintain a competitive positioning on the global market, with events of a structural nature having taken place.

Process of reprivatisation of TAP SGPS, S.A.

The 3rd and 4th phases of the process of indirect reprivatisation of the share capital of TAP–Transportes Aéreos Portugueses, S.A. (TAP, S.A.), through the reprivatisation of the share capital of TAP–Transportes Aéreos Portugueses, SGPS, S.A. (TAP SGPS, S.A.), were approved by the Council of Ministers during 2012 (Decree-Law number 210/2012, of 21 September). The specific conditions of the operation were established in the tender specifications, approved in the annex attached to Council of Ministers Resolution number 88-A/2012, of 19 October, published in Diário da República.

Under the 3rd phase of the reprivatisation process, which included a preliminary process of collection of intentions of acquisition and subscription amongst potential investors, Synergy Aerospace Corporation (Synergy) was admitted to participate in the subsequent phase of the direct sale process (Council of Ministers Resolution number 88-B/2012, of 18 October) having, as a follow-up, submitted a binding proposal, which took place on 7 December 2012.

Pursuant to the provisions in the Tender Specifications, TAP, S.A. expressed its opinion on the adequacy of Synergy's project and strategic commitments to the interests of the Company, with the special supervisory commission of the process having issued an opinion, concluding on their compliance with the applicable legal rules and procedures. Following its appraisal of the submitted binding proposal, the Government considered that it did not include elements that could enable it to reach a conclusive judgement, thus determining the completion of this process, and the Company's Reprivatisation Process having remained suspended as of this time.

MAIN EVENTS

01 02 03 05 06

January

TAP launches Passbook, an application enabling passengers to store their boarding pass on their mobile devices, after having completed a mobile check-in.

February

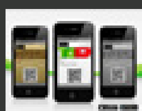
TAP promotes national tourism at the Lisbon Tourism Exchange (BTL), paying tribute to the Central Tourism Region, with the presentation of the February UP magazine, the main highlight of which is the city of Coimbra.

March

As a contribution to the publicising of culture and art made in Portugal, the in-flight promotion of the distribution of Portuguese films and documentaries continues, with the first presentation of the film Tabu produced by Miguel Gomes, which was awarded the first place in the 53rd International Film Festival of Cartagena.

May

TAP promotes the destination of Portugal among international agents, during its participation in the 22nd International Meeting of ABAV (Brazilian Association of Travel Agencies), held in the Algarve.



Launch of the digital Victoria card, available in applications for smartphones and tablets, introducing improvements in the operation of the frequent flyer programme.

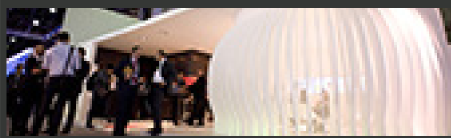
TAP–Maintenance and Engineering promotes the Week of Continuous Improvement, where one of the key objectives of this event is the transfer of knowledge and methodologies and enhancement of dynamics of Continuous Improvement in the Business Unit.

June

TAP CARGO launches an application for smartphones, enabling verification of the status of an order in real time, consultation of schedules and the situation of Company flights available for Cargo transport, as well as the viewing of news, frequently asked questions and contacts all over the world for booking space.

Start-up of direct flights between Lisbon and the Island of Pico, in the Azores, an operation which, meeting the aspirations of the residents of this island, also demonstrates the public service that TAP has always provided in relation to air connections to the Azores.

An agreement is signed between TAP–Maintenance and Engineering and Air France/KLM, enabling expansion of the collaboration that has existed for over 15 years, between the maintenance units of the two companies, based on the exchange of services.



Care ² Quality is presented at the Paris Air Show, as the new positioning of TAP–Maintenance and Engineering in the market, based on quality and relations as the key characteristics of the Company's attitude in relation to its business and customers.

TAP–Maintenance and Engineering hosts the Commercial Aircraft Composite Repair Committee (CACRC).

August

TAP's Contact Centre is henceforth available through Skype, thus offering its Customers progressively more simple and effective forms of communication.

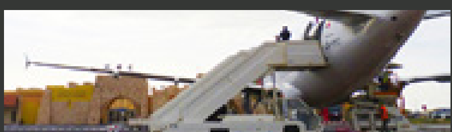
08 09 10 11 12

September

TAP-Maintenance and Engineering signs a contract for the revision and repair of landing gear of NATO's AWACS fleet, continuing close to three decades of collaboration.

October

Start-up of the provision of a video-interpreter service, aimed at people with hearing impairment, for requests for clarification and acquisition of journeys through TAP's Contact Centre. This initiative demonstrates the attention dedicated by TAP to the specific needs of each customer.



Opening of the line to Tangiers, the third destination served by the Company in Morocco, where it already operates Casablanca and Marrakech.

Start-up of the connection to Boa Vista, the fourth destination served by TAP, in Cape Verde.

Holding of the seminar on the CFM56-5B engine in Lisbon, organised by TAP-Maintenance and Engineering, an event which enabled the sharing of experiences, as well as greater approximation to a target market for this TAP's Business Unit.

November

Customers are provided with a new form of payment of airline tickets in TAP's online booking engine – PayPal. The adoption of this pioneer solution and worldwide leader in the sending and receipt of online payments falls neatly in the Company's goal to promote innovation as a decisive factor in simplifying the purchase process.

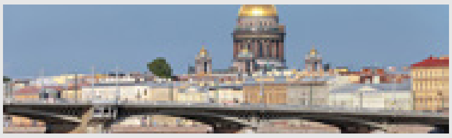
With its presence at the World Travel Market (WTM), the largest travel and tourism fair of the United Kingdom and one of the largest of Europe, TAP promotes the Company's services, Portuguese tourist destinations and national products served in-flight.

December

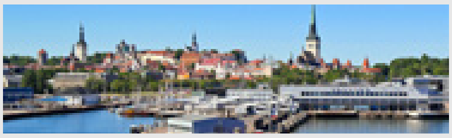
Start-up, at the Lisbon stop-over, of the Bags ready-to-go project under the IATA's Fast Travel initiative, aimed at providing baggage labels at self-check-in kiosks.

Following a recent decision of EASA (European Aviation Safety Agency), the use of personal electronic devices is henceforth permitted during all flight phases, provided that they are configured in flight mode or equivalent, i.e., provided that their data communication and transmission systems (wireless and bluetooth) are deactivated.

The Executive Chairman announced the fleet increase in 2014, enabling TAP to reinforce its offer and fly to a further 10 new destinations: in Europe: Belgrade (Serbia), Gothenburg (Sweden), Hannover (Germany), Nantes (France), Saint Petersburg (Russia) and Tallinn (Estonia). In the American continent, in addition to the connection to Bogota and Panama City, TAP continues to grow in Brazil, opening the triangular route of Manaus and Bethlehem.

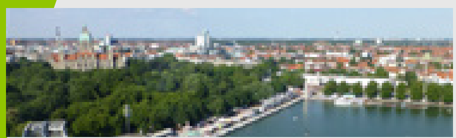


Saint Petersburg



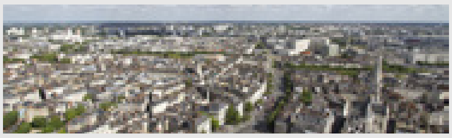
Tallinn

Gothenburg

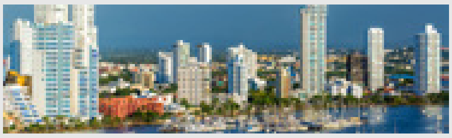


Hannover

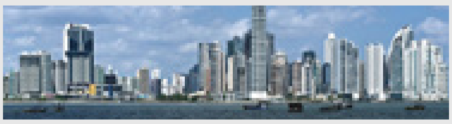
Belgrade



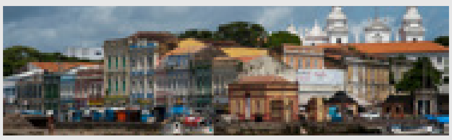
Nantes



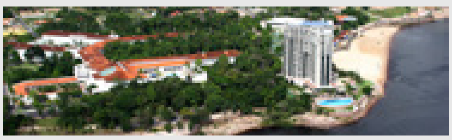
Bogota



Panama City



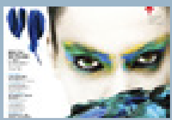
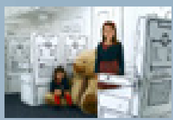
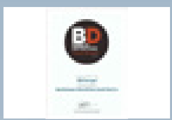
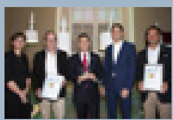
Bethlehem

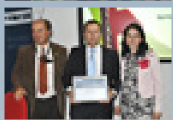
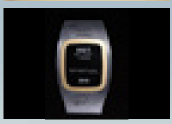
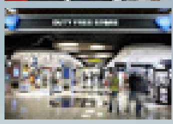


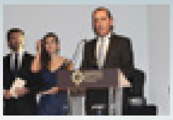
Manaus

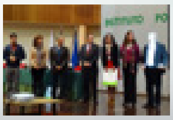
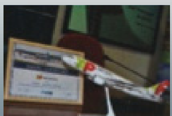
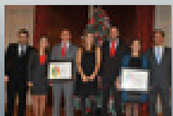
CONTINUED STRENGTHENING OF PRESTIGE IN THE MARKETS IN WHICH THE COMPANY OPERATES

Impact on the economy recognised in various regions of the world.
Promotion of culture, values and products in a partnership of national scope



EUROPE

Airline Company with Best Executive Class – South America

Distinguished by Business Destinations, a widely known British Travel & Business magazine, in recognition of the prestige and international reputation of TAP in the travel and business sector.

Manager of the year in aviation

Distinction received during the Gala of the Amadeus Brighter Awards, by the deputy chairman of TAP Luiz Mór, in view of the affirmation of the Lisbon hub – an important contribution to strengthening the Company's operations in the world and to Tourism in Portugal.

Brands with most social dedication – TAP among the best of the world top

Distinguished by socialbakers.com, the most quoted source at a worldwide level of global data on the use of Facebook, with TAP continuing to lead the Portuguese brands with best customer service, in this social network.

Creativity and Innovation in Training Award

Distinction attributed to TAP, concerning education/training technologies used for learning purposes, for the development of the *+Vale Prevenir* (Prevention is Better than Cure) training programme, in partnership with the companies of the TAP Group, Megasis and UCS.

Best Performing New Airline

Award attributed by Vienna Airport, distinguishing TAP as the airline company which recorded the largest number of passengers, during 2012, on a new route.

AIRMAN Web – AIRcraft Maintenance ANalysis

Distinction made by Airbus, for TAP's participation in the development of this application that provides access, in real time, to information on anomalies detected in aircraft.

Excellent Performance – Outstanding Performance Award, Fastest Growing Operating Frequency

Award attributed, for the first time, by Bucharest Airport, distinguishing TAP as the airline company which recorded the strongest growth of frequencies and a significant increase of the volume of passengers transported during its first year of operation.

3rd Best Airline Company in the Czech Republic

Positioning attributed, following a questionnaire directed at travel agents, by the Czech publication TTG–Travel Trade Gazette, identifying the best airline companies operating in this country.

TAP's safety video distinguished with the Gold award under the Media & Advertising Awards

The film, shown on all flights of the TAP fleet as well as on the Company's Facebook and YouTube pages, where passengers play the main roles, was distinguished in the Institutional Communication category.

Fastest Growing Airline 2013

Award attributed by Bucharest Otopeni Airport, as a result of the strong growth, of 95%, in the number of passengers transported by TAP to and from the airport of the capital of Romania.

Best European Airline Company 2013

Distinction attributed by the Hungarian magazine Az Utazó, specialised in tourism and travel.

Best New Shop Opening 2012

Award, of worldwide scope, attributed to the Duty Free – Just for Travellers shop of the TAP Group company, LFP–Lojas Francas de Portugal, through vote cast by the main elements of the duty-free industry during the Global Travel-Retail Excellence 2013 gala, of the magazine DFNI–Duty Free News International Magazine, distinguishing the quality and success of the new concept that has been adopted, based on a walkthrough shop organisation.

Consolidation of the connections between Europe and the South Atlantic and Africa

UNITED STATES

Best Airline Company of Europe
Distinction arising from the GT Tested Reader Survey to frequent flyers and executive passengers by the North American Global Traveler Magazine. This distinction represents one of the most important awards of the Travel and Tourism industry, recognising the best performance in the sector.

Passenger Choice Awards
Award attributed, under the APEX–Airline Passenger Experience Association, in the Best In-flight Video category, for the safety video where TAP presents the passengers as the main figures, reaffirming its positioning, *With Arms Wide Open*.

AmCham Tributes 2013
Distinction attributed by the American Chamber of Commerce in Portugal, in recognition of TAP's significant contribution, as a fundamental vehicle both for closer ties between Portugal and the USA, in increasing economic and commercial relations between the two countries, and for the intense promotion of Portugal in the USA, and vice-versa.

TAP Cargo, Best Air Cargo Company in two categories (Best Air Cargo Company for Europe and for Africa)
Special mention attributed by the periodical Transportes & Negócios in two of the five Air Transport categories.

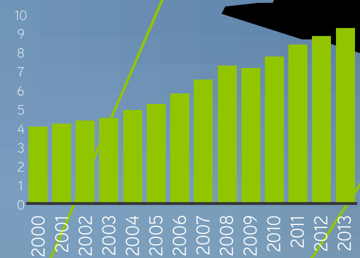
SOUTH AMERICA

Guri Trophy
Tribute paid to by the state of Rio Grande do Sul, to Fernando Pinto, distinguishing his professional career, namely, as chairman of the Executive Board of Directors of TAP.

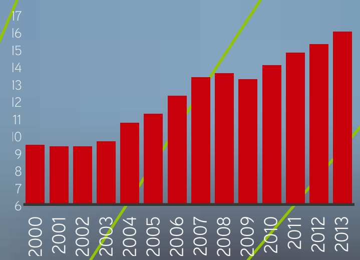
TAP's in-flight magazine distinguished under the Comendador Marques dos Reis Journalism in Tourism Awards
UP distinguished with 2nd place in the Print Journalism category by the news report Door to the Amazon, dedicated to Belém do Pará, in recognition of the work and importance of the tourist publicising of this destination of the TAP network.

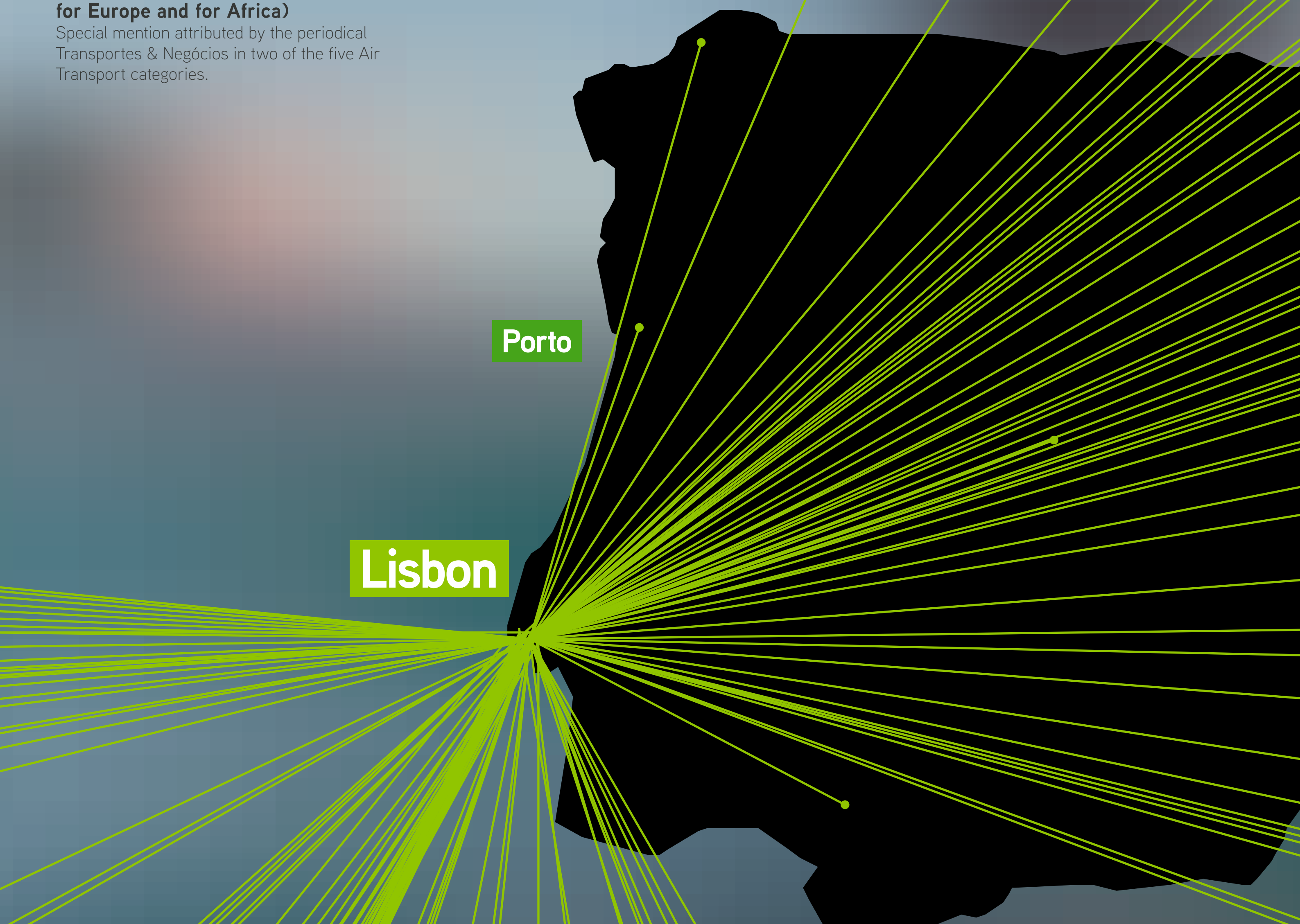
Logistics Efficiency Award
Distinction given to TAP–Maintenance and Engineering Brazil, by Infraero, distinguishing the efficiency of this maintenance company of TAP, in the management of logistics processes at cargo terminals.

Passengers transported by TAP – Lisbon hub



Overall volume of passengers – Lisbon Airport





SUMMARY OF PERFORMANCE

Exceptionally high levels of uncertainty in the international framework

After the slowdown of economic activity on a global scale observed in 2012, the international circumstances during 2013 continued to be characterised by exceptionally high levels of uncertainty, related to the sovereign debt crisis in the euro zone and with the dispute over the rate of budget consolidation in the United States, and world economic recovery pursuing moderate progress. In this context, the evolution of global economic activity in 2013 once again recorded a similar evolution, of around 3.0% (0.1 p.p. less than in 2012), significantly lower than that recorded in the period before the international crisis and with persistently heterogeneous growth rates in the different regions of the world. Thus, it is expected that the advanced economies as a whole will show growth of around 1.3%, with a strong contrast being maintained between the United States and Japan, which should continue with moderate growth, and the euro zone, where a contraction of GDP is forecast. However, the emerging and developing economies should continue to play a determinant role in world economic growth, with an expected growth of activity of around 4.7%. Oil prices, in contrast to the evolution of most commodities, embarked on an upward trend in the third quarter of 2013, after a reduction during most of the first part of the year, where this performance is explained by the decreased supply arising from disturbance of the production of some of the largest producers, as well as the growing geopolitical tensions in Egypt and Syria. In Portugal, after a 3.2% reduction in 2012, the development of economic activity in 2013 contracted once again, albeit more moderately, by about 1.4%, under the effect of a slowdown of the downward trend since the beginning of the year. During 2013, the performance of the Portuguese economy developed under the combined effect of a budget consolidation process and the implementation of a series of structural reforms, conditions for a firm accreditation of medium and long term economic adjustment, which is indispensable for Portugal's return to stable market funding in the near future.

At a global level, in spite of the context of relatively slow economic growth, the Air Transport market showed normal growth of demand, where this performance was driven by solid economic evolution in the emerging regions, where less mature air transport markets continue to show strong expansion. The profile of this performance developed throughout the year, with a clear trend of improvement, in an evident demonstration of the growing importance of the connectivity that commercial aviation offers to the world of today. However, in Europe, the profitability of the airline companies were still constrained, both by the development of activity in markets considered mature, where the expansion of demand is significantly more moderate, and by the impact of the ongoing economic crisis in the entire euro zone. For the air cargo markets, 2013 was still a difficult year, ending with growth of 1.4%, under the effect of significantly slow progress observed in the first half of the year. In the meantime, aircraft fuel prices, within the high range of the last 3 years, continued to condition the Industry's profitability, where the total expense for TAP, S.A. represented around 33% of total operating costs and losses, 12.3 p.p. more than in 2009.

Exploitation of business opportunities in TAP

The TAP Group companies, in view of the previously described economic situation, where, in addition to the behaviour of oil prices, at permanently high levels, note should also be made of the exposure to a less favourable macroeconomic environment, particularly in Europe, pursued a strategy aimed at increasing the profitability of the activities of their respective sphere of intervention. Underlying this objective, the cost-cutting effort was continued during 2013 and in order to achieve greater efficiency in the use of the existing resources. Likewise, note should be made of the Company's high capacity, in the development of its business, to respond with suitable flexibility, in the scope of the offer of services and level of costs, to the many changes observed in the market, confirmed by the performance level achieved by the Company, in comparison to its peers, reflected in the relative positioning of the EBITDAR margin.

Therefore, seeking to explore all business opportunities, TAP pursued its strategy of Network growth and consolidation of current markets, in particular the connections between Europe and the South Atlantic and Africa, where two new destinations were launched, Tangiers, in Morocco and Boa Vista in Cape Verde, in an effort driven by growth and the improvement of the Lisbon hub.

A policy of innovation

In turn, the continued development of a policy of innovation, with a view to meeting Customer needs and improving the quality of the services offered, in addition to the continuous increase of productivity and efficiency, through the adoption of best practices and simplification of processes, and the intensification of aggressive sales policies, were determinant factors in the Company's policy.

Overall performance of the TAP Group

The most important aspects of the overall performance of the TAP Group and companies that make up its core business in 2013 are highlighted below:

// In the context of the aforesaid economic scenario, the companies of the TAP Group recorded a consolidated net income of the amount of -5.9 million euros, which represents an improvement of 19.6 million euros in relation to the -25.5 million euros recorded in 2012, Restated net income.

// Net operating income (earnings before interest and taxes) stood at 44.1 million euros, corresponding to 3.3 million euros more than in 2012.

The following factors contributed to this result:

TAP, S.A. and a group of companies that carry out activities in areas linked to the Group's main businesses and in which TAP, SGPS, S.A. has stakes in their respective share capital.

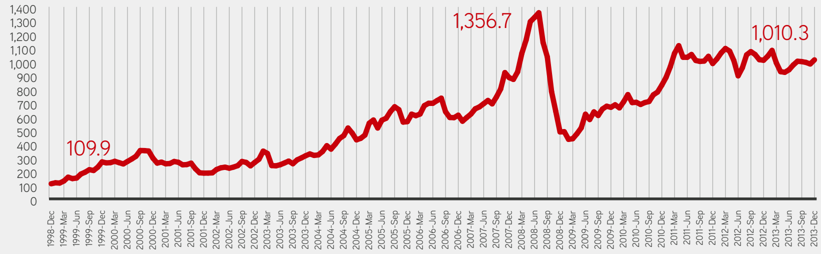
TAP, S.A. recorded a profit of 34.0 million euros. This result was 10.2 million euros higher than the 23.8 million euros recorded in 2012 (restated). Net operating income reached 51,7 million euros, which was 1.3 million euros less than the value in 2012, and strongly influenced by the effect of the price of aircraft fuel, that remained at a high level throughout the year.

With respect to SPdH–Serviços Portugueses de Handling, S.A. (Groundforce Portugal), established in 2003 from the demerger of the Ground Handling Business Unit of TAP, S.A., TAP, SGPS, S.A. owns a number of shares representing 49.9% of the share capital, which includes a stake of 6% held by Portugália–Companhia Portuguesa de Transportes Aéreos, S.A.. In 2013, Groundforce Portugal reached a positive net income of 2.1 million euros, even operating under the commercial constraint of a lack of a long term license which inhibited some customers.

In 2013, TAP–Maintenance and Engineering Brazil, S.A. continued its process of development of actions aimed at improving its operating performance, during this third year of a five-year Restructuring Plan. Hence, the improvement of the economic and operational performance of the company continued, with visible signs of sustainability of this trend, with the company once again increasing its annual sales and where this performance was reflected in the improved net operating income, by close to 30%, in euros. It should be noted that the investment made in this company essentially represents a strategic perspective, permitting the expansion of the maintenance activity into new markets. Also noteworthy was the contribution in terms of available capacity, especially for the airframe revision activity, with TAP–Maintenance and Engineering Portugal having consequently shown greater availability to attend third party customers. Therefore, at the end of 2013, the company continued to show a recovery of its net income, which stood at -41.0 million euros, representing an improvement of 9.3 million euros relative to the previous year. Even so, the result for 2013 was penalised by a series of additional restructuring initiatives, but which opened prospects that the company might be able to reach operating balance break-even in 2014.

Price of Fuel

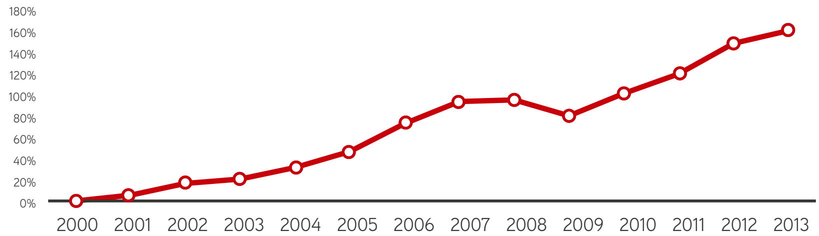
USD/ton.



Note: Quotation of Jet CIF NWE; source: PLATTS

Transfer traffic through the Lisbon hub

Growth since 2000



Attractiveness of the geographic positioning of TAP's operating platform – the Lisbon hub

Thirteen years after the implementation of the strategy to create the hub, the number of passengers in transit through Lisbon in 2013 reflected an increase of 160% in relation to the initial value, and there was also notable growth relative to the previous year.

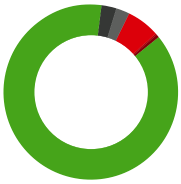
This performance, primarily supported by passengers travelling to the South Atlantic and Africa, demonstrates the attractiveness of the geographic positioning of the platform, consolidating its character as an intercontinental hub, supporting the operating network of TAP routes. On the other hand, the operation continued in Porto as the Company's 2nd operating hub, an activity which began during 2006.

From an operating point of view

// TAP, S.A. recorded a net operating income which stood at 51.7 million euros, 2.5% less than in 2012. Operating Revenue and Gains reached a total of 2,479.6 million euros, a value 43.9 million euros higher, that is, 1.8%, than the amount record in 2012. Total Operating Costs and Losses, excluding fuel, reached 1,557.9 million euros, 90.0 million euros more than in 2012, corresponding to a further 6.1%, with the operation have occurred at practically the same level.

// Regarding the business performance of TAP, S.A., the Third Party Customer segment of Maintenance and Engineering, showing the retraction observed in the engine maintenance activity, contributed with 75.6 million euros, 34.3% less than in 2012. This result was essentially due to the context of profound alterations in market rules, especially the maintenance of a scenario of concerted attack by the manufacturers in relation to maintenance organisations, and also reflects the impact of the accentuated financial weakness of some customers, arising from the adverse economic situation which has been experienced over these last few years.

TAP Group Turnover



- 87.8% Air Transport
- 2.8% Maintenance – Third Party Assistance **Portugal**
- 2.7% Maintenance – Third Party Assistance **Brazil**
- 6.1% Duty Free (LFP, S.A.)
- 0.3% Catering (CATERINGPOR, S.A.)
- 0.3% Other TAP, SGPS, S.A. Activities

// The Air Transport activity generated total sales and services rendered of 2,344.2 million euros, 4.0% more than in 2012. This result was significantly influenced by the behaviour of ticket revenues, which reached the total of 2,216.6 million euros, 4.9% higher than the amount posted in the previous year, resulting from an increase in demand of about 3.4%, expressed in RPK, as well as some improvement of yield. In this context, we highlight the performance of TAP's direct sales, which showed growth of 16.3%. This evolution was primarily due to the performance of e-Commerce, which accounted for a sold turnover of 419.6 million euros in 2013, representing an increase of around 22.5%, in relation to the previous year. The numbers presented by this sales channel, which already accounts for 15.2% of the total revenue of the markets, clearly reflect the choice of a strategy of growth, geographic expansion to new areas and the growing consolidation of TAP's position in various online markets. Also contributing to this result was the Air Cargo business, where TAP recorded a decrease of 9.1% in relation to the previous year, reflecting the development profile of the business at a worldwide level, showing a generalised slowdown for the third consecutive year.

// Regarding operating performance, and due to the adoption of a strategy of adjusted flexibility to market changes, always aimed at promoting a rational adequacy of its offer and the effective control of costs, the level of offer of the scheduled operation remained similar to the previous year, with no changes having occurred in the TAP Group's fleet and demand having increased by approximately 3.4%. The overall passenger load factor thus stood at 79.4%, representing 2.6 p.p. more than in 2012. Following the application of the strategy described above, the choice of consolidating Lisbon as the Company's hub was pursued, connecting Europe to a growing number of destinations located in Africa and in the South Atlantic, being distinguished in this region as the European airline company with greatest penetration in the Brazilian market.

TAP GROUP KEY FIGURES

TAP, SGPS, S.A.

(Consolidation)

	2013 EUR million	2012 Restated EUR million	var.
Net Operating Income (before interest and taxes)	44.1	40.8	8.1%
Pre-tax Earnings	(0.4)	(10.9)	96.0%
Net Income of shareholders of the parent company	(5.9)	(25.5)	77.0%
Net Income of TAP, S.A.	34.0	23.8	43.0%
Net Income of SPdH–Serviços Portugueses de Handling, S.A.	2.1	(1.5)	242.1%
Net Income of Aeropar Participações, S.A. (Brazil)	(19.5)	(24.1)	18.9%
Net Income of TAP–Manutenção e Engenharia Brasil, S.A.	(41.0)	(50.4)	18.6%
Total Assets	1,695.2	1,650.7	2.7%
Total Equity	(373.3)	(380.8)	2.0%
Active Staff of the Group (31 December)	12,856	12,506	350
TAP, S.A.*	6,889	6,837	52
Air Transport	4,554	4,479	75
Maintenance and Engineering	1,886	1,908	-22
TAP Serviços	419	419	0
Other	30	31	-1
SPdH–Serviços Portugueses de Handling, S.A.**	2,262	2,031	231
Remaining Companies	3,705	3,638	67

(*) Not including staff who are not placed and not active
(**) Associate Company

Consolidation methodology

Pursuant to the legal requirements, the companies in which TAP holds, directly or indirectly, a majority of voting rights, which is the case of most, were included in the consolidation through the full integration method. The equity and net income of these companies corresponding to third party shareholdings, are presented in the minority interests headings, respectively, in the consolidated balance sheet under a separate heading of equity and in the consolidated profit and loss statement. The investments in associated companies (representing between 20% and 50% of the voting rights) are recorded through the equity method. A company in this situation is SPdH–Serviços Portugueses de Handling, S.A..

The attached consolidated financial statements of the Group were prepared in conformity with the International Financial Reporting Standards adopted by the European Union (IFRS – formerly called the International Accounting Standards – IAS) issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC), in force on the date of preparation of the said financial statements.

REVIEW OF THE ECONOMIC CONDITIONS

International economic environment

After the slowdown of economic activity on a global scale observed in 2012, the international economic environment during 2013 continued to be characterised by exceptionally high levels of uncertainty, related to the sovereign debt crisis in the euro zone, and the dispute over the rate of budget consolidation in the United States, with world economic recovery pursuing moderate progress. In this context, the evolution of global economic activity in 2013 once again recorded a similar evolution, of around 3.0% (0.1 p.p. less than in 2012), significantly lower than that recorded in the period before the international crisis and with persistently heterogeneous growth rates in the different regions of the world.

Thus, it is expected that the advanced economies as a whole will show growth of around 1.3%, with a strong contrast being maintained between the United States and Japan, which should continue with moderate growth, and the euro zone, where a contraction of GDP is forecast. The emerging and developing economies should continue to play a determinant role in world economic growth, where activity is expected to grow by approximately 4.7%. It should be note, however, that these economies have shown a heavy slowdown, in an international context dominated by depressed demand from the advanced economies, lower commodity prices and growing concern with financial stability.

Hence, in the United States, economic activity should grow by 1.9 percent in 2013, driven by the recovery of private demand, which should more than offset the negative impact of the cuts in public expenditure which took placed at the beginning of the year. Growth has been underpinned by consistent improvements in the residential real estate and labour markets and more favourable financial conditions, reflecting a continuously accommodative monetary policy and through positive wealth effects, arising from the increased prices of housing prices and shares on the stock exchange. Note should also be made of the significant adjustment of household balances in the American economy, reducing the weight of debt service from over 18% of household disposable income in 2008 to close to 15% in 2013.

In China, the transition of the economy from capital--intensive growth driven by exports to a growth model driven by internal demand, accompanies a slowdown of activity, where a lower and more sustainable growth rate is expected, of around 7.7%.

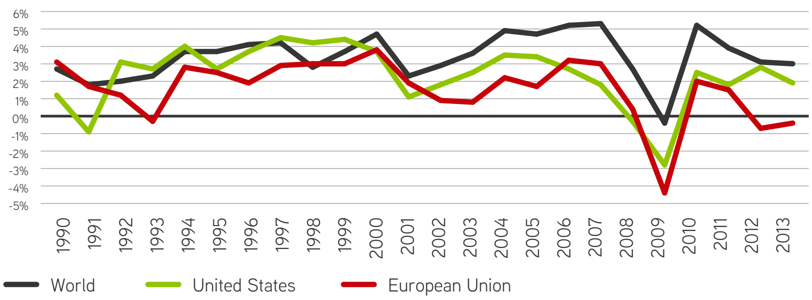
Other emerging market and developing economies have already started to benefit from the stronger external demand shown by the advanced economies and China. However, in many of these economies domestic demand has continued weaker than expected, which has been reflected, to different degrees, in their financial conditions and political positions since mid-2013, with impact on growth, where this is particularly the case of Brazil and Russia.

In the euro zone, activity contracted during a large part of the year, in the context of the budget consolidation effort, maintenance of restrictive credit conditions in countries under pressure and persistence of high uncertainty. After moderately positive growth during the second half of the year, sustained by the growth of external demand, the progressively more favourable funding conditions and the further flexibility extended to budget deficit objectives in some countries of the euro zone, it is expected that the negative variation in GDP should not exceed 0.4% by the end of the year. However, the economic conditions of the euro zone continue greatly differentiated between countries.

Thus, in the case of the two main trading partners of Portugal, Spain should remain under recession, with a contraction of 1.7% (-1.4% in 2012), under the influence of its internal demand being negatively affected by the deleveraging process of the private sector, the maintenance of restrictive credit conditions and the budget consolidation effort, although this effect has been partially offset by the robust growth of exports, especially to non-Community countries.

A context of high uncertainty related to the sovereign debt crisis in the euro zone

Economy
GDP Growth



Unemployment in Spain is expected to continue to increase, notwithstanding the high levels that are already observed. In turn, the German economy should record an expansion of 0.4% (0.9% in 2012). This slowdown was essentially due to the deceleration of exports, in particular to the Community market. There is still a high level of uncertainty, continuing to constrain investment, which should contract by 0.3% in 2013 (-1.9% in 2012). On the other hand, the favourable funding conditions, increased wages and low unemployment level will continue to support the growth of private consumption, where, in this context, imports of goods and services are expected to growth around 1.9%. Moreover, it should also be noted that some large economies of the euro zone, and which are important destinations for Portuguese exports (in particular France, Italy and the Netherlands) should record a contraction in 2013.

Budget policy in the euro zone continued restrictive in 2013. It should be noted that various countries of the euro zone have failed to meet their medium term objectives for the structural balance, and since it is not foreseeable that they will manage to do so before 2016, being necessary for this purpose the effect of additional budget adjustments. In this regard, in June, the Council of the European Union extended the periods for the correction of these budget deficits, by two years for Spain and France, and by one year for the Netherlands and Portugal. In the meantime, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (Fiscal Compact) entered into force in early 2013, forcing the Member States of the euro zone to take measures in order to achieve a structure deficit below 0.5% of GDP.

International prices of industrial commodities have fallen since 2012, reflecting the progressive weakening of demand from the emerging economies. International prices of food commodities have also declined, albeit moderately, expressing the growing optimism concerning the harvests of the largest producers. However, the price of oil has embarked on an upward trend in the third quarter of 2013, after a reduction during most of the first part of the year, where this performance is explained by the decreased supply arising from disturbance of the production of some of the largest producers, as well as the growing geopolitical tensions in Egypt and Syria.

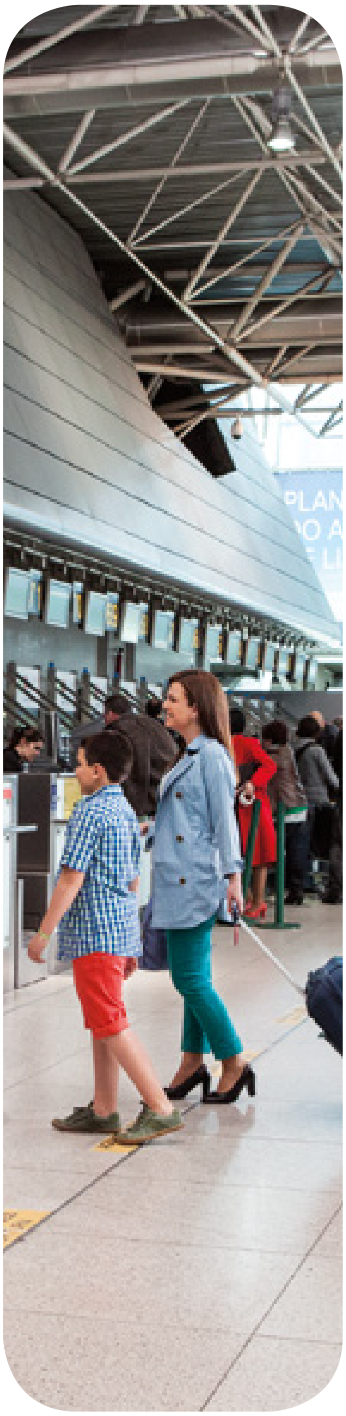
National economic environment

After a 3.2% reduction in 2012, the development of economic activity in Portugal in 2013 contracted once again, albeit more moderately, by about 1.4%, under the effect of a slowdown of the downward trend since the beginning of the year. This evolution was characterised by a strong reduction of internal demand, contrasting with the significant growth of exports throughout the year. Regarding internal demand, private consumption contracted by 2.0%, in line with the evolution of real disposable income, which to a large extent reflected the impact of the budget consolidation measures, namely the level of direct taxation as well as the reduction of remunerations in the private sector, in a context of strongly declining employment, and expressed in the very sharp decrease, in particular, of the consumption of durables. In turn, gross fixed capital formation fell by approximately 8.4%, across all institutional sectors, and particularly in terms of residential investment (-15.9%), business investment (-7.8%) and public investment (stagnation).

Exports of goods and services are estimated to have grown by 5.9%, reflecting a profile of acceleration of external demand directed at the Portuguese economy, along with additional gains of market share, partially associated to a diversification of export markets. This favourable evolution of market share, higher in 2013 than that recorded at the beginning of the monetary union, was particularly the result of the export of energy products which, apart from a limited net impact due to their high imported content, was related to the increased installed capacity of refinery, where no new increases of this capacity are projected.

Imports of goods and services should have grown by 2.7% in 2013, where this evolution is characterised by the strong growth of demand components with high imported content, such as energy products and transport material.

During 2013, the performance of the Portuguese economy developed under the combined effect of a budget consolidation process and the implementation of a series of structural reforms, conditions for a firm accreditation of medium and long term economic adjustment, which is indispensable for Portugal's return to stable market funding in the near future.



Air Transport

In spite of the context of relatively slow economic growth, the air transport market showed normal growth of demand, where this performance was driven by solid economic evolution in the emerging regions, where less mature air transport markets continue to show strong expansion. The profile of this performance developed throughout the year, with a clear trend of improvement, in an evident demonstration of the growing importance of the connectivity that commercial aviation offers to the world of today. The overall flight load factor, of around 79.5%, stood close to the maximum levels ever recorded, confirming the continued effort of the airline companies in elevating efficiency to progressively higher levels.

In particular, European airlines transported over 369 million passengers, corresponding to 1.7% more than in 2012. This increase being equivalent to approximately 6 million transported passengers, representing an increase of 2.7% in terms of the Industry's conventional unit of measurement (passenger-kilometre), according to the AEA (Association of European Airlines). Hence, positive evolutions were recorded in all regions, with increases in numbers of passenger-kilometres, reaching 2.9% in Europe, 3.9% in the North Atlantic and 2.5% in the South Atlantic, while in the Mid--Atlantic there was a negative evolution of around 0.9%. Likewise, the connections between Europe and Sub-Saharan Africa and the Far East showed increases of passenger traffic of approximately 2.4% and 2.5%, respectively. Connections between Europe and North Africa presented negative growth, which stood at 5.6%. The overall passenger load factor closed the year at 80.1%, exceeding the value recorded in 2012 by 0.7 p.p.. The improvement of the passenger load factor represented a performance that was extensive to the different regions, with the exception of connections between Europe and North Africa.

On a worldwide level, passenger demand, in terms of total passenger-kilometres, recorded an increase that was similar to the average of the last 30 years, with an evolution of around 5.2% in relation to 2012. For air cargo markets, 2013 was still a difficult year, ending with growth of 1.4%, under the effect of the significantly slow progression observed during the first half of the year. In view of the increased capacity, of about 4.8% and 2.6% in transport of passengers and transport of cargo respectively, the load factors stood at 79.5% and 45.3% for each of these segments, reflecting evolutions of +0.4 p.p. and +0.1 p.p., respectively.

Underlying this evolution of demand, it is important to note the performance of airline companies in mature markets, such as Europe and North America, which recorded the slowest rates of expansion, of 3.8% and 2.3%, respectively. In these regions, although economic performance had improved by 2013, promoting some revival of growth in air transport demand, the rate of expansion was significantly slower than that recorded in the emerging market regions. Hence, there were increases of 11.4%, the highest, in the Middle East, 7.1% in the Asia-Pacific region, and 6.3% in Latin America. The increase in Africa was 5.1%, considered strong, supported by the robust economic growth of local economies and the continued development of international trade. In some parts of this continent, however, there was a certain weakness in economic growth which negatively influenced the demand for international air travel, which was why this demand slowed down in the second half of 2013, in comparison with the beginning of the year.

Regarding the financial performance of the Industry, in circumstances of some economic growth and continuously high prices of jet fuel, a positive net income is estimated, at a global level, of around USD 12.9 billion. This value is higher than the USD 7.4 billion of 2012, with its underlying performance having been sustained by the heterogeneous economic developments of the different regions of the world. The determinant factors which contributed to this performance include the growth of traffic in line with the historical trend, although under the adverse effect of weakening yields, and the efficiency gains achieved through mergers and joint ventures. Particular note should also be made of the favourable impact of ancillary revenue gained through the incorporation of innovation in products and services.

The profound changes that have taken place over the last decade, occurring in three distinct phases, required the development of initiatives within each specific context

2000-2005

Cycle inversion

// Hub-and-spoke network;

// STAR Alliance;

// Aggressive cost cutting;

// Sale of non-core businesses and closure of unprofitable routes;

// Internal and external communication.

2005-2008

Strong growth

// Regional operation (PGA);

// Strong increase in capacity (new A330 fleet);

// New routes;

// Expansion of maintenance business;

// Commercial transformation process.

2008-2011

Global crisis …recovery

// Adjustment of capacity;

// Consolidation of commercial performance;

// Optimisation of cost structure;

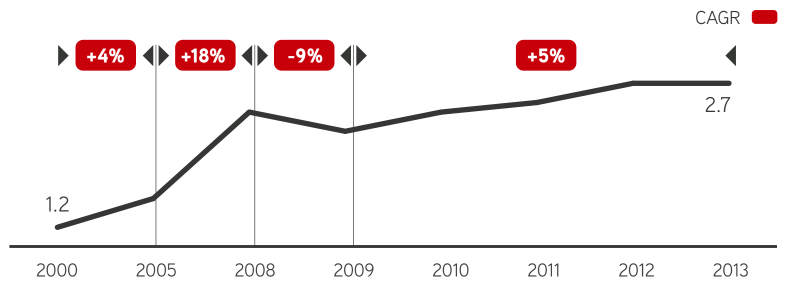
// Turnaround of the performance of the participated companies;

// Gradual reduction of consolidated debt.

At the end of 2013, revenues doubled relative to the start of the period, with EBITDAR registering a value approximately three times greater

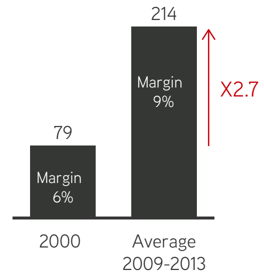
TAP Group Revenue

EUR billion



TAP Group EBITDAR

EUR million



CORPORATE STRATEGY

Following the Strategic Plan 2007-2009, strongly driven by a growth strategy, the large-scale implementation of the restructuring initiatives, established in the Strategic Plan 2009-2012, undertaken during a period of exposure to strong crisis in the Industry, enabled TAP to sustain its good performance. This reality is reflected in the positioning that its EBITDAR maintains relative to its counterparts.

In spite of its competitive profile, the Company still faces some challenges, where a future, external context with some uncertainties is expected. In particular, the continued persistence of high and increasingly volatile fuel prices, the level of intensity of the relaunch of scheduled flights within the overall Industry, following recovery from the crisis, as well as the lack of knowledge regarding the evolution of prices (yield) represent uncertainties with an impact on TAP's performance. It is also important to highlight some less favourable developments, such as the impact of the recession in the internal market due to the implementation of austerity measures in Portugal, within an international context of slowdown of the world economy, in addition to a strong exposure of the main businesses to a climate of growing competition.

Aimed at identifying the means necessary for the consolidation of the financial and operational performance and value creation in the Group's various businesses, the Strategic Plan of the Company for the period 2012-2016 is based on the following six strategic factors, continued in a growth programme, which will also contribute towards TAP's reinforcement as the reference company between Europe and the South Atlantic.

Strategic Plan of TAP 2012-2016

Strategic factors
Continuation of the growth of the Network and exploitation of expansion opportunities
Renewal of capacity aimed at maintaining unit cost gains
Commercial performance orientation to improve unit revenue
Guarantee a consistent focus on unit cost, through continued growth of awareness
Refocusing the maintenance business at TAP–Maintenance and Engineering Portugal on third party customers
Achieve the complete turnaround of TAP–Maintenance and Engineering Brazil

MAIN DEVELOPMENTS IN 2013

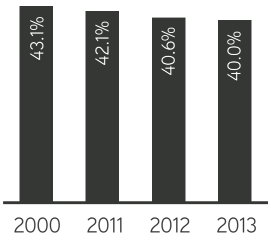
Continuation of the growth of the Network and exploitation of expansion opportunities

Seeking to explore all potential business opportunities, TAP pursued its strategy of growth of the Network and consolidation of current markets, in particular the connections between Europe and the South Atlantic and Africa. Hence, since there were no changes in the fleet of the TAP Group in 2013, a policy of adjustment of the operation to demand, accompanied by flight schedule improvements, permitted the launch of two new destinations – Tangiers in Morocco and Boa Vista in Cape Verde –, in an effort driven by growth and improvement of the Lisbon hub.

Renewal of capacity aimed at maintaining unit cost gains

Once again, 2014 will be a year of growth, with the foreseen opening of various new medium and long-haul routes. In order to ensure this increased operation, plans have been laid for the addition of a further six to TAP's fleet. These six aircraft represent significant growth, of approximately 10%, which will enable meeting the growth of passengers recorded in 2013, and also enable the expansion of the network of operations planned for 2014. The reinforcement of the operation should take place through the operationalisation, close to June 2014, of two long-haul A330-223 aircraft and four medium--haul aircraft (two A319-111 and two A320-214), all under medium/long term operating leases. In turn, concerning the fleet operated by PGA–Portugália Airlines, we highlight an important change relative to the replacement of two Beechcraft 1900–D aircraft by two ATR 42-600 modern aircraft, enabling an increase of capacity from 19 to 46 passengers, which should also take place during 2014. It should be noted that the impact of this operation includes the improved in-flight service, low noise level, reduction of aircraft grounding, as well as the improved cost-efficacy ratio, lower consumption of fuel/passenger-Km and lower CO_2 emission. Regarding the continued renewal of capacity, Airbus officially announced a delay of approximately 2 years in the delivery of the new A350-900 XWB to TAP, with the first delivery having been moved from early 2015 to early 2017. The delivery of the 12 aircraft should take place over 3 years, with the working party for the specification of these aircraft starting-up during 2014, as scheduled by Airbus.

Costs, excluding Human Resources and Fuel, as a percentage of Revenue



Commercial performance orientation to improve unit revenue

The implementation of the new Revenue Management system PROS O&D II was completed and consolidated during 2013, enabling the management of space aimed at optimisation of the Network's revenue, with differentiation of the availability of seats on sale in-flight, by origin/destination and point of sale (POS). TAP thus positioned itself at a more evolved level in terms of flight revenue management, having begun to provide the selection of booking acceptance using a more diversified range of choice criteria. These criteria, enabling the dynamic fine-tuning in real time of the provision of price, enable, at any given time, a selection of bookings that are more adjusted to the nature of demand and its evolution.

With these developments, TAP thus armed itself to compete in a more balanced form and at the same level of competition, progressively aggressive, that it faces in practically all the markets in which it operates. The results are already visible in the better and more efficient use of sales space, with increased load factor, associated to a higher number of passengers and increased ticket revenue.

Guarantee a consistent focus on unit cost, through continued growth of awareness

The effort to reduce costs was continued during 2013, in order to assure greater efficiency in the use of the existing resources. At TAP, S.A. the total value of Costs, excluding Human Resources and Fuel, as a percentage of Revenue, continued on its downward trend, having reached 40.02%, compared with the figure of 40.62% for the previous year.

Refocusing the maintenance business at TAP–Maintenance and Engineering Portugal on third party customers

Although the long term outlook on evolution remain unchanged, in 2013, the aeronautical maintenance market still showed signs of some weakness in growth, with strong pressure on prices continuing simultaneously with higher labour costs. Customers intend their suppliers to undertake greater risks at lower prices, hence it is necessary to acquire flexibility and efficiency in order to assure margins in this activity. On the other hand, the possibility of creating repair capacity in new technologies continues to be very threatened by the manufacturers which, in managing to control the product chain from cradle--to-grave, not only protect their know-how, but also become new strong competitors to traditional maintenance and repair organisations (MRO). Hence, concerning work for third party customers, it was not possible to achieve the objectives defined at the beginning of the year. The continuity of the very adverse economic situation, at a worldwide scale, has significantly affected the capacity of some customers to honour their financial commitments, where this situation has led to the need to conduct a progressively more rigorous appraisal of potential customers, greatly limiting their number. On the other hand, there has been an increasingly more frequent association between large maintenance groups and financial entities, whose power of financial leverage gives the former strong competitive advantages. In view of this new reality, the accomplishment of new contracts has proved difficult in the area of engines, especially those arising from major international tenders due to the impossibility of supporting customers with replacement engines. Notwithstanding the retraction observed in engine maintenance activity, the margin of contribution of the Maintenance and Engineering Business Unit to TAP's net income showed an amount close to double that expected in the budget.

Achieve the complete turnaround of TAP–Maintenance and Engineering Brazil

TAP–Maintenance and Engineering Brazil gave yet another significant step towards the achievement of operational balance. The company's activity grew again, for the 3rd consecutive year and Net Operating Income, while still negative, improved its representativeness in total Services Rendered by approximately 14.8 p.p. in local currency and by 15.6 p.p. in euros. This is particularly remarkable in an industry where, for reasons of consistency of production quality and capacity of the resources, sustained growth requires enormous resilience and priority management. The fact that the prospects for 2014 are very positive is also notable. This is largely the result of the positive feedback from customers and the important work that has been done in the elimination of contingencies that has weighed on the company and constrained its activity. Furthermore, the company has managed to eliminate a value of close to 400 million reais of contingencies and initiated a number of court proceedings in favour of TAP.

€ 2 427.8
million

Sales and Services Rendered

90.6%

of the Group's Turnover

€ 34.0
million

Net Income of TAP, S.A.

PERFORMANCE OF TAP GROUP COMPANIES

TAP, S.A.

In a context of continuing economic crisis throughout the Euro zone, strengthening of sales performance and improvement in operational efficiency

In the Air Transport market, at a worldwide level, in spite of the context of relatively slow economic growth, demand registered normal growth, driven by a solid economic performance in emerging regions, where less mature air transport markets continue to expand strongly. Over the course of the year the performance profile was characterised by a definitive improvement trend, in a clear demonstration of the growing importance of the connectivity that commercial aviation provides to today's world. However, in Europe, the profitability of the region's airline companies is still conditioned by the development of activity in a market considered to be mature, where the expansion of demand is significantly more moderate, and by the impact of the continuing economic crisis throughout the Euro zone. For the air cargo markets, 2013 was still a difficult year, ending with a growth of 1.4%, under the effects of significantly slow progress during the first half of the year. In the interim, aircraft fuel prices, remaining at high levels, continued to condition the Industry's profitability, in particular the carriers of the European region, where margins remained at fragile levels, in the presence of additional permanent, structural challenges for the sector, namely in the regulatory context.

Similarly exposed to the unfavourable economic environment in Europe and, in particular, in Portugal, TAP, S.A. ended the financial year of 2013, for the fifth year in a row, with a positive net income of 34.0 million euros, corresponding to 10.2 million euros above the 23.8 million euros achieved in 2012 Restated. Operating income reached 51.7 million euros, 1.3 million euros less than in 2012. Fuel costs, which represented 33.0% of the Company's total Operating Costs and Losses in 2013, fell 5.4%, corresponding to a decrease of 43.5 million euros, of which 43.8 million euros are attributable to the price effect, mainly due to the exchange rate appreciation of the euro relative to the USD. The Air Transport activity generated a total of 2,344.2 million euros, corresponding to 89.5 million euros more than in 2012, with this value having been significantly influenced by the behaviour of passenger income, which reached a total of 2,216.6 million euros, corresponding to 4.9% more than the value recorded in the previous year, as a consequence of increased demand, of the order of 3.4%, expressed in passenger-kilometres (RPK), as well as some improvement of the yield. Of particular importance, in this context, is the behaviour of direct sales of TAP, which registered an increase of 16.3%. This evolution was due, above all, to the behaviour of e-Commerce, which accounted for total sales revenue of 419.6 million euros in 2013, representing an increase of 22.5% relative to the previous year. The numbers of this sales channel, which already account for 15.2% of the total revenue of markets, reflect the clear preference for a growth strategy, of geographic expansion to new quarters and the growing consolidation of TAP's position in several online markets. Conversely, the income associated to the volume of Cargo and Mail transported reached a total of 115.3 million euros, 9.1% less than in 2012.

In turn, the aeronautical maintenance activity of TAP–Maintenance and Engineering Portugal, in the Third Party Customers segment, as a result of the contraction in the engine maintenance activity, registered a total of 75.6 million euros, 34.3% less than in 2012, reflecting the continued climate of economic crisis, the concerted attack by manufacturers against the maintenance organisations, as well as the growing difficulties felt in the market.

It should be noted that, in a scenario characterised by continually high aircraft fuel prices relative to the historical averages, the results achieved by the company were only possible due to significant efficiency gains arising from the progressive improvement in productivity achieved over recent years, in addition to the adoption of best practices and the streamlining of processes, combined with an aggressive sales policy. The impact of increased rigour in cost management with a view to ensuring greater efficiency in the utilisation of existing resources is also noteworthy.

Capitalising on business opportunities, by reinforcing the importance of the Lisbon hub in the connections of Europe to a growing number of destinations located in Africa and in the South Atlantic

During the course of the year, the policy of attracting long distance traffic was intensified, and efforts focused on growth and in the improvement of the Lisbon hub, as well as of the second operational hub, in Porto, were continued, together with the expansion of geographical coverage and the increase in traffic flows. In this regard, a policy of adjustment of the operation to demand, accompanied by slot improvements, enabled business opportunities to be exploited, with the launch in Africa of two new destinations – Boa Vista (archipelago of Cape Verde) and Tangiers (Morocco).

It is also important to highlight the impact of the participation of TAP in the STAR Alliance global multi-hub system, which has permitted benefiting from the incoming traffic provided by the other members. Eight years after TAP's integration in this global Alliance, in a participation considered as a reinforcement by the actual Alliance, the company has pursued the implementation of its niche strategy, connecting Europe to a growing number of destinations in Africa and in the South Atlantic, where it is distinguished as the leading European carrier to Brazil.

Main Indicators of TAP, S.A.

	2013 EUR million	2012 Restated EUR million	var.
Operating Revenues and Gains	2,479.6	2,435.7	1.8%
Operating Costs and Losses	2,325.8	2,279.3	2.0%
Net Operating Income	51.7	53.0	-2.5%
Net Income	34.0	23.8	43.0%
Total Assets	1,859.6	1,725.2	7.8%
Total Equity	114.0	76.1	49.9%
Active Staff (31 December)*	6,889	6,837	52
Air Transport	4,554	4,479	75
Maintenance and Engineering	1,886	1,908	-22
TAP Serviços	419	419	0
Other	30	31	-1
TAP fleet composition (average)	55.0	55.0	0.0%
Flight Hours (Sched. oper. using own aircraft)	255,113	252,900	0.9%
Departure punctuality up to 15' (%)	73.8	71.4	2.4 p.p.
Regularity (%)	99.1	98.7	0.5 p.p.

(*) Not including non-placed and non-active staff

At the end of the year, the combined TAP + PGA fleet comprised 71 aircraft, unchanged from the previous year. In order to guarantee the fulfilment of its strategy to respond more fully and better to the expectations of its Customers, the company intensified its efforts to optimise all available business opportunities. The total number of passengers transported thus reached 10,703 thousand, 517 thousand more than in 2012, with increases having been recorded in most sectors of the network, with the exception of the South Atlantic, a region in which the number of passengers transported remained at approximately the same level as the previous year. The operation to Brazil, where the operation currently represents 39.5% of the total network is particularly noteworthy. In line with the expansion policy that has been followed by TAP, the integration of six aircraft into the fleet – two long-haul aircraft (Airbus A330) and four medium-haul aircraft (two A320 and two A319) – is planned for 2014, an increase that will permit the opening of ten new destinations – Bethlehem and Manaus (Brazil), Bogotá (Colombia), Panama (Panama), Nantes (France), Gothenburg (Sweden), Belgrade (Serbia), Hanover (Germany), Tallinn (Estonia) and S. Petersburg (Russia) –, and the reinforcement of others, representing an expansion of the offer of approximately 8%, the highest increase ever recorded over a period of one year.

An attitude of permanent search for innovation opportunities

At TAP, the attitude of permanent search for innovation opportunities, as a dynamic factor of the company's competitiveness, has led to the introduction of innovation in products, services and processes, which has enabled the company to differentiate itself from the competition. In 2013, TAP continued to promote the changes it deemed necessary, according to the requirements of its strategic positioning, in an attitude of pioneerism with respect to the use and fostering of new technologies. In this regard, various products and services were launched, with the following examples being noteworthy: the position of leadership in the use of frequent flyer cards in Passbook; the leading positioning in the use of technological innovations to facilitate the communication with Customers and with company Employees; and, within the scope of work processes, the creation, in Maintenance and Engineering, of the innovative concept of Outpost for aircraft inspections.

Growing contribution to national exports and to the Country's Tourism

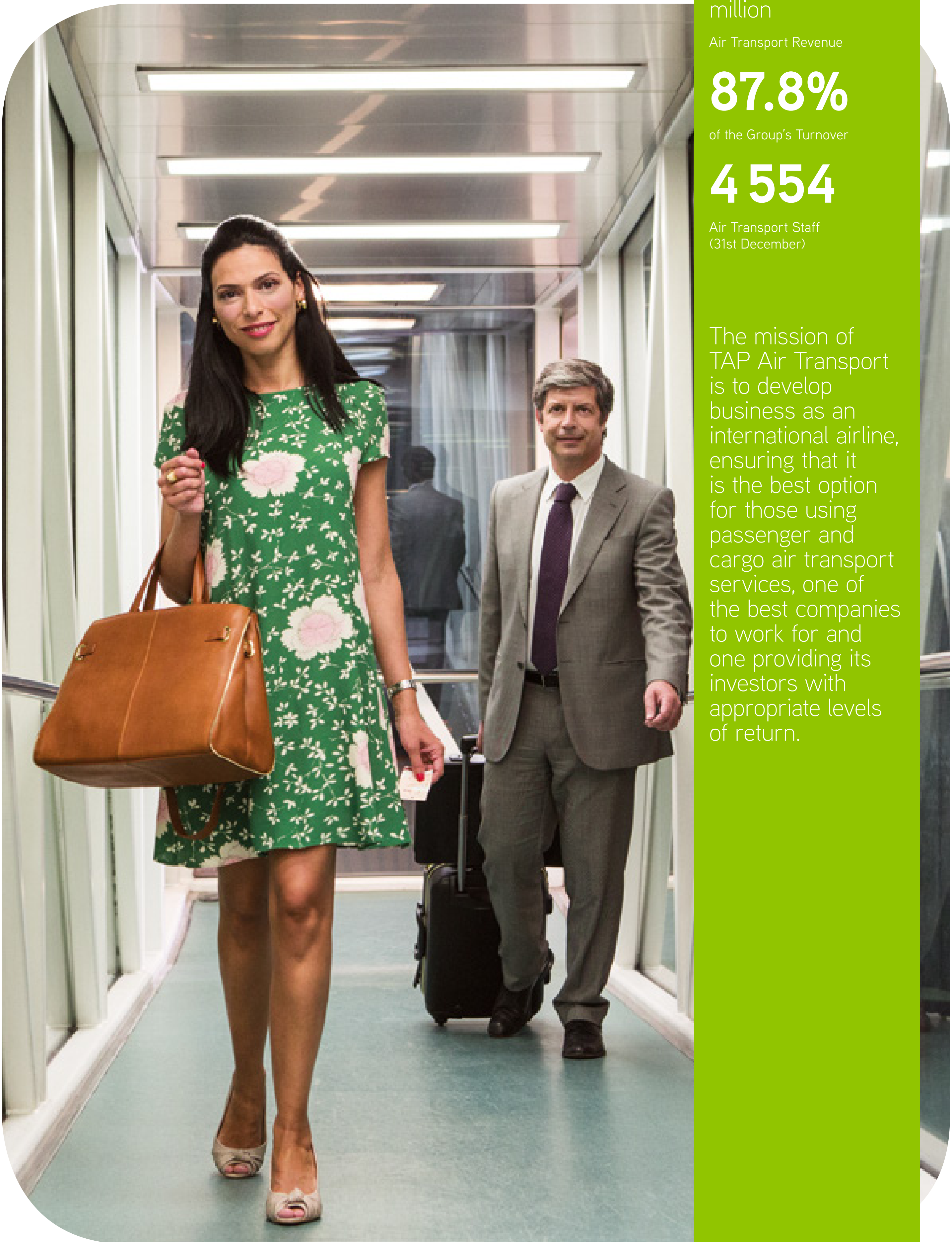
TAP's capacity to attract increasingly significant traffic volumes, reflected in the strong growth of its sales in international markets, contributed to reinforce the company's vocation to serve the national economy, and affirm its increased participation in promoting the Tourism sector. In addition to boosting the strategic importance of the Lisbon hub, the opening of new routes contributes to the promotion of Portugal, through a significant volume of traffic to Portugal, throughout its entire operation network, as well as through the activity of the company, as an important entity in promoting national products.

As part of the contribution to the volume of national exports, TAP has also strengthened its positioning, having achieved total sales and services rendered in markets abroad of 2,374.3 million euros in 2013, corresponding to 7.0% (155.6 million euros) more than in 2012.

Increasing employment creation

In line with the development of the strategy followed by TAP, an increase in employment creation is expected in 2013/14, through the hiring of about 600 highly qualified workers and the departure of 150 employees mostly due to retirement. This surplus is justified by the integration into the TAP fleet of six additional aircraft, whose contracting was authorised, in line with the company's growth plans.

AIR TRANSPORT



€2344.2 million

Air Transport Revenue

87.8%

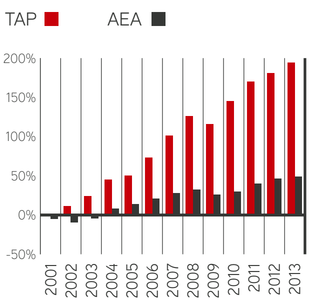
of the Group's Turnover

4554

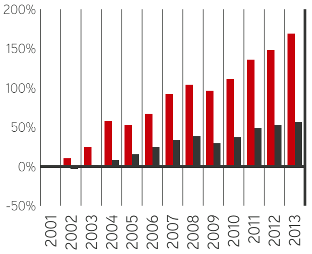
Air Transport Staff
(31st December)

The mission of TAP Air Transport is to develop business as an international airline, ensuring that it is the best option for those using passenger and cargo air transport services, one of the best companies to work for and one providing its investors with appropriate levels of return.

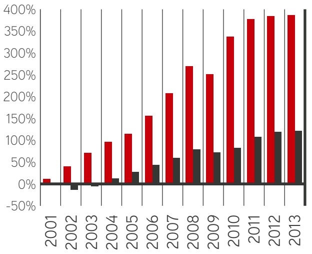
Growth of traffic (RPK)
TAP and average of the AEA companies
– Evolution relative to 2000



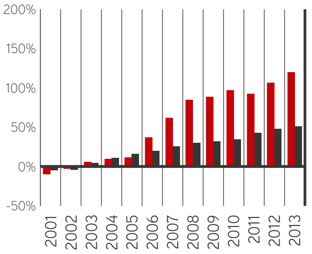
Europe



South Atlantic



Sub-Saharan Africa

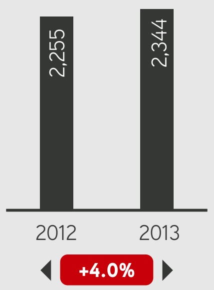


AIR TRANSPORT

In the passenger transport market, European scheduled carriers of the AEA (Association of European Airlines) recorded growth of 2.7% (passenger-kilometre), significantly below the historical performance, and insufficient to return the AEA airline companies to positive results, with the operating margin having remained at close to 0%.

However, while this evolution reflects the market's capacity to remain substantially unshaken by the poor economic conditions associated to the crisis observed in the entire euro zone, the weak development of yields presents yet another challenge to be overcome in the long awaited recovery of the final result of the Industry.

Air Transport Revenues
Sales and Services Rendered
EUR million



Growth in the Air Transport activity

In TAP, the growth in demand proved to be slightly higher than the average identified for the sector, standing at approximately 3.4%, expressed in passenger-kilometres (RPK).

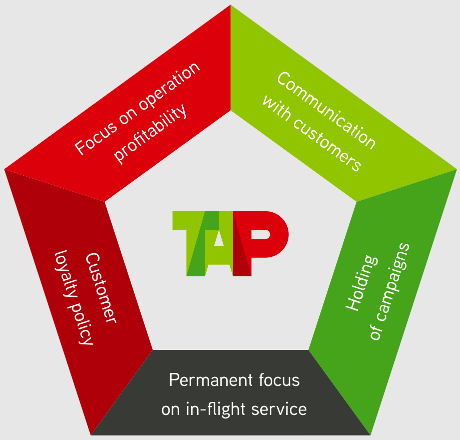
Hence, in the Air Transport activity, total sales and services rendered reached EUR 2,344.2 million, 4.0% more than in the previous year, following an aggressive commercial policy.

The air transport business, the main activity of TAP Group, represented 87.8% of the Company's total turnover in 2013.

MAIN ASPECTS OF THE COMMERCIAL POLICY

During 2013, TAP continued on its path to strengthening the quality of its products and services, as well as the most appropriate solutions for passenger travel, always driven by increasing Customer satisfaction and constant differentiation in relation to the competition.

During the development of its strategy, the Company upheld its main objective of implementation of a rigorous and effective management of equipment and resources, giving priority to the following aspects:



Strengthening of the connections between Europe, Brazil and Africa, contributing to the growth and improvement of the Lisbon and Porto hubs

TAP continued its efforts driven by growth and the improvement of the Lisbon hub, and the Porto hub as the 2nd operational hub, focusing on the consolidation of the connections between Europe, Brazil and Africa.

The operation maintained two different operating periods in the summer, justified by the lower volume of demand at the start of this period: until the end of May, the continuation of the product offered in winter, with a lower number of night-stop flights and flights to Rio de Janeiro, São Paulo and Brasilia during night-time; from June until the end of the summer period, a more extensive operation, with all night-stop flights and flights to Rio de Janeiro, São Paulo and Brasilia during daytime.

After the end of the restrictions, arising from impositions by the Competition Authority on the Lisbon-Porto route, TAP was able, for the first time in five years, to design this product in a more harmonious form and adjusted to the Company's needs.

A policy of adjustment of the operation to demand, accompanied by flight schedule improvements, permitted the launch of 2 new destinations, Tangiers in Morocco and Boa Vista in Cape Verde, in order to take advantage of business opportunities.

Adjustment of the operation to demand

Autonomous Regions	Pico Island	As of June, operation of a weekly flight reinforced with a second flight between July and September, justified by the fact that it is now possible to refuel on the island and also by the level of demand.
Europe	London	At the beginning of the winter, increased offer by 3 flights per week.
	Turin	At the end of the summer, closure of the operation.
	Milan	At the end of the summer, in close collaboration with the market, the entire operation takes place at Malpensa airport, no longer operating Linate, due to the rationalisation of the operation and cost reduction.
	La Corunna	Launch of 2 additional flights per week, reaching the total of 8 weekly flights, due to high demand.
	Manchester	Between June and September, operation with 10 weekly flights, due to the strong increase of demand (6 flights in 2012).
	Helsinki	Between June and September, launch of 1 additional Lisbon-Helsinki flight.
	Dusseldorf	Daily operation, due to adjustment to the level of demand (5 to 7 weekly flights in 2012).
	Berlin	Daily operation, due to important growth of demand (launched in 2012 with 5 weekly flights).
	Vienna	Daily operation.
	Venice	Between June and September, increased operation with 3 night-stop flights, reaching the total of 10 flights per week, due to the strong pressure of demand and as the best way to improve the product for transit passengers.
	Prague and Budapest	Increased operation to these two cities by 1 flight per week, with a total of 8 flights per week to each city, due to higher demand.
	Bucharest	In 2013, the operation covered 6 flights per week (launched in 2012 with 3 flights per week).
Africa	Casablanca	At the end of the summer, with the review of the operation, introduction of Airbus on the route, reducing the operation to 1 daily flight.
	Marrakech	At the end of the summer, with the review of the operation, introduction of Airbus on the route, maintaining the flight frequency.
	Tangiers	In October, start-up of the operation with 5 weekly flights in Beechcraft, offering a total of three destinations in Morocco.
	Bissau	Due to serious security problems, suspension of the operation on 10th December.
South Atlantic	Rio de Janeiro	Between June and September, due to the strong demand, launch of an additional Lisbon-Rio de Janeiro flight, now offering a total of 13 flights per week departing from Lisbon and 3 from Porto.
	Salvador	During the period of July to October, reduction of one weekly Lisbon-Salvador flight, with a total of 6 flights per week, since the low pressure of demand and high occupancy rates of other routes do not justify increased offer.
East	Kuala Lumpur	On 27th October, expansion of the code-share with Emirates.

Optimisation of revenue with greater efficiency of the management of space

The implementation of the new Revenue Management system PROS O&D II was completed and consolidated during 2013. TAP thus positioned itself at a more evolved level in terms of flight revenue management, having begun to provide the selection of booking acceptance using a more diversified range of choice criteria. These criteria, enabling the dynamic fine-tuning in real time of the provision of price, enable, at any given time, a selection of bookings that are more adjusted to the nature of demand and its evolution.

With these developments, TAP thus armed itself to compete in a more balanced form and at the same level of competition, progressively aggressive, that it faces in practically all the markets in which it operates. The results are already visible in the better and more efficient use of sales space, with increased load factor, associated to a higher number of passengers and ticket revenue.

Characteristics of the new Revenue Management O&D driven System

Space management, from the viewpoint of Network revenue optimisation, is undertaken by differentiating the availability of seats for sale by origin/destination and by point of sale (POS);
In this way, a more rigorous and fine-grained selection of reservations is provided;
This will enable an evaluation of the expected revenue of each reservation that is closer to reality, since the set of flights that compose the travel between a given origin and a given destination, and not only each flight on an individual basis, is incorporated in the analysis.

Marketing expenses following market trends

Following the general trend in the national and international markets, TAP has continued its marketing cost reduction policy.

COMMUNICATION WITH CUSTOMERS

Participation of TAP in the Lisbon International Tourism Exhibition (BTL) 2013

At this event, held from 27 February to 3 March, the TAP brand primarily worked on themes such as: the scale of the TAP Network; the new flytap mobile website and the applications, free of charge, for tablets and smartphones; the *donate miles* product and Victoria auctions with miles for customers of the Victoria Programme; the Safety film (since awarded as the best Safety Airline Video); the new service of the medium and long-haul Executive Class; the FLIP&FLAP product, with the presence of the mascots on fair days dedicated to the general public; Social Media (information demonstrating TAP's work in the networks – growth occurred, pastime, servicing); the Magazine UP and the book *Portugal is Worth It*; an interactive area with a game for visitors of the fair and the showing of stimulating videos of Corporate TV content (focused on TAP products in 2012 and 2013).

During the event, approximately 58 thousand visitors visited the TAP stand.

TAP participated in BTL with the same stand of 2012, but remodelled and adapted to the TAP product and evolution in 2013.

For the youngest (FLIP&FLAP)

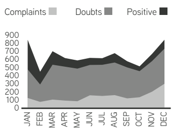
The launch of the FLIP&FLAP brand was officially held on World Children's Day, 1 June 2012, with the brand having consolidated its activation throughout 2013, with various activities for the most junior segment; Discount campaign *Book your family trip, on 30 May, and receive 50% discount!*; Action *Decora & Descola*, at Lisbon Airport; *Mascot Parade*; *Christmas 2013*; *Greenfest*.

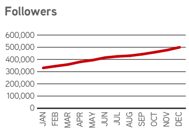
Social Networks

Facebook

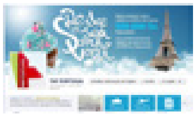
In December 2013, TAP's Facebook – in the markets of Portugal and Brazil –, had over half a million fans. On the official profile of the page of Portugal, the increase over the year was around 180 thousand followers, with an average of 15 thousand new fans/ month.

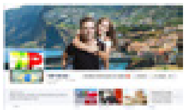
According to this page, Portugal, Brazil, United Kingdom, France and Switzerland represent the main markets of origin of TAP's fans, in decreasing order.



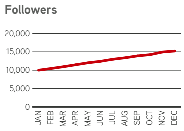


Servicing perspective
Distribution of questions posed by TAP followers on the company's mural





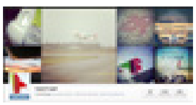
Twitter

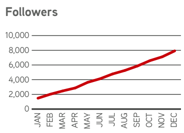


On Twitter, TAP has a total of around 5,700 new followers (+60% than in 2012)

Instagram

TAP also has a profile on Instragram since June 2012. By the end of 2013, the Company's profile already had 8 thousand followers.

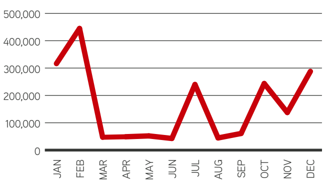




Youtube

Among the videos that most contributed to the development of this channel at TAP, was the Safety film in particular, where by the end of 2013 over 600 thousand views had been recorded.

Views in 2013



Evolution of the views on youtube.com/tap, throughout 2013

Golf

TAP kept its focus on Golf, in the capacity of a Golf Friendly Airline, with two tournaments having been held, with the technical support of the TAP Club, as the preferred partner for this sport.

// 6th Victoria Tournament (Montado Hotel & Golfe Resort, 8 June)

// 36th TAP Open Algarve (from 12 to 15 November)

Close to 300 players/participants were involved in the total of the two events

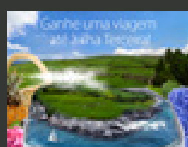
TAP has thus maintained its strong positioning in the Social Media area with three main objectives

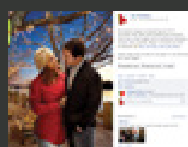
// *Customer Service & Relationship*

Answering the Customer in the least time possible, on all types of questions and claims.

// Create and maintain strong relations, especially emotional, with its followers

Providing the content that really interests Customers, developing dedicated pastimes and competitions with potential for interaction, bringing the campaigns and participation of followers into the street, through street marketing actions associated to Facebook and other networks.





// Promotion of Marketing

Having a weekly strategy, suited to each network, type of audience and respective language which communicates with each follower in the network where the follower most likes to be present, keeping the follower up to date with what TAP is doing in terms of product, price, promotions and street actions, among other initiatives.

HOLDING OF CAMPAIGNS

Digital campaigns (ongoing)

The online campaigns, in TAP's different markets, focused on the Google search engine, received an investment of 1.7 million euros, for a total of 315,862 online bookings, which represented year-on-year growth of 16% in bookings directly arising from the Google investment in campaigns.

CUSTOMER LOYALTY POLICY

Victoria Programme

During the year, various campaigns were communicated to Victoria customers in the different markets. The campaigns which include TAP price campaigns, communication of company products or promotions of the programme itself and its partners, represented a total of 11.5 million contacts as a whole in 2013, with the following figures being of particular interest: Unique e-mail open: 2,696,471; Unique e-mail click: 570,783.

Corporate Programme

In 2013, the campaigns sent to Corporate customers, represented, as a whole, in the markets of Portugal and Spain, approximately 70 thousand contacts, with communication of TAP products and services.

TAP website

website	Unique visitors	Pageviews
flytap.com	31,982,702	35,340,272
tapvictoria.com	1,827,848	14,458,084
tapcorporate.com	43,436	185,363

PERMANENT FOCUS ON IN-FLIGHT SERVICE

More comfort in the new executive class service

In the new TAP | executive, for long-haul flights, the traditional blankets have been replaced by comfortable eiderdowns.
The new comfort kits are recyclable and contain items produced with 100% natural materials. The new service also involved the consolidation of gastronomy with Portuguese roots, providing opportunities to national companies and Portuguese products, stimulating their competitiveness in the different international markets.

The children were not forgotten

New tray-mats were introduced, meal boxes and glasses decorated with TAP's mascot, Flip&Flap, and new children's entertainment kits, with games and comfort articles.

Cuisine of the senses – new YCL service

The new concept is based on reinventing the spirit of traditional cuisine enabling, with quality products, the offer of homemade and traditional food, while simultaneously offering TAP's long-haul passengers a different gastronomic experience.
Traditional cuisine appeals to our senses, it is characterised by dishes that are rich in flavours and perfumes, while also being based on healthy ingredients.

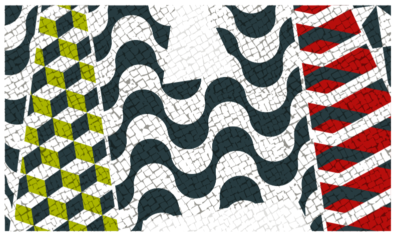
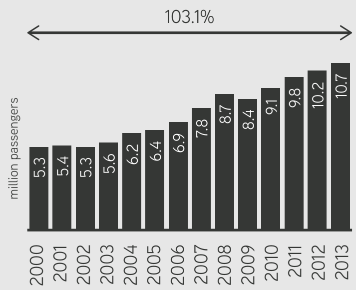
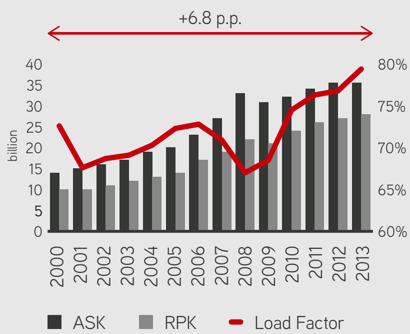


Image of traditional Portuguese stone paving on meal trays

Carried Passengers
Scheduled flights



Capacity, Traffic and Load Factor
Passenger-Km and %



ROUTE NETWORK

In the operation of the Company's Route Network, in 2013, TAP pursued its strategy of providing an offer of quality services, adjusted to its Customers' needs and aimed at meeting their expectations.

For the entire network, the level of supply of the scheduled operation remained in line with the previous year, with growth of demand of 3.4%. As a consequence, the passenger load factor increased by 2.6 p.p. to 79.4%. The total number of passengers transported reached 10.7 million (+5.1%), with ticket income having reached a total of 2,216.6 million euros, 4.9% more than in 2012.

Around 107 thousand services were provided during the operation. Note should also be made of the presence of around 69 thousand flights operated by other companies, under code-share agreements. The Company flew approximately 255 thousand hours with its own aircraft and over 55 thousand hours with Portugália aircraft, adding up to a total of 0.8% more than in 2012. The number of kilometres covered corresponded to 183.4 and 30.3 million, respectively.

MEDIUM-HAUL NETWORK

Medium-haul traffic represented 42.3% of the total Route Network in 2013 when expressed in passenger-kilometres (RPK), representing an increase of 1.3 p.p. relative to 2012.

// In the **Autonomous Regions**, the strict analysis of the operation, with a view to better matching supply and demand on the Lisbon-Funchal route, led to the suspension of flights, affecting operations with lower passenger load factors.

// Thus, the offer for this sector of the Network decreased by 3.6%, with demand having increased by around 0.2%, improving the overall passenger load factor by 2.7 p.p., to 72.3%.

The Autonomous Regions recorded a weight of 3.9%, that is, 0.1 p.p. less than in 2012.

// In **Europe**, corresponding to 37.9% of total demand, the region is the 2nd most important sector in TAP's network. However, also taking into account the demand of Mainland Portugal and the Autonomous Regions, the European region as a whole accounted for 42.3% of the Company's total demand in 2013, becoming the most expressive sector of the Network.

The increased supply in this sector of the network, of around 2.8%, was entirely compensated for by the increase in demand, which came to 7.4%. As a consequence, the overall passenger load factor increased by 3.2 p.p. to stand at 75.9%.

// In **Mainland Portugal**, following a better distribution of the operation between Lisbon and Porto during the day, which enabled one flight to be withdrawn in some periods of the year, there was a reduction in the offer attributed to this sector of the network of around 4.4%. In view of the 1.4% higher demand, there was an increase in the overall passenger load factor of approximately 3.6 p.p., with the representativeness of this sector of the network being maintained at around the same level, with approximately 0.5%.

LONG-HAUL NETWORK

Long-haul traffic accounted for 57.7% of the total Route Network in 2013, representing 1.3 p.p. less than the previous year.

In **Africa**, with the expected competitive reinforcement of the Lisbon hub, offering good connectivity from and to other intra-European destinations served by the Company, the amount of scheduled flights offered was increased by around 1.2%. In view of the increase of 5.5% in demand, the overall passenger load factor increased slightly by 3.1 p.p. to 76.6%.

The representativeness of the region, in the entire network, stood at 10.7% or 0.2 p.p. more than in 2012.

// In the **North Atlantic** demand aimed at this sector of the network increased by around 2.3%, while the offer was reduced by 1.2%. As a result, the passenger load factor increased by approximately 2.8 p.p. to 82.8%. Thus, the weight of this sector's traffic in the total network increased slightly relative to 2012, to stand at 5.3%.

// In the **Mid Atlantic**, the increased demand for this region, of around 13.5%, was significantly higher than the increased offer of around 3.2%. As a consequence, the overall passenger load factor showed a significant improvement of 7.8 p.p., to stand at 85.9%, the highest of the TAP Network. Its representativeness in the total network showed a slight increase of 0.2 p.p., relative to 2012, to stand at 2.2%.

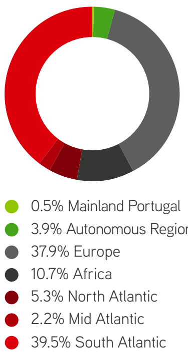
// In the **South Atlantic** region, the lower supply for this region, of around 2.7%, was higher than the reduction in demand, which reached 0.7%. As a consequence, the overall passenger load factor increased modestly to 84.2%.

Position of leadership in Brazil

The South Atlantic was the most representative sector of the route network, reaching 39.5%, 1.6 p.p. less than in 2012, thus continuing to exceed the size of the Europe network sector.

The intensity of the operation directed at this sector of the Network, over the past few years, reflecting both the reinforcement of frequencies and the opening up of connections to new points, demonstrates the Company's decision to specialise in traffic between Europe and the South Atlantic.

Traffic (RPK) by Route Network Sector
Scheduled flights



Collaboration with partner companies

The intensification of relations with STAR Alliance member-companies continued, in particular with the increased number of flights or connection points served in code-share with the partners AIR CHINA and Thai Airways, as well as the extension of code--share with South African Airlines, as a result of the increased destinations offered by TAP in its own aircraft in 2013. This assured more flights and diversification of the offer through the growth of the number of code-share destinations between these companies.

Always taking care to strengthen the range of benefits, namely those arising from the continued expansion and improved coverage of TAP's network of destinations offered to our Customers, negotiations were conducted successfully with the companies GOL and COPA, in order to initiate close commercial partnerships in the near future, covering code--share services and interconnection of the Frequent Flyer Programmes. In the meantime, negotiations are underway for the same purpose with other companies, in particular ETHIOPIAN and Air INDIA (where the latter is preparing for its inclusion in the STAR Alliance).

Under the STAR Alliance, various activities in progress aim to maximise the use of the potentialities, synergies and benefits generated by the interaction of its different members, such as, for example, the future common use of a single Terminal in London (Heathrow), and the sharing of a terminal and lounges in São Paulo.

		Change on previous year		
Region	Traffic Volume (Passengers)	Capacity (ASK)	Traffic (RPK)	Load Factor
Mainland Portugal	567,104	-4.4%	1.4%	63.4%
Autonomous Regions	958,771	-3.6%	0.2%	72.3%
Europe	6,553,301	2.8%	7.4%	75.9%
Africa	726,314	1.2%	5.5%	76.6%
North Atlantic	259,789	-1.2%	2.3%	82.8%
Mid Atlantic	95,903	3.2%	13.5%	85.9%
South Atlantic	1,541,721	-2.7%	-0.7%	84.2%
Total	**10,702,903**	**0.0%**	**3.4%**	**79.4%**

Cooperation and Partnership Agreements* 2013

Portugal	
Autonomous Regions	Austrian Airlines (until October), Sata International
Mainland Portugal	Brussels Airlines, Emirates, Lufthansa, Sata International, Swiss, Turkish Airlines, Ukraine International, United Airlines, US Airways (from March to October)
Europe	
Austria	Aegean Airlines, Austrian Airlines, Brussels Airlines, Ukraine International
Belgium	Austrian Airlines, Brussels Airlines, Etihad Airways, Finnair, LOT – Polish Airlines (until March), Thai Airways, Ukraine International, United Airlines
Bosnia and Herzegovinia	Austrian Airlines
Bulgaria	Austrian Airlines, Lufthansa
Croatia	Croatia Airlines, Lufthansa
Czech Republic	LOT – Polish Airlines, Lufthansa
Denmark	Lufthansa
Finland	Finnair, Lufthansa
France	Brussels Airlines
Germany	Aegean Airlines, Air China, Austrian Airlines (until October), Brussels Airlines, Croatia Airlines, Etihad Airways, LOT – Polish Airlines, Lufthansa, Thai Airways, Turkish Airlines, United Airlines, US Airways
Greece	Aegean Airlines, Lufthansa, Swiss
Hungary	LOT – Polish Airlines, Lufthansa
Italy	Aegean Airlines, Air China, Alitalia, Austrian Airlines, Croatia Airlines, Egyptair, Etihad Airways, LOT – Polish Airlines, Ukraine International
Netherlands	Etihad Airways (since March), Finnair, LOT – Polish Airlines, Ukraine International (since October), United Airlines
Norway	Lufthansa
Poland	LOT – Polish Airlines
Romania	Austrian Airlines, LOT – Polish Airlines, Lufthansa
Russia	Siberia Airlines
Serbia	Austrian Airlines
Slovakia	Austrian Airlines
Spain	Aegean Airlines, Air Canada (from March to October), Air China, Austrian Airlines, Croatia Airlines (from March to October), Egyptair, Finnair (until March), Thai Airways, Turkish Airlines, Ukraine International
Sweden	Brussels Airlines, Lufthansa
Switzerland	Air China (since March), Austrian Airlines, Croatia Airlines, Etihad Airways, Finnair, LOT – Polish Airlines (until March), Swiss, Thai Airways, Ukraine International, United Airlines
Turkey	Turkish Airlines
Ukraine	Ukraine International
United Kingdom	Aegean Airlines, Air Canada, Etihad Airways, South African Airways, Ukraine International, United Airlines
Middle East	
United Arab Emirates	Emirates, Etihad Airways
Africa	
Egypt	Egyptair
Ghana	South African Airways
Morocco	Etihad Airways
South Africa	South African Airways
North Atlantic	
Canada	Air Canada, Sata International
U. S. A.	Air Canada, Sata International, United Airlines, US Airways
Mid Atlantic	
Mexico	United Airlines
South Atlantic	
Brazil	TAM (until November)
East	
China	Air China
Hong Kong	Emirates, Lufthansa
Malaysia	Emirates
Singapore	Emirates, Lufthansa
Thailand	Emirates, Thai Airways

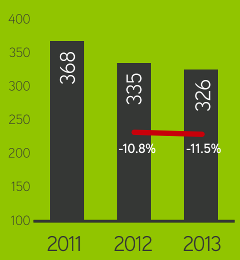
* Operation by code-share partner airline

The Mission of TAP–Cargo is to provide a reliable service for the collection, transport and delivery of goods and parcels on the aircraft of TAP and its partners, in a timely manner, suited to its Customers' needs and at competitive prices.

Carried Tons
by Route Network Sector

- 3% Mainland Portugal
- 4% Autonomous Regions
- 30% Europe
- 13% Africa
- 7% North Atlantic
- 1% Mid Atlantic
- 42% South Atlantic

Cargo and Mail Traffic
million RTK



Variation

New Projects

// Cargospot – New upgrades to the system and integration of bookings, pricing and invoicing with the financial accounting system of the Company;

// ICS, ECS and SDS – Conclusion and implementation of automatic SDS;

// e-freight;

// Mail system – Analysis of specifications – Start of project

CARGO

TAP–Cargo maintains its strong position as a major European player in the connection between and South America and Africa

The year of 2013 was the third consecutive year of a general slowdown in the air cargo business worldwide, negatively affecting the majority of bases in Europe and respective airline companies. Despite this fact, TAP–Cargo has maintained a reasonable resilience to this trend. In fact, having increased its sales by 2011, which was already a poor year, TAP–Cargo experienced, in 2013, a slight reduction in the volume of tons transported, of approximately 2.1%.

Through its rotating platform in Lisbon, TAP–Cargo continues to consolidate its excellent strategic positioning between Europe and South America and Africa, especially concerning the markets of Brazil and Angola, but also directly linking the entire TAP network.

Although about 70% of revenue from freight and mail was generated abroad, Portugal was the most important market in terms of generating revenue, followed by the German, Italian, Brazilian and French markets.

In terms of net revenue growth, Italy, Spain and Brazil, in that order, were the ones that most contributed, while in terms of percentage of growth, Austria, Denmark and sales in the Far East had a better positioning.

In its pursuit of Customer satisfaction, TAP–Cargo continued to develop its activity in its entire range of products, particularly in the transportation of general cargo, mail, valuable cargo, express cargo, temperature-controlled cargo, large format cargo and live animals, among others. In 2013, the transportation of temperature-controlled cargo reached its maximum activity, with emphasis on imports to Brazil of this type of load, characterised by very specific and delicate features.

TAP–Cargo has also extended its activity to dedicated, regular or one-off charter services, namely for the transport of special or large format cargo, according to the Customer's logistic requirements.

In 2013, the first investment priority focused on the continued development and implementation of new information technologies for the management of its core processes. The Cargospot system now has new features in the areas of reservations, space control of the aircraft, pricing and revenue management, in a single integrated platform. In the interim, Customers were provided with systems for the location of their cargo, using free internet applications on their common mobile systems.

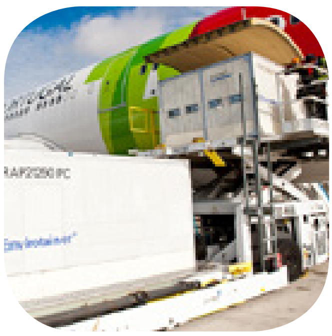
The European Commission and national customs authority have specified the need, in Portugal, for more electronic information, between their own systems and those of the airline companies. These new standards have taken the form of law and are thus indispensable for the continuity of the business.

For this purpose, TAP–Cargo, which had already implemented the ICS–Import Control System and the ECS–Export Control System, has concluded and implemented the SDS–Summary Declarations System, which is now automatic.

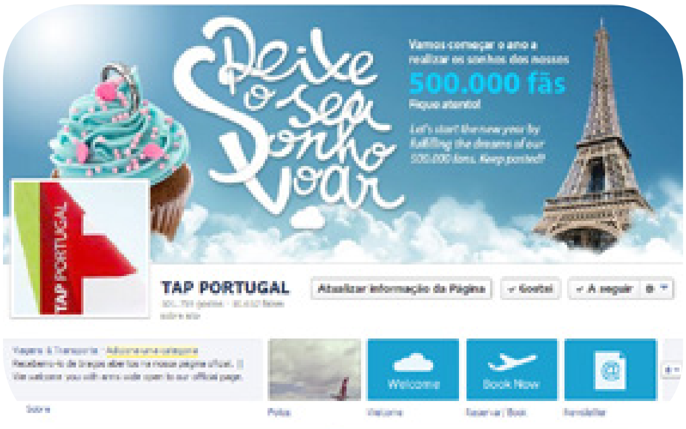
In addition, the Company has maintained close relations with IATA, whose recommendations are followed rigorously. In this regard, TAP–Cargo is coordinating the development of e-freight in Portugal, under IATA supervision.

Transportation of general cargo, mail, valuable cargo, express cargo, temperature-controlled cargo, large format cargo and live animals

New information technologies for the management of its core processes



Dedicated, regular or one-off charter services, for the transport of special cargo



E_COMMERCE

Presence of the portal flytap.com in 50 markets

During 2013, TAP's e-Commerce accounted for a turnover of close to 419.6 million euros, corresponding to year-on-year growth of 22.5%, reflected in a total of 1.3 million passengers. The numbers presented by this sales channel, which already accounts for 15.2% of the total revenue of the markets, clearly reflect the choice of a strategy of growth, geographic expansion to new areas and growing consolidation of TAP's position in various online markets. The markets with the highest performance in terms of turnover are especially Brazil, where TAP recorded notable growth of around 38.8%, and Portugal, surpassed only by Brazil regarding weight in total sales. Special note should also be made of the important growth recorded in France (34.9%) and Switzerland (31.1%).

The mobile sales channel, inaugurated in 2012, recorded significant growth during its first year of activity, with sales revenue of around 5.6 million euros, which corresponded to 1.3% of total sales in digital channels.

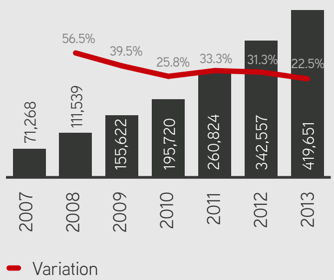
The flytap.com portal is now present in three new markets, in view of the inclusion of Ghana, Mali and Mexico. In an ongoing search to simplify the purchase process and create a progressively more personalised and attractive offer for its Customers, TAP introduced PayPal in the range of payment options available in 22 of its markets, thus opening excellent prospects in relation to the stimulation and expansion of its online sales. The launch of the new portal TAP Agents in the Portuguese market was equally noteworthy.

The online booking platform has been remodelled, in order to ensure improved adequacy of the offer and provision of flights to user searches, as well as to assure an even higher level of security for online payments, through the migration to the PCI Payment Platform.

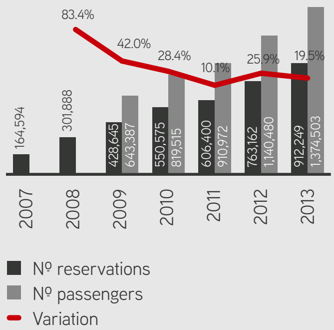
Under flytap.com, during 2013, there was a strong dissemination of promotional campaigns, a total of 86, corresponding to the defined objectives of exponential increase of the number of visits, searches and additional revenue.

Regarding the affiliation programmes, representing 4.2% of online revenue, TAP continued its strategy of growth and consolidation of the network of affiliates in various markets. For this purpose, efforts were developed towards the enlargement of the online presence and various partnerships were boosted in terms of platforms of affiliates, metasearches, deal sites and remarketing.

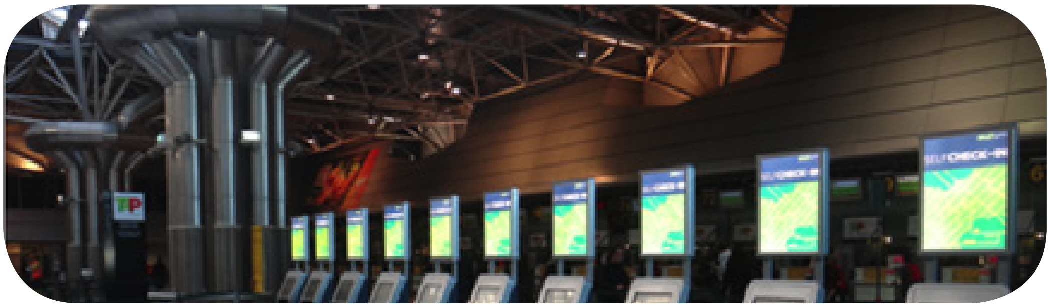
Online Revenues
EUR thousand



Online Bookings



The mission of the Customer Service Department is to ensure the provision of ground handling services, in all airports of the TAP network, with high commercial and operational quality standards, in order to ensure customer satisfaction.



CUSTOMER SERVICE

Main functions

// Define the ground handling service levels and regulate and coordinate their implementation, with a view to ensuring operational safety and service excellence;

// Directly and/or indirectly manage ground handling services in all operational aspects (passengers, ramp, load control, cargo, mail, and additional services of De-Icing/Anti-Icing, Drinking Water and Fuelling) and safety, at all airports where TAP operates;

// Manage the operation of the Lisbon Hub, ensuring punctuality and optimisation of transfer flows, with maximum levels of safety and quality in operational and commercial terms;

// Manage the process of transfers across the TAP network;

// Manage the treatment of irregularities;

// Ensure the quality of ground handling, in a uniform and consistent manner, at all airports where it operates;

// Promote the development and implementation of measures for service improvement, aimed at excellence in passenger experience.

Main Priorities of the Customer Service Department in 2013

Luggage irregularities

In line with the trend of the last few years, TAP has significantly improved its performance by reducing luggage irregularities by ~12% in the Network and ~13% in the Hub, compared to 2012. This improvement was largely promoted by the reformulation of transfer processes in Lisbon, as well as the actions undertaken by the TAP network enroute stop-overs.

2013 projects

Enroute stop-overs management

In 2013, two new stop-overs were opened: Tangier and Boa Vista, and two others were closed, Turin and Linate.

CITP (Common IT Platform) – Amadeus Altea Project

Following the policy already initiated in previous years, the Customer Service Department continued the process of implementing the Amadeus Altea Departure Control System in stop-overs from abroad, having coordinated the migration of six additional stop-overs (Europe: Faro, Malaga and Moscow | Africa: Algiers, Bamako and Accra), ending 2013 with 82% of the stop-overs of the online TAP network in the Amadeus Altea system.

Sharepoint – Enroute stop-overs management

The Sharepoint page of the Stop-over Management was implemented, whose main objective was to concentrate the full range of management information reports relating to the stop-overs of the TAP Network, on one single online page.

The introduction of this page brought about significant improvements within the scope of the access to information by employees of the Customer Service Department spread out across the TAP World, and also facilitated communication among intervenients in general.

Exchange of Staff between Stop-overs

The Customer Service Department launched a programme for the exchange of staff between the stop-overs of the TAP network and the Hub, with 15 internships having been undertaken within this scope, involving, in addition to Lisbon, the stop-overs of Spain, Belgium, the United Kingdom, Brazil and the United States. With this programme, the Department intended to promote better knowledge of each of the different local realities, as well as foment team work and the sharing of experiences, proving to be an enriching initiative for the participants and the organisation.

Lisbon Hub and continuous improvement

The Continuous Improvement area of the Customer Service Department developed and supervised the implementation of projects that are fundamental for the optimisation of the performance of the Lisbon Hub, namely:

// Inform/Hub Control – The GS Hub Control allows the monitoring of all the processes inherent to the rotation of an aircraft, identifying in a timely manner any deviations with an impact on punctuality, and facilitates the taking of corrective actions in advance. It is an essential tool for the optimisation of the performance of the Hub Control Center.

// Implementation of the My Bag – Tool designed to manage the luggage handling process at the Lisbon Hub, enabling real time monitoring and the anticipation of corrective measures.

// Implementation of BRS at the apron – The use of this technology permitted the implementation of new luggage loading processes, with real time knowledge of aircraft loadings.

// New check-in processes at the Hub – The Customer Service Department, following the trend in the Industry, invested heavily in the development of the self-check-in strategy, promoting the use of the different self channels: web, mobile and kiosks. In Lisbon, the old TAP kiosks were replaced by other latest generation Common Use kiosks, which also resulted in an increase in the total number of kiosks available. The check-in area was redesigned, with traditional (full service) check-in counters being converted into drop-off counters, with a view to reducing the processing time per passenger and, consequently, the respective queue waiting time.

Bags ready-to-go

The Bags Ready-to-go project follows on from the previous project and involves the provision of luggage identification tags at self-check-in kiosks, which became possible in Lisbon in the course of 2013.

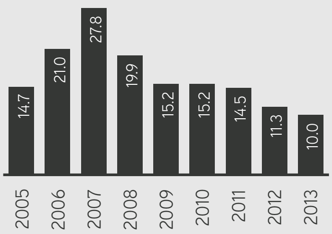
This function is in line with the best practices in the Industry, promoted by the Fast Travel/Simplifying the Business programme of IATA, whose objective is to reduce attendance and waiting times at airports, thus improving the travel experience of passengers.

Trial of the Self-Service Bag Drop equipment

As part of the new check-in processes, the Customer Service Department developed a project in partnership with SITA, Amadeus and Lisbon Airport, with a view to testing and evaluating the self-service bag drop equipment, which allows passengers, after having checked-in at a self channel and printed luggage tag from a kiosk, to drop off their respective luggage, without the intervention of a company agent, in a quick and easy manner.

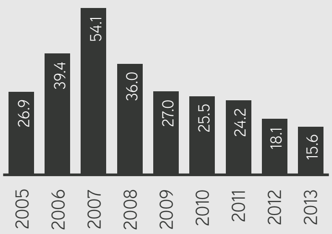
Left Behind/1,000 passengers

Network



In 2013, in the TAP network, 10.0 left behind bags/1,000 passengers, an improvement in performance of about 11.5% relative to 2012.

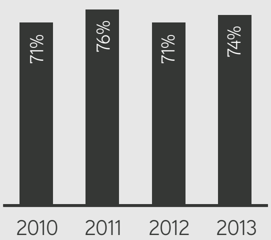
Lisbon hub



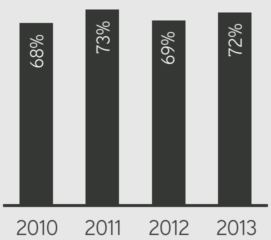
In the Lisbon hub, 15.6 left behind bags/1,000 passengers, reflecting an improvement of 13.8% relative to the previous year.

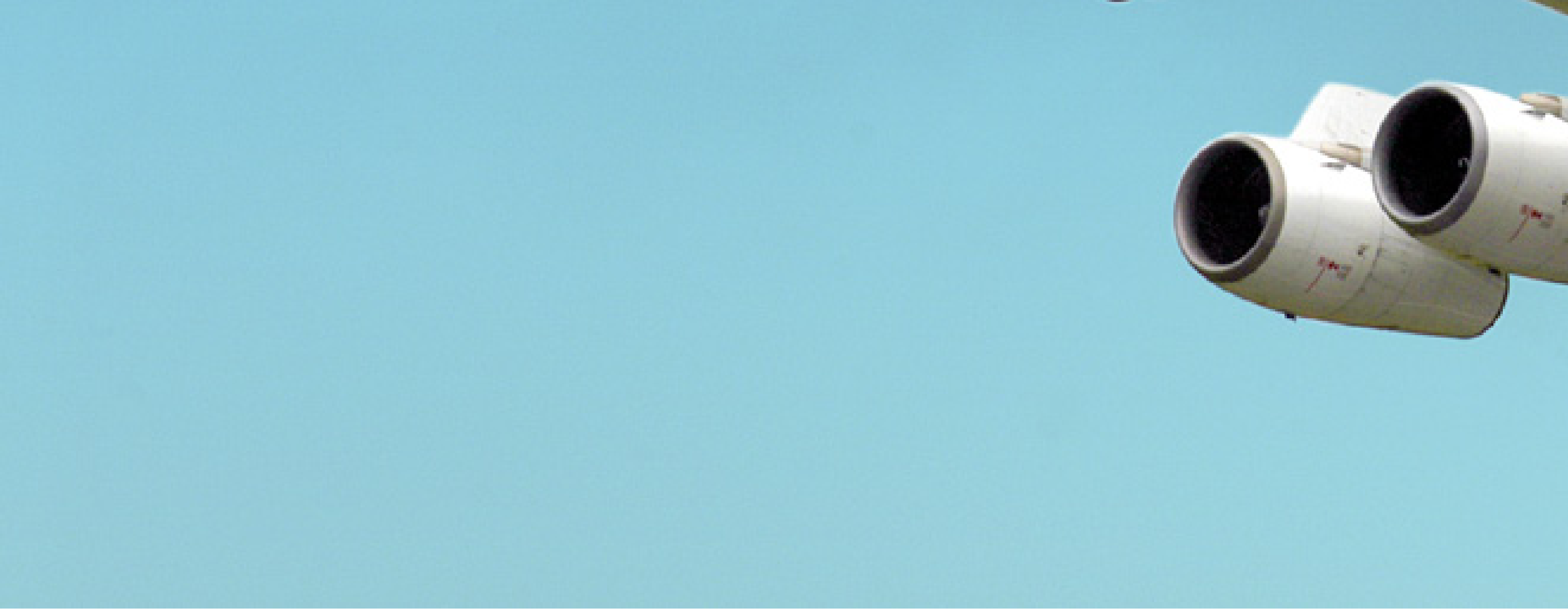
Departure Punctuality (up to 15')

Network

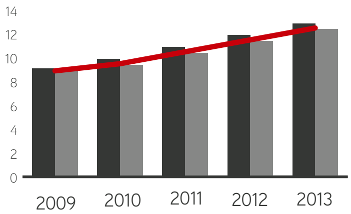


Lisbon hub





Average Fleet Age



TAP Fleet Financing

31 December 2013

Of the total 55 aircraft comprising the TAP's fleet, in operation, on 31 December 2013, 37 were owned by the Company and 18 were under an operating leasing regime.

// Owned by the Company

15 A319; 5 A320; 2 A321; 11 A330 and 4 A340

// Operating leasing

4 A319; 12 A320; 1 A321 and 1 A330

FLEET

The TAP Group fleet, which includes the aircraft of TAP and PGA, remained the same in relation to 2010, comprising 71 units as at 31 December 2013. The TAP fleet is composed of 55 aircraft (39 of medium-haul and 16 of long-haul) and the regional fleet of PGA, in a total of 16 aircraft (including 2 aircraft in ACMI of OMNI).

Outlook for 2014

The year of 2014 will once again be a year of growth, with the opening of various new medium and long-haul routes being planned. In order to cope with the additional operation, the addition of six aircraft to the TAP fleet is planned. No changes are planned for the PGA fleet.

The six abovementioned aircraft represent a significant increase, of approximately 10%, enabling on the one hand, to respond to the growth of passengers in 2013, of about 7% and, on the other, to expand the operations network planned for 2014.

The reinforcement of the operation will be conducted through the entry into operation, close to June 2014, of two A330-223 (long-haul) aircraft and of four medium-haul aircraft (two A319-111 and two A320-214), under a medium/long term operational leasing scheme.

A delay of 2 years was officially announced by Airbus regarding the delivery to TAP of the new A350-900 XWB, with the first delivery having been pushed back from the start of 2015 to the start of 2017. The delivery of the 12 aircraft will be undertaken over 3 years, with the working group dedicated to the specification of the aircraft commencing this year, as dictated by Airbus scheduling.

Composition

Number of Aircraft on 31 December

	Units		Average Age	Ownership	Rental	2014 Additions
	Dec/12	Dec/13				
Medium-haul						
A319	19	19	14.6	15	4	2
A320	17	17	9.9	5	12	2
A321	3	3	12.5	2	1	
Long-haul						
A340	4	4	18.7	4	0	
A330	12	12	10.9	11	1	2
Total	**55**	**55**	**12.5**			**6**

Average Daily Utilization

Block Hours/Day

	2008	2009	2010	2011	2012	2013
Medium-haul						
A319	10.90	10.40	10.18	10.76	10.82	11.40
A320	11.51	10.45	10.65	10.95	12.32	12.35
A321	12.04	10.85	10.88	11.56	11.94	12.75
Long-haul						
A340	12.90	10.97	13.40	14.37	13.54	13.95
A330	15.16	13.56	13.83	14.66	15.56	14.99

FUEL SAVING

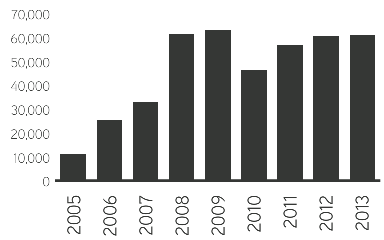
The TAP Portugal Fleet

The metric that has been used to quantify savings over the last few years has been the FB/FH/perf. (consumption per flight hour corrected by performance degradation) index. The said metric presents a very slight consumption reduction trend in 2013, relative to 2012.

The reduction in overall consumption arising from the better performance of the A320Fam fleet, as a result of the reduction in weight obtained with the substitution of the life jackets was almost entirely offset by the apparent worse performance of the A330 fleet. It should be noted that the worse performance of the A330 fleet resulted from a correction to the performance degradation coefficients undertaken in 2013, which caused the said deviation, which can be observed when comparing the savings values for the A330 fleet, before and after being corrected by the performance factor.

The trend towards the stabilisation of savings is, however, normal, and should come as no surprise, bearing in mind the current maturity of the project (initiated in 2005).

Reduced Annual CO_2 emissions since the start of the project
(ton)



Fuel savings of the TAP fleet, relative to 2012

Actual Fleet ICAO	Flight Cnt	FB_REAL [ton]	Savings FB_BH [ton]	Savings FB_BH_perf. [ton]	Savings FB_FH [ton]	Savings FB_FH_perf. [ton]
A319	32,486	162,297,846	54	-375	51	-395
A320	26,112	169,914,881	417	3	346	-79
A321	4,833	35,896,478	-24	-63	-39	-78
A332	7,243	323,831,329	-532	197	-395	358
A343	2,094	115,573,294	407	258	314	161
	72,768	**807,513,828**	**322**	**20**	**278**	**-32**

The Portugália Fleet

Although the cost of fuel does not have a direct impact on PGA, since it is the responsibility of the Customer, the company manages its Fuel Conservation project internally, taking into account the associated financial impact. The fuel policy stems from the coordinated work of the Flight Operations and Maintenance and Engineering Departments, and corresponds to a set of fuel consumption optimisation measures, which have been refined and improved, year after year. The commitment and overall involvement with these measures is growing, with the positive impacts being felt in the reduction of fuel consumption. In this regard, in 2013, the measures that had already been implemented in 2012 continued to be followed:

// Efficient practices in aircraft operation;

// Programme of periodic washing of aircraft;

// Weight reduction (new painting, replacement of carpets, windshield connection elements – titanium *versus* stainless steel);

// Concordance of the panels and polishing of the fan blades;

These measures permitted achieving the objective of avoiding the emission of about 7 tons of CO_2.

The control methodologies and tools enable monitoring participation in the policies and following the evolution of the level of key performance indicators.

It is worth pointing out the strong impetus, in 2013, to the creation of a common platform with TAP, aimed at the standardisation of the fleet performance analyses.

For 2014, the objective is to continue to promote continuous improvement and refinement of the measures already implemented, which may represent cost savings of approximately 1.6%, compared to the value forecast for 2014, with a reduction of CO_2 of about 5 tons.

	16 years before	2013
Member-Airline companies	5	28
Daily departures (thousand)	6	22
Destinations	578	1,328
Countries served	106	195
Aircraft		4,701
Employees (thousand)		460

STAR ALLIANCE

STAR Alliance – the first truly global multilateral alliance of airline companies

STAR Alliance currently presents itself as the first truly global multilateral alliance of airline companies, capable of offering Customers access to a Global Network, with the best and fastest connections. Founded in 1997 by a group of five companies, the alliance is currently composed of 28 air carriers, being at present the most highly distinguished. In 2013, the Alliance was once again distinguished as the best alliance, for the second consecutive year, by Air Transport News and by the Frequent Business Traveler GlobeRunner magazine. The indispensable requirements for acceptance as a member-company include compliance to the highest standards of excellence in customer service, safety and adequate technical infrastructure.

As a member of STAR Alliance, TAP thus has access to a global network, offering about 22 thousand daily flights to 1,328 airports in 195 countries.

Future members and strategic development

In the pursuance of the expansion policy of its network and with one of the main objectives being to offer the customer a global dimension with quicker connections, the Executive Board of the Alliance unanimously decided to extend the member statute of Avianca, so as to include Avianca Brasil, and to reinitiate the integration process of Air India, suspended in 2011, with a view to providing this airline with a greater focus on the internal challenges resulting from its merger with Indian Airlines. Those decisions will, on the one hand, allow the Alliance to maintain its presence in Brazil, following the exit of TAM and, on the other, establish a presence in one of the most important aviation markets – the Indian sub--continent. With the integration, in 2013, of EVA Air, the airline company of Taiwan, the network strategy of the Alliance for the Greater China region was completed, elevating to eight the number of airline companies in the Asian market. Due to the expected merger with American Airlines, US Airways announced that it is going to leave the alliance on 30 March 2014. STAR Alliance remains, however, as the most powerful alliance in the North American market, mainly through its founding members, Air Canada and United Airlines, which expanded the network and offer for their Customers through their own mergers.

In line with the growing use of mobile communication equipment, STAR Alliance has, once again, innovated and defined an Industry trend, extending its offer through the introduction of the Navigator application for tablet.

In addition to allowing, through the My Trip option, the storage and monitoring of routes, customers also have access to a range of services such as: flight schedules of all the Alliance airline companies, information on the more than 1,000 lounges of the Alliance and those of its members, airports, including weather reports and city guides, among other information. It should be mentioned that this application received the Red Dot award in the 2013 Communication Design competition in Berlin.

The *Move under one Roof* concept

In addition to enabling cost reductions due to the economies of scale and efficiency which are generated, the common projects of STAR Alliance also permit, in terms of the product, achieving significant improvements for passengers. Locating all of the member-companies of the alliance on a single Terminal is the main objective of the *Move under one Roof* concept, sought by the alliance since its foundation. This concept stems from two basic concepts in the constitution of the Alliance: the concept of partnership, in which a Customer of any member-company of the Alliance is considered as a Customer of all the member-companies, enabling the sharing of common values to provide identical experiences in service provision, by any associated company, and the hub-and-spoke operation concept, representing a model that enables connections between destinations with lower traffic flow, through an aggregate demand airport (hub), whenever a direct service is not feasible.

In the *Move under one Roof* concept all the members operate together in the same terminal, sharing the use of airport premises. In this way, products and services, such as signposting, the self-check-in,

STAR Alliance Lounge in Los Angeles

the high level of luggage service connection and the frequent passenger services are the same in every terminal, enabling, in addition to the reduction in operating costs, to travel without interruptions between destinations and, in this way, improve service quality. With the assistance of the local member of the Alliance, provision of flight information and of information between members, appropriate distribution of seats, lounge sharing and other features offered to customers, operating costs will fall significantly and, at the same time, there will be an improvement in the quality of services provided.

The passengers that fly with STAR Alliance airline companies can expect a great deal from their travel experience: shorter travel distances, and simplified processes that allow less time to be spent on transfers between member-companies of the alliance. In addition to premises providing catering services, lounges are equipped with Business Centres, with computers, printers and Wi-Fi Internet connection. The reception of this concept by the authorities of the various airports, as well as the passenger opinion surveys, indicate that it has been very well received in all places where it has been implemented.

Looking towards 2014, the opening of Terminal 2 – the Queen's Terminal, at Heathrow Airport in London, will constitute a milestone for the Alliance, offering for the first time the opportunity to all of the 22 member airline companies of STAR Alliance, which operate at Heathrow, currently dispersed over three terminals, to be located in the same space.

This important concept, at the basis of STAR Alliance, is expected to be implemented in 19 hubs of the Alliance network, over the course of 2014.

Regions	Main hub airports
Europe	
Adria Airways	Ljubljana
Aegean Airlines	Athens
Austrian Airlines Group	Vienna
Brussels Airlines	Brussels
Croatia Airlines	Zagreb
LOT Polish Airlines	Warsaw
Lufthansa	Frankfurt, Munich
Scandinavian Airlines	Copenhagen, Stockholm, Oslo
Swiss	Zurique, Genéve, Basileia
TAP Portugal	Lisbon, Porto
Turkish Airlines	Ankara, Istambul
Africa	
Egyptair	Cairo
Ethiopian Airlines	Addis Ababa
South African Airways	Johannesburg
North Atlantic	
Air Canada	Montreal, Toronto, Vancouver
United Airlines	Chicago, Denver, Los Angeles, San Francisco, Washington, D.C.
US Airways	Charlotte, Philadelphia, Phoenix, Pittsburg, Las Vegas
Mid Atlantic	
Avianca-TACA	Bogota
Copa Airlines	Panama City
South Atlantic	
Avianca Brasil (*)	Guarulhos, São Paulo
TAM	Guarulhos, São Paulo
Asia	
Air China	Beijing, Guangzou/Shenzen
Air India (*)	New Delhi
ANA	Toquio, Osaka, Nagoya
Asiana Airlines	Seoul Incheon
EVA Air (*)	Kaohsiung, Taiwan
Shenzhen Airlines	Shenzhen
Singapore Airlines	Singapore Changi
Thai Airways Intl	Bangkok, Chiang Mai, Hat Yai, Phuket
Southeast Asia / Australia	
Air New Zealand	Auckland, Los Angeles

(*) soon to join

TAP SERVIÇOS

The mission of TAP Serviços is to develop its activity of providing support and management services, contributing to improved profitability for its Customers, through competitive positioning and high standards of quality and effectiveness, with the objective of continuous improvement and operating excellence.

Nine years after its creation, TAP Serviços continued its mission in 2013 of providing support to the other TAP Group Business Units and companies, in a progressively more efficient manner, through standardised processes involving best practices and supported by adequate information technologies, in an attitude of permanent innovation. In accordance with the defined relations model, TAP Serviços maintains shared responsibility protocols with its Customers, with service level agreements and performance indicators having been established.

These actions have resulted in:

// The concentration of qualified resources and the effective management of those resources;

// Faster processes and enhanced operating efficiency through the standardisation of processes and better access to information;

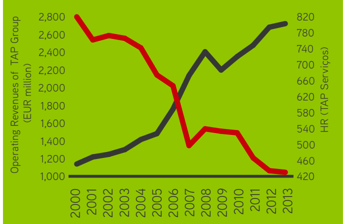
// Sharing and exchange of knowledge;

// Focusing on the core business, with greater emphasis on the Customer;

// Significantly decreasing costs, through economies of scale, and the reduction of duplications and redundancies in a more competitive environment.

With the knowledge that TAP Serviços Customers operate in increasingly competitive markets, both in terms of prices and solutions, the continuous improvement process, from the viewpoint of efficiency and quality, was intensified in 2013.

TAP Serviços Efficiency



Operating Revenues of TAP Group
TAP Serviços HR

Enable Business Units and Group companies to focus on their core activity

Finance – To define a financial and accounting management model, and adopt procedures that guarantee the integrity and availability of the information for the entire organisation, as well as compliance with legal obligations.

Human Resources – To ensure an effective management of the Group's Human Resources, fostering the development of all employees' technical and social competences, and defining common policies and instruments that permit controlling the implementation of human resources processes.

Labour Relations – To ensure the institutional business units relations of TAP Group in the Labour Area, particularly with the Labour Administration, Trade Unions and Staff Commission Bodies. To ensure labour law advice to the TAP Group business units and companies. To ensure the representation of TAP Group companies before the Labour Courts and the Authority for Work Conditions (ACT – *Autoridade das Condições do Trabalho*), as well as the investigation, including legal representation, of all legal or administrative offence cases, in which Group companies are involved. To ensure compliance with the legal and conventional labour standards, elaborating and disseminating regulations and directives on the same. To ensure the investigation of inquiry and disciplinary procedures.

Logistics – To conduct the procurement process, providing goods and services to the entire TAP Group, at the best cost-quality ratio.

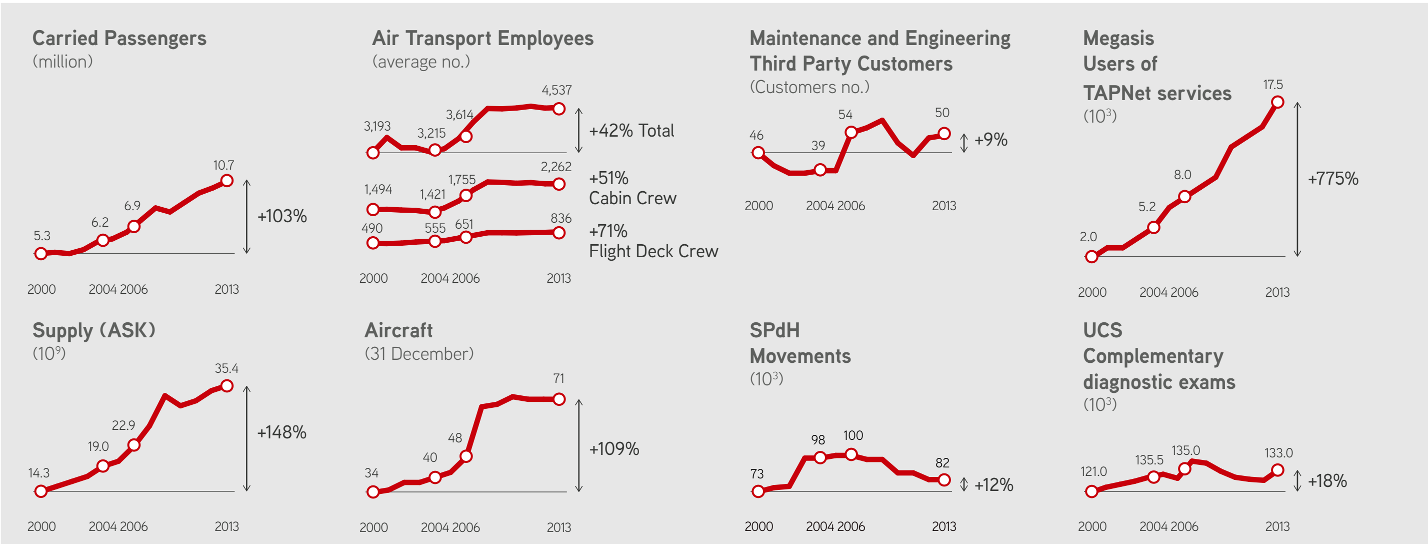
Administration and Management of Physical Resources – To define and guarantee the provision of support services to the governing bodies, ensure the effective management of the installations and equipment, security and safety, environment, insurance, documentation and general support services, necessary for the Group's activity, guaranteeing its profitability in compliance with the legal and business requirements.

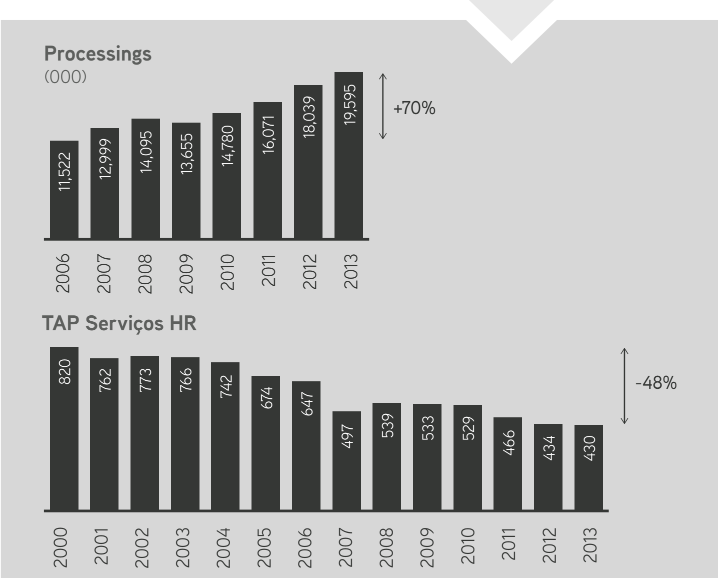
Legal Office – To ensure the study, follow-up and representation of legal issues, aligned with the legal framework and guiding principles of the Organisation.

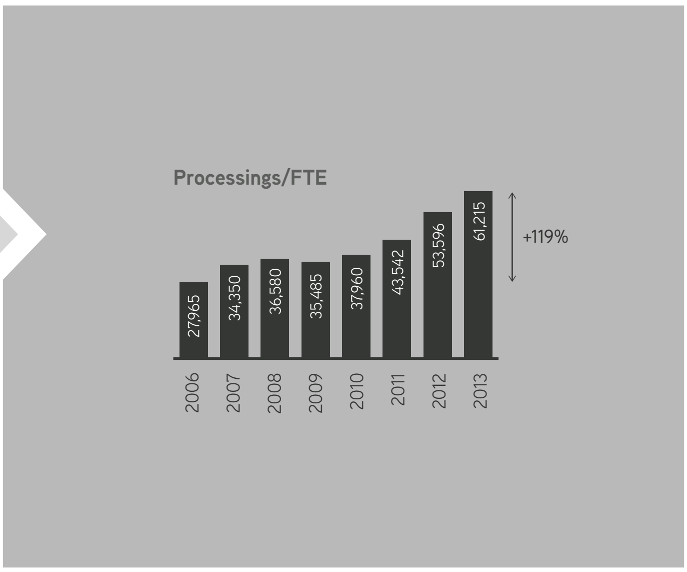
Audits – To oversee the business of the Group through a systematic and disciplined audit approach, carrying out the planning, development and execution of activities that guarantee the smooth functioning of internal control systems and promote compliance of the Group's management and governance.

Strategic Planning and Performance – To provide support in the definition of the business strategy and guidelines for the Group, participating in the elaboration of Strategic Planning. Support TAP Serviços, managing relations with its Customers, developing the Performance measurement system and the Costing, Pricing and Invoicing Model/System and collaborating, in functional analysis, on process and system change projects.

Activity of Customers of TAP Serviços







FINANCE

Various medium and long term financial operations were undertaken over the course of the year.

In the middle of the year, various short term credit lines were contracted, some of which were used to reinforce cash flow while others were maintained as available funding.

At the end of the year, long term financial leasing operations were undertaken, with a national bank and with an international bank, relative to 5 medium-haul aircraft, owned by TAP. These operations were the conclusion of a process involving market consultation and analysis and negotiation of proposals received from various financial entities and operating lessors.

In relation to the aircraft fleet under operating leases, three leasing contract extensions were negotiated and another two extensions were contracted, relative to medium-haul aircraft. With respect to changes to be implemented in the fleet in 2014, negotiation processes with various potential lessors were also conducted, together with the Fleet Area, with a view to contracting the leasing of used medium and long--haul aircraft, according to the defined planning. As a result of this process, agreements were signed for the long term leasing of 2 A330 aircraft, including letters of intention with reference to 4 medium-haul aircraft, at the end of the year. With regards to the fleet, a new rescheduling of the deliveries of the A350 aircraft were negotiated with Airbus.

Similarly to the last few years, various risk hedging operations relative to the exposure of TAP to aircraft fuel price were planned and undertaken, resulting from market monitoring. CO_2 allowance price protection operations were also carried out. Similarly, the various financial, monetary and exchange rate markets in which TAP operates regularly were also monitored. The current operations required for the normal conduct of activity continued to be undertaken, such as investment of surplus liquidity and the negotiation of exchange rates in the multiple currencies in which receivables are denominated.

Within the scope of the implementation of new alternative forms of receipt, a contract was signed with PayPal which permitted its acceptance from August onwards.

The implementation of the pre-paid card for the payment to customers of indemnities resulting from operational irregularities, at the Porto stop-over, was also negotiated, along the same lines of what has already been contracted for the Lisbon stop-over.

Efforts to optimise financial activity were continued, with several procedure and system improvement initiatives continuing to be developed, in partnership with the areas responsible for the support information systems. This is a continuous process, whose implementation effort has proven to be very positive, giving support to the constant improvement registered in the various efficiency metrics monitored in this area.

HUMAN RESOURCES

The Human Resources model is based on the optimisation of resources, innovation, the use of synergies and the search for coherence and continuity in management practices. The alignment of Human Resources management with the value chain also requires a constant looking outwards and an adaptation to the new market paradigms.

As business partners and agents of change, the main mission of Human Resources is to ensure that the survival of the businesses depends, to a large extent, on the people that are part of said businesses and the way in which they contribute to the creation of value.

The *Human Resources Business Partners* of the different business units of TAP comprise the designated *HR in Business*. These HR directors of the different Business Units of the Company guarantee, on the one hand, proximity to the day to day of the business and its respective leaders and, on the other hand, a broad commitment to TAP's strategies as a whole. They thus operate in close association with *HR Operations* and with *Talent Management*.

The *HR Operations* (which includes *Staff Administration and Remunerations*, the *Travel Office* and *HR Management Information*) reinforced the quality of the service provided, providing faster response times and optimisation of resources. Within the scope of the improvement of processes, the *Staff Administration and Remunerations* area improved the efficiency of the central IT system of HR, providing more information on workers. In addition, in 2013, this area initiated the processing of salaries of two of the Branches abroad, thus increasing the scope of the service provided. The *Travel Office* implemented the new version of FlyStaff for TAP Group employees, who under the ticket benefits regulation seek leisure travel. The aim of this application is to simplify processes and procedures, satisfy employees' needs, and provide them with more information and autonomy. The area also implemented the new DHC (Dead Head Crew) application which enables the simplification of processes, automation of crew reservations and greater efficiency.

In the transformational area of the management of Human Resources, namely in *Talent Management*, two additional groups were integrated – *Recruitment and Selection* and *Professional Training* – in 2013. The integration of the various specialties of Human Resources in Talent Management results from the organisation rationale represented by the concept of *Attract + Develop + Train + Support*.

This concept underpins its mission to attract and recruit the best to work at TAP, *training*, *developing* and *supporting them* in the various dimensions of what it is to be a person in an organisation.

Recruitment and Selection (*Attract*) – Seeks to identify the differentiating characteristics that make up the attitude of candidates, and which are intended to be in line with the Company's strategy.

Development of HR (*Develop*) – Based on the premise that it is necessary to have people that are involved, motivated and committed, in order to maintain the sustainability of the business in the medium and long term. In this regard, in 2013 there emerged a subject known as *Employer Branding* – which aims to be a method to align the values of TAP with the objectives of the business, by promoting, both internally and externally, the most relevant aspects of the TAP identity. Similarly, within the scope of the Development of HR, 2013 was the year of consolidation of various new procedures and methods that had begun to be implemented some years ago, namely those related to the mapping and evaluation of functions (coordinated by the Remuneration and Benefits Management area), as well as those related to the annual definition of objectives, their monitoring and respective performance assessment (coordinated by the Performance Management area). As part of an organisational development strategy through the *sharing and creation of knowledge and communication*, the Cycle of HR Conferences gave rise to a workshop plan. In particular, the training programme designated as HR Workshops extends and deepens the topics discussed at the conferences, in 2 to 3 day training modules. In 2013, continuity was given to the *Congeniality Programme* and the *Recognise Programme*, with the latter having commemorated 10 years of existence.

Professional Training (*Train*) – It is the investment in training that enables the technical, social, personal and management skills of employees to be developed, in order to sustain the competitive advantage of the business. TAP is a Training Entity certified by DGERT, located in a building specifically for this purpose, and has 25 fully equipped Classrooms for training, 1 Auditorium with a supporting room, 1 Workshop, 2 Laboratories, 10 Classrooms for Technical Training, 1 Room for Distance Training (e-learning), a Library, Mock-ups and Flight Simulators. TAP continues committed to e-learning training, which is considered, both internally and externally, as a success case, due to the quality and diversity of the contents and tools developed, as well as the multidisciplinary character of the team of specialists.

Social Service (*Support*) – Supports and advises current and retired employees on the various situations they are confronted with in both their personal and professional life. In the particular context of 2013, this area dealt with issues related to the personal life of employees, which affect their well--being and performance, including financial difficulties, by accessing the Solidarity Fund.

LABOUR RELATIONS

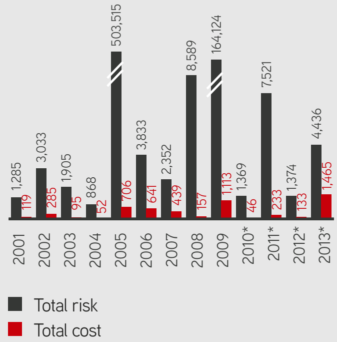
Within the scope of the Labour Relations Area, the institutional relations with Governmental Bodies, Labour Administration, Trade Unions and Workers' Committee were ensured.

Particular emphasis was placed on the identification and monitoring of the implementation of the provisions contained in the State Budget for 2013 applicable to TAP, namely in regard to remuneration matters and recruitment of employees.

Legal and employment related advisory services were assured to the TAP Group Business Units and companies, including the investigation of disciplinary proceedings cases, taking precautions against situations potentially able to result in legal suits or regulatory offence procedures.

Within the labour dispute area, very encouraging results continue to be registered, with an average success rate of 91.5%, weighing the risks/overall costs with reference to the years from 2001 to 2013; an exceptionally lower rate (67%) was recorded in 2013 as a result of the accounting of total costs arising from workplace accident lawsuits, whose liabilities cover the entire life period of the workers who suffered accidents.

Labour Dispute – Risk and Cost
EUR thousand



(*)TAP Group companies: TAP, S.A., SPdH, S.A., UCS, S.A., Megasis, S.A. and Portugália, S.A.

LOGISTICS

With the purpose of performing its correct strategic role with a view to the success and competitiveness of TAP, the Logistics Area continues to implement a continuous improvement process, with the aim of achieving the objective of offering a service of excellence to its internal customer.

The procurement sustainability practices, and the correct management, rationalisation and qualification of Suppliers are pillars of this area, based on criteria of rigour, not only with the purpose of ensuring a strong, transparent and trustworthy sales relationship, but also never losing sight of the objective of increasing the efficiency of the negotiation/acquisition process.

Centralised Contract Management – Due to the growing complexity and challenges of contracting and procurement, this area acquired various tools, which provide it with a series of advantages, namely the shortening of the sourcing cycle and the reduction of process costs, improved decision-making, and improved procurement through increased competitiveness in negotiation processes, among others.

Warehouse Area – Focus has been placed on the correct management of stocks with a view to the optimisation of inventories and increased control.

Correct management of warehouse space, opportunity cost of capital and cost of obsolescence, without prejudice to the level of services, with the purpose of minimising costs and the financial impact.

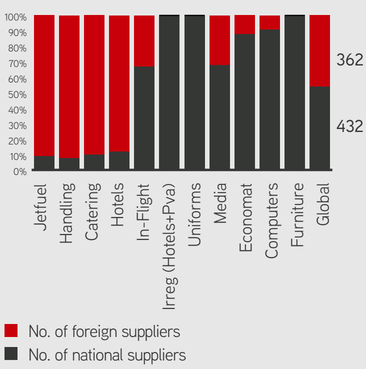
Customs Office – This sector maintains its activity of provider of customs services support to the TAP Group Business Units and companies.

Audits involving the physical counting of goods belonging to service providers at Lisbon Airport that have a TAP warehouse extension in their facilities and whose responsibility, before the customs and tax authorities, belongs to TAP, remain unchanged.

The constant transformation of the aviation business requires a management model from the Logistics Area that is increasingly adapted to the challenges of the business of TAP and to the diversified markets in which the Company operates.

In the procurement relative to categories of goods and services, whenever the specificity permits, and always taking into account the equality of circumstances (price/quality relationship), partnerships have sought to be established with national companies, stimulating their competitive capacity in the various international markets, contributing not only to the relaunch of the national economy, but also to a correct management of stocks.

Typification of number of Suppliers per purchase category



ADMINISTRATION AND MANAGEMENT OF PHYSICAL RESOURCES

The activity within the scope of the Administration and Management of Physical Resources Area developed by focusing in particular on the rationalisation of resources, reduction of costs and improvement of processes, with a view to boosting the contribution of TAP Serviços to the results of TAP Group.

Facilities and Equipment – The planning of a rehabilitation and renovation intervention to the buildings and facilities of the TAP Campus was established as a strategic objective for 2013, with a direct impact on the reduction of maintenance costs, energy consumption of buildings and reduction of the risk associated with the use and age of the buildings of the TAP Campus. The ultimate objective of the measures taken is to provide more comfort to the users of the TAP Campus. Within the scope of the activities of Facility Services which includes the management and coordination of support services for the company's activity, such as the Maintenance of TAP Facilities and Equipment, the Cleaning of Facilities and the Conservation of Green Spaces, among others, priority was given to the reengineering of maintenance processes, with performance assessment metrics of the activities of the service provider having been established, whose results were analysed on a monthly basis and translated into an increase of users' overall level of satisfaction with the spaces/facilities by about 6%, with a percentage of almost 75% of satisfactory results (according to the quarterly assessment questionnaire to the service provider) having been achieved.

Continuity was given to the programme to reduce energy (electricity and natural gas) and water consumption, although with less impact on electrical energy, since the large investment in new lighting systems occurred between 2010 and 2012. In this regard, the area continued the project to substitute the air conditioning units, with the objective of installing more efficient equipment from the energy viewpoint and to comply with community legislation on the prohibition of equipment containing fluorinated greenhouse gases. To reduce water consumption, the measures implemented included initiatives within the scope of the substitution of existing equipment with other water-saving equipment (timed taps) and the implementation of water recirculation and reutilisation systems, as well as the replacement of piping at the end of its useful life and which was responsible for the loss of water from the water supply network. With the objective of reducing the consumption of natural gas, preventive maintenance actions were developed to improve the efficiency of the installed equipment. As a result of these programmes, the consumption of electrical energy remained stable, while the consumption of gas and water registered a decrease of 5% and 8%, respectively.

This area also initiated an innovative project, aimed at improving the image of common spaces in buildings of the TAP Campus. This project will have greater visibility in 2014, with the intention of extending its scope to the exterior spaces of the TAP Campus. Its objective involves adapting the spaces to the

brand image of TAP and of the Business Units and Associated Companies, underlining the intervention of the three pillars of sustainability – environmental, social and economic – in the architecture and design of solutions.

In the technical consultancy area, the Installations and Equipment area collaborated on projects developed by TAP Group companies for third parties, also providing technical support to installation certification projects for specific areas of the Company and/or Associated Companies, namely UCS – Cuidados Integrados de Saúde.

Insurance Management – The joint negotiation strategy of the workplace accident insurance of the TAP Group companies was consolidated, which combined with the level of resilience shown by the insurance sector in this branch of insurance, enabled the achievement of results that varied between -10% and + 2.3% in insurance premiums, as well as the inclusion of an annual insurance premium variation mechanism of up to 5%, proportionally based on the accident rates registered, aligned with the cost reduction policy, which has been pursued within the Group based on a reduction of the frequency, gravity and severity rates in workplace accidents. In Aviation Insurance (hulls, liabilities, spares, war and terrorism) the continuation of the joint negotiation policy within the scope of the Group of Air Carriers that TAP has been a member of for 8 years, enabled reducing the insurance premium by 12% in 2013, corresponding to USD 0.6 million, within the set of TAP and PGA companies. This negotiation placed the Company in 5th place in the benchmark of Air Carriers with the lowest costs in aviation insurance (composed of 31 world air carriers, whose insurance negotiation is conducted on the same date as TAP), with lower costs per passenger in aviation insurance.

Focusing on the pooling at Head Office of the claims processes of lost and damaged luggage in Brazil, and the corresponding transfer of risk to Insurance Companies, resulted in a cash inflow of about USD 1.2 million in 2013.

Security – Particular note should be made of compliance with the audit plan, which includes the Security Quality Control Programme, having resulted in a reduction of about 80% in the number of non--conformities detected. Likewise, within the scope of recommendations, there was a reduction of about 40%, having fallen to 20 from 33 in 2012. In relation to the Recurring/Refreshing Security Training for workers of TAP Group relative to 2012, there was an increase of more than 100% in the number of actions undertaken, from 17 to 35 actions in 2013. In cooperation actions with other entities, the implementation in October of the API – Advanced Passengers Information system for flights from non-EU countries to Portugal, in collaboration with SEF, is noteworthy. The cooperation with this service also enabled to continue to reduce the number of inadmissible passengers (-36%), with the measures applied having enabled a reduction of costs with fines of about 34%.

Installation Security – Continuity was given to the implementation of security systems at the TAP Campus, namely video surveillance systems, with the installation of 5 new CCTV cameras with the objective of mitigating and reducing the risk of intrusion and illicit acts. The implementation of some measures, namely awareness and information campaigns, aimed at reducing the number of parking violations at the TAP Campus, should also be noted.

Environment – In 2013, International Year of Water Cooperation, priority was given to the disclosure and awareness raising on the environment at TAP Group companies, specifically concerning sustainable water consumption, through the promotion of initiatives on World Water Day (22 March) and World Environment Day (5 June).

Under its culture of integrated responsibility, TAP developed various socio-environmental campaigns in 2013 based on the philosophy that a *Low Footprint is a Positive Footprint*, aimed at combining environmental conduct to social concerns. In this way, we reduce our footprint …

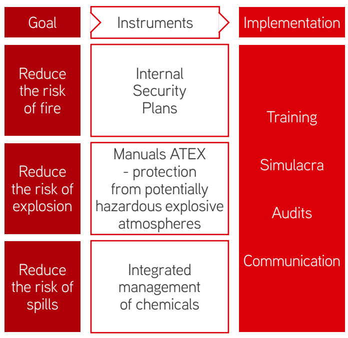
… in our ACTIVITY – We reduce the energy consumption of TAP through the integration of innovative, lighter and more efficient products.

in our CITY – We carried out an action of cleaning and maintenance of the infrastructures and facilities of the greenhouses and wall of Lisbon's Botanical Garden, under the Transparent Garden Project, an initiative developed in collaboration with the Company's volunteers – Volunteers with Wings.

and in our SOCIETY – Through the GIVE MORE Programme – Campaign launched in partnership with Volunteers with Wings whose objective is to donate, to social solidarity institutions, leftover food from the canteen or vending machines, as well as material that is no longer in use at TAP and which would otherwise be considered waste – the case of in-flight blankets, office material at the end of its life or discontinued tableware.

For more information, see the chapter "Environmental Perspective" in the Sustainability Report of TAP.

Fire Prevention and Other Risks – Management of a system that aims to minimise the risks of fire, explosion and spillage of chemical products, for the protection of people and goods, and to ensure the continuity of the activity. The functioning of this system is represented in the diagram.

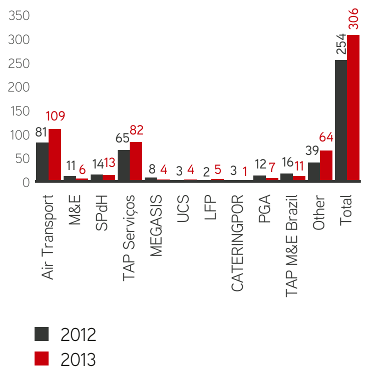


In 2013, an investment was made in the improvement of communication between the teams based at the TAP Campus, in the event of an emergency – Security Central, Fire Brigade and Security Guards –, through drills that included the respective team members, to train evacuation procedures. Continuity was also given to the performance of audits to the buildings of the TAP Campus and the process of audits to the provider of premises and equipment maintenance services was initiated, within the scope of the maintenance of the fire safety equipment, in order to guarantee its proper operation.

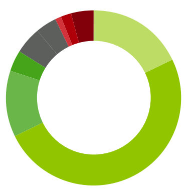
At the Canteen, on the job training was provided to employees on evacuation in emergency situations.

In the building allocated to Professional Training, the evacuation plan was implemented in the classrooms through the placement of an emergency briefing and an emergency kit. This project will be complemented in 2014 with the production of a video and an e-learning training action directed at trainers.

Document Management – This area focused on the optimisation of processes and the reduction of paper, Number of Audits Carried out



Contracts by B.U./Group Company
Representativeness of the audit analysis



with the design and definition of the model of the new Recording, Scanning and Mail Forwarding (RDEC) computer system having been concluded. After the test phase, which took place in 2013, the system will be implemented across the entire Company at the start of 2014, with important advantages, in terms of the reduction of physical paper moving between departments in the various TAP Group Companies (-70%), the elimination of sectorial archive space in the TAP Campus, as well as in terms of alignment with Company policy relative to the adoption of the best environmental practices. In addition, in terms of the digitalisation systems, there was an increase of about 40% in the number of documents of the historical and intermediate archive of the Company, with the latter now being handled within the scope of the integrated document management systems, increasing the security of the information and providing faster access to the same, by the departments responsible for the documentation.

Contract Support and Management – In addition to the operating management responsibilities of several transversal service provision contracts (canteens, vending, mobile communications, nursery, office machinery, archive custody, microfilming, digitalisation, reception of visitors and telephone service, courier services), market consultations were undertaken with reference to the provision of services whose contracts expired over the course of the year (namely mobile communications, courier services, reception of visitors and general telephone service, and canteens and vending – the latter was still in force at the end of 2013), in articulation with the Logistics Department of TAP Serviços and with other Business Units and Associated Companies when applicable. As a result, a reduction of about 15% in the costs of these services was achieved in the majority of consultations. It is also important to mention the collaboration in the implementation of initiatives within the scope of good environmental practices, as well as in the development of campaigns to promote healthier eating habits. It was also possible to once again meet the increase in demand for TAP Nursery services, having enrolled at the start of the academic year 2013-2014 a total of 365 children (+10% than in 2012), in the Crèche and Day Care areas, thus contributing to the work-family balance of TAP Group Employees, and to the respective family budget, given the reductions in monthly income, considering that the contribution of workers to the costs of this service represent about 75% of the prices practised in the market.

INTERNAL AUDIT

Internal Audit gave continuity to the Continuous Audit development process, having for that purpose prepared mechanisms that allow the business of TAP Group to be better monitored. In this way, efforts were made to carry out preventive actions, which enabled the monitoring and following up, in real time and on a permanent basis, of various core areas of the Group's businesses.

This Continuous Audit process, in contrast to the Traditional Audit, overcomes the difficulties arising from an isolated or episodic action, permitting continuous monitoring. This procedure of a continuing nature was not applied randomly, but directed at the areas of greatest risk, seeking, in this way, to optimise the Audit resources and obtain greater efficiency and efficacy in the audits conducted at TAP Group.

In the diagram, the evolution of the activity of the Audit area shows an increase of activity in Air Transport and in the transversal areas, seeking, in this way, to align itself with the concerns of the core business.

During 2013, there was an increase of 20% in the number of audits undertaken.

As a means of reinforcing the internal control over activities with a more relevant risk, particular emphasis was given to the monitoring of the contractualisation undertaken in the different Group Business Units and Companies.

LEGAL OFFICE

In 2013, in addition to the functions of analysis of hundreds of contracts and the drafting of legal opinions, the following are noteworthy:

// Permanent advisory services relative to the contract for the acquisition, by Urbanos, of 50.1% of SPdH shares;

// Negotiation process to solve a dispute with Airbus;

// Loan contracts/opening of credit facility;

// Contracts with foreign lessor entities, for reinforcement of the fleet with 6 aircraft;

// Support to the international tender of Kuwait Airways in the maintenance area;

// Engine acquisition contracts;

// Analysis and negotiation of the 5th Amendment to the STAR Alliance Agreement;

// Successful conclusion of various legal cases;

// Successful conclusion of various administrative offence proceedings.

STRATEGIC PLANNING AND PERFORMANCE

Within the context of the business model of TAP Serviços, continuity was given, in 2013, to the various procedures of the Strategic Planning and Performance area, structured in order to support the Group's business strategy.

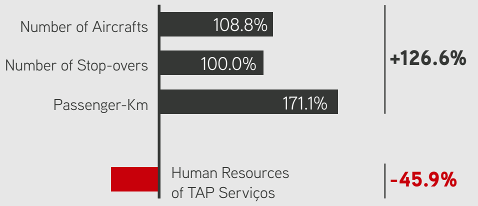
In this sense, establishing itself as an objective of TAP Serviços, the continuous achievement of efficiency and productivity gains of its Customers in all the processes involving its management in the business support areas, the process of systematic measurement of the performance of the Business Unit was continued, which involves the regular disclosure of reports, directed at each management level, on compliance with the defined objectives, as well as on the respective operational performance. In addition, recognising the importance of Customer feedback in the formulation of strategies and in the improvement of business processes, regular contacts were made, including the measurement of the perception of performance through the analysis of assessment surveys.

The consolidation of the Costing, Pricing and Invoicing Model is also noteworthy, with emphasis in this context on the continuous measurement process, to which the pricing and invoicing models are subject to.

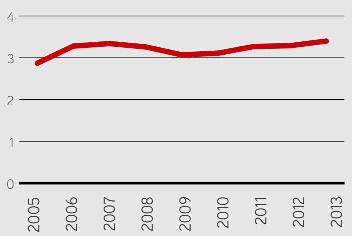
In addition, during the year, the monitoring of compliance with the Service Level Agreements (SLA) with the different Customers – Business Units/Group Companies –, adapting them to any specificities applicable, was continued. These agreements define the services provided, establishing procedures and responsibilities, within the scope of the various processes, as well as the definition of the performance, quality and efficiency levels, and respective pricing.

In addition to these initiatives, the area continued to develop its mission, by providing advisory services to the Board of Directors, whenever requested and proactively, combining the know-how of the TAP Business Units, preparing studies, analyses and issuing opinions of a qualitative and quantitative nature. Likewise, the preparation of benchmarking studies and analyses relative to the air transport business was continued, within the scope of the development of the activity of competitive intelligence, which translated into the capacity to define, collect and analyse information to support decision-making.

Evolution of the efficiency of TAP Serviços with the growth of its Customers' activity
2000-2013



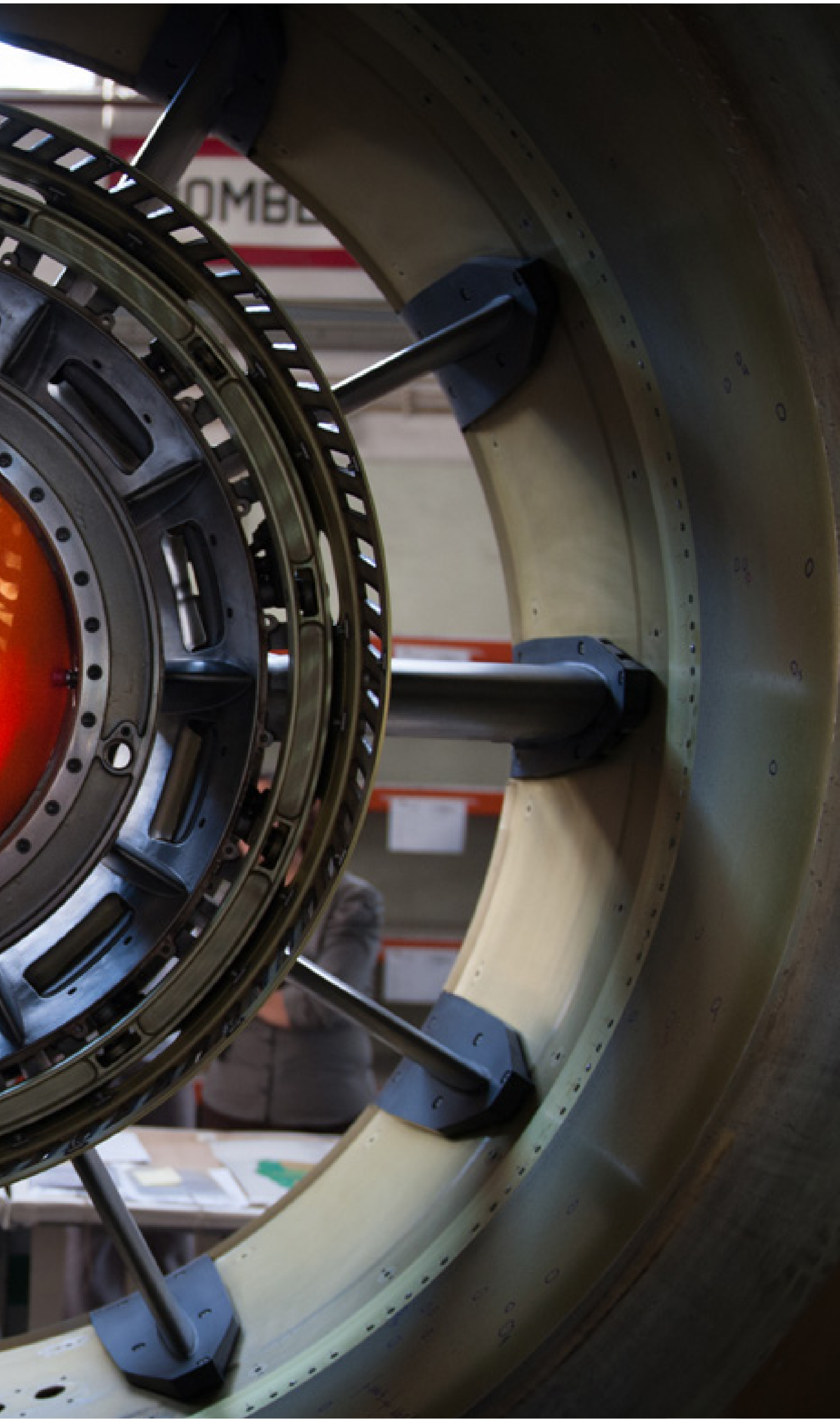
Overall Satisfaction



Knowing and accompanying the evolution of Customers (internal Customer of the Company) perceptions on the services offered has made an important contribution to the improvement of TAP Serviços procedures.

Very Satisfied – 4
Satisfied – 3
Dissatisfied – 2
Very Dissatisfied – 1

MAINTENANCE AND ENGINEERING



€ 75.6

million

Revenue with Sales and Services rendered from Maintenance to Third Party Customers

2.8%

of the Group's Turnover

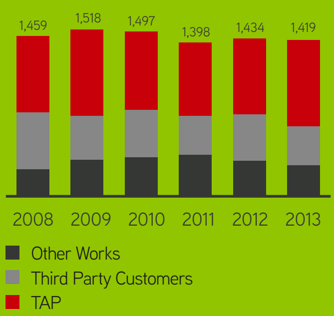
1 886

Maintenance and Engineering Staff (31st December)

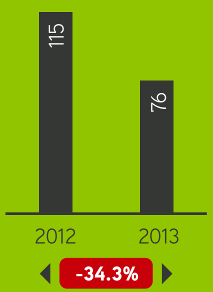
The mission of TAP–Maintenance and Engineering is to provide maintenance and engineering services for aircraft, engines and components, for the Company and external Customers, guaranteeing a high level of quality and actively contributing to uphold the high safety standards required by the Aeronautical Industry, to ensure safe conditions for people and goods and protection of the environment.

MAINTENANCE AND ENGINEERING

Maintenance Workforce
(000) Man-Hour



Revenue from Sales and Services Rendered from Maintenance to Third Party Costumers
EUR million



A new reality in the maintenance market

The aircraft maintenance market also shows some fragility in terms of growth. Although there are long-term growth prospects, the sharp pressure on prices remains, accompanied by an increase in labour costs. Customers want their suppliers to take greater risks at lower costs, making it necessary to acquire flexibility and efficiency to ensure the achievement of margins in the activity. In turn, the possibility of creating repair capabilities in new technology remains significantly threatened by the manufacturers, who, by managing to control the product chain from-cradle-to-grave, not only protect their know-how but also become new strong competitors up against traditional MRO organizations.

In terms of jobs for third-party customers, achieving the objectives outlined at the beginning of the year has not been possible. Indeed, the continued adverse economic situation, taking place on a global scale, has been reflected mainly in the ability of some customers meeting their financial obligations, having to make an increasingly rigorous quality assessment of potential customers, thus limiting their number significantly. On the other hand, there is increasingly an association between large maintenance groups and financial institutions, with strong competitive advantages conferred by their power of financial leverage. Given this new reality, it has been difficult to achieve new contracts in the area of engines, including those arising from large international tenders, due to the impossibility of supporting customers with replacement reactors.

The basic strategy, and main priority, of TAP–Maintenance and Engineering is the assurance of continuing to be the best option for its internal customer, the air carrier, in terms of total support and warranty of airworthiness of its fleet. In fact, the growth strategy of Air Transport, which requires a more intensive use of its fleet, has imposed additional constraints to the maintenance activity, leading to transit times and immobilization of airplanes, progressively smaller simultaneously requiring both high reliability and efficiency in maintenance processes.

Also note that during 2013, the effect of the departure of skilled personnel became more pronounced. This reality, most evident in Aircraft Maintenance Technicians (AMT), with other competitors offering better job proposals, is also taking place in other specialized groups. This is particularly harmful, representing a potential reduction of experience in the Business Unit. Due to the effect of regulatory and legislative limitations applied to the company, it is difficult to establish an efficient strategy that will counter this loss of skilled human capital.

TAP–Maintenance and Engineering Re-branding in the maintenance market

In the commercial context, TAP–Maintenance and Engineering has developed a new strategy for its brand, reflected in a re-branding of products on the market, a new advertising campaign centred on the Care^2 Quality concept and a number of different support materials. The new positioning, based on quality and relationship as the characteristics that best define the company's attitude towards its customers and business, was presented at the Paris Air Show, having continued its promotion in other international industry events, namely MRO Middle East, MRO USA and MRO Europe.

Operational safety and quality

On the verge of implementing a new regulation of the European Aviation Safety Agency (EASA), TAP–Maintenance and Engineering reorganized its area of Operational Safety and Quality, previously known as Quality area. The basis for this reorganization is a drastic evolution of the traditional concepts of quality management towards more comprehensive and integrated systems, with a focus on Risk management, which aims to ensure the Safety of a particular organization and ultimately of the airline company.

Quality itself is more restricted, ensuring the preparation of procedures (Rulemaking) and the monitoring of compliance (Compliance Monitoring) supported by audits, maintaining also its core functions which are Quality Management and Customer Satisfaction. Nevertheless, the existence of a Quality System does not necessarily guarantee that the operation is safe, whereby it is necessary to make an effective and integrated management of the various pillars of the system. Quality Management, which exists in TAP–Maintenance and Engineering since 1998, is just one of the pillars of an integrated set of systems that have been successively implemented, the others being the Management of Safety (in 2007), Environmental Management (in 2008) and Risk Management (in 2011).

Mobility technologies

In terms of technological development, TAP–Maintenance and Engineering has been promoting its implementation strategy for mobility technology platforms, started in the company in the area of Line Maintenance, with a module to support its daily activity, using smartphones that generically allow every player to receive and manage their everyday tasks and make the necessary contacts more efficiently while automatically feeding platforms of support and management.

Activity – Greatest weight of the overall work of support to the TAP fleet

The activity of Maintenance and Engineering experienced a sharp increase in work for the TAP fleet. In order to accommodate this increase, maintaining the objective of maintenance for the third-party customer segment, the occupation of the hangars reached a very high number in some periods, whereby it was necessary to take some base decisions, namely sending large aircrafts for maintenance at the Brazil unit. In total, there was an increase of about 14% in the number of hours worked for the TAP fleet. The whole areas of activity recorded an increase in units repaired, namely, 11 more engines and another 9 large aircraft inspections. Also noteworthy is the fact that TAP–Maintenance and Engineering continues to ensure full maintenance and airworthiness of the TAP fleet at a cost significantly less than the AEA average, being in fact even one of the lowest in this universe. Regarding the third-party customer segment, despite a weak performance in engine maintenance, the margin of contribution of the B.U. for TAP's profits, although lower than the figure recorded in 2012, showed an amount of about twice the expected budget.

Also worthy of note is the contract with IAMCO/NATO, for the maintenance of the landing gear of NATO's E-3A AWACS fleet, integrated into the NATO Industrial Benefits program, valid thru 2021. The participation in the AWACS program, for the maintenance of aircrafts, engines and components, dates back to 1985, when three Boeing 707 were converted into practice and cargo planes. Also worth noting is the agreement with Air France, KLM and EPCOR for an exchange of services, where for five years TAP–Maintenance and Engineering will receive a total of 11 large airplanes type A330/A340 from Air France and KLM for big maintenance inspections, in exchange for sending to Air France Industries a set of components for equipping TAP's A330/A340 fleet, seeing as it has no in-house repair capability.

In order to maintain a closer relationship with customers and within the scope of the program of events on engines (started a few years ago), the areas of Aircraft Engines maintenance organized a two-day seminar on the CFM56-5B engine, attended by 23 persons from 14 airlines, representing 12% of the world fleet of A320. In addition to the disclosure of the size and capacity of the global supply of TAP–Maintenance and Engineering, the main objectives of the event, which generated a lot of positive reactions, was to refresh technical knowledge and transmit TAP's experience as an operator and repairer of this type of engines.

In 2013, TAP–Maintenance and Engineering hosted, for the first time, the annual meeting of the Commercial Composite Repair Committee (CACRC). This organization, whose mission is to develop and standardize processes and best practices in the use of composite materials in commercial aviation, is one of the SAE International's committees, an organization of engineering professionals from various sectors of the transport industry. TAP's involvement in this forum allowed for the sharing of experience, the consolidation of training and repair techniques, the improvement of response in maintenance and the inspection and repair of current and future A350 aircrafts, which represent an important technological leap, as their main structural components are fibre carbon. The preparation for this change requires specific training for technicians already working in composites, with TAP–Maintenance and Engineering currently involved in the preparation of training and discussion on the certification of these professionals.

Reference should also be made to the first *Week of Continuous Improvement*, involving the active participation of the overall organization of TAP–Maintenance and Engineering. At the event, about 50 employees, applying the LEAN methodology and tools, for which they had a brief special training, developed 14 projects obeying certain criteria, namely being measurable, apt for immediate application and have ambitious goals with a visible impact on the organization. Still, in this context, in Finance and Accounting, the diagnosis, design and planning of the *Recovery of Consumables* pilot project was completed, whose actions are currently under implementation. In this same area, under the *billing project*, the actions that were implemented allowed for an easier follow-up, control and monitoring of the different phases of the process, thus contributing to reducing the variability of the average billing period and improving the service provided.

In the area of Aircraft Maintenance, under the project TAT C-checks, the solutions that were implemented simplified the identification and distribution of material to the different teams. Tools were also developed for allowing the optimization of the planning, management and control activities of large aircraft inspections, as well as enhance the mobility of technical aircraft maintenance between different work areas. In the area of Component Maintenance, the project *Wheels Workshop* was completed with the implementation of the PULL/FIFO system, whereby in case of need of the client or of a process, you can assign conditions of priority to repairs that need to be made. This project contributed to the reduction of TAT by 40%. The roll-out phase of the *Anticipate Material* project was also completed with the implementation of a planning tool that takes into account the priorities resulting from the operation of TAP fleet.

Within the area of Special Projects, which includes Logistics Services, Consulting on Industrial Infrastructure and Engineering Consulting, the activity grew about 12%, mostly resulting from the partnership with TAAG regarding the consulting services in the area of logistics. In this context, a team of three employees was kept in Luanda who, together with TAAG, successfully implemented a number of actions to optimize the logistics process. Similarly, throughout the year, the AOG (Aircraft On Ground) service desk was consolidated, which contributed significantly to the improvement of TAAG's operations. Also noteworthy is the completion of the new Education Centre for AMT (Aircraft Maintenance Technicians) in Luanda, implemented by TAP–Maintenance and Engineering together with TAP's Vocational Training Dept., whose first course for TMA *ab initio*, with TAP Trainers, will start in January 2014, involving two classes, totalling 36 students.

In vocational training, we have the completion of the 18th *ab initio* course for AMT, thus ensuring the quality of new technicians. Currently, about 59% of AMTs working in TAP–Maintenance and Engineering are from these courses, therefore becoming the main source of recruitment of these technicians. This course has the particularity of, for the first time, simultaneously covering two aspects: Electro--mechanics B1 and Electro-avionics B2, an innovation in the Company, which will be an added value to the graduates. The organization and implementation of this type of *ab initio* training, since 1987, has allowed TAP to position itself as the first entity recognized by INAC as a Maintenance Training Organisation, at a level of quality referenced by other companies.

Engines – The need to adapt to new market realities

The year 2013 experienced a sharp decline in activity for the third-party customer segment, in part due to their fleet's change to new technologies, in which the Engine area is not enabled, and also due to changes in the ownership structure of old customers, whose influence of new shareholders became decisive in choosing new maintenance suppliers. The amounts stated in the budget proved to be very ambitious, given the current rules in this market. In fact, some international tenders were won by maintenance companies that demonstrate strong financial capacity, allowing them to thus subsidize the activity of their customers both through the provision of replacement engines, and the funding of the stock of materials: two essential factors in ensuring the continued operation

of an airline. In order to overcome the limitations associated with the new customer requirements, a process was initiated for establishing agreements with engine Lessors, allowing the storage of their engines in the TAP redoubt so that they are available to support the operation of the TAP fleet and third-party customers. Despite these threats, the sales effort throughout the year resulted in the signing of six new contracts with customers for the maintenance of engines of the CFM56 family.

Following the work done during 2012, certification was given for the full maintenance of General Electric reactors, Model CF6-80C2, by the competent authorities, whereby the workshop is now able to perform the repair in all its extension. Arising from the increasing need for repairing Thrust Reversers (engine power reverser hoods) and to initiate a sequential process of recovery of these units throughout the TAP fleet, we increased the current repair capacity and bought spare units.

After extensive specification and development, the new version of the computer control system of the engine maintenance process – Genesis 2 –, which allows greater processing capacity and data logging as well as new features more suitable for products in the engine workshop, went into production.

Components – Increased testability and reparability of components, in-house

During the year 2013, focus was given to the creation and development of new test and repair capabilities of components, with the implied investment in new equipment. This investment included mainly the design and development of a test bench for ATC/TCAS (Air Traffic Control, Traffic Collision Avoidance System) Control Panels by Thales manufacturer, allowing the testing and repair of these units, as well as the evolution of the ATEC test bench (Automatic Test Equipment for avionics Components) of the WinNT system for Windows XP, in order to keep the bench updated. Also, there was an investment in terms of infrastructure, for the modification of facilities in the paint shop, by replacing the water-curtain booth for more modern equipment so as to meet the current environmental requirements in this area.

It is worth highlighting the creation of new test capabilities for some components of aircrafts and engines, namely, the Braking and Steering Control Unit system, the lubrication pumps (Lube Units) that equip the CFM56-3 /- 5/-7 engines and the ATC unit (Air Traffic Control) / TCAS (Traffic Collision Avoidance System) Control Panel for new Radio Altimeters. Still in this context, we proceeded to adapt the test bench for various fuel units of CFM56-5/-7 engines, namely the HPTCC/RACC/TBV.

In terms of increasing the ability to repair components, it is worth mentioning the repair of mechanical components of the landing gear, air conditioning units, systems of recording flight information (Solid State Cockpit Voice Recorder and Digital Flight Data Recorder), as well as a few PES units (Passenger Entertainment System). Regarding the components off the list of capabilities of this area, we signed some contracts with repair entities, to minimize their repair costs.

As regards the activity within this area, in addition to the continued implementation of various Projects under the actions of Continuous Improvement, it is also worth mentioning: the beginning of the FANS B+ campaign (Future Air Navigation System) for the A320Fam fleet; the implementation of the change to the VHF-900B; the establishment of repair capacities and of the quality system for E-3A (NATO) landing gear; the implementation of tracking tools in the Time system and the conclusion, with very positive results, of the project for the continuous improvement of the Wheel workshop.

Airplanes – Improved processes and reliability supported by IT projects

As one of the strategic objectives of TAP-Maintenance and Engineering is to remain the most attractive maintenance option for its internal customer – TAP operator –, several specific studies were carried out, namely, the completion of an upgrade to the interiors of cabins of the remaining A340 TAP aircrafts, with the aim of standardizing the fleet that operates in the long-haul routes and placing the interiors of these aircrafts at a level of comfort and quality already offered in the latest A330 models. The Airplane area assured the full maintenance of the TAP fleet, carrying out a total of 327 inspections, among which we highlight – due to their importance in terms of occupancy of skilled labour and hangars –, another six major inspections, compared to the previous year. Due to the limited physical capacity of hangars and availability of skilled labour, another five major inspections to A330 of the TAP fleet and one to A310 of the SATA customer were also reassigned to TAP–Maintenance and Engineering Brazil. Regarding the technical reliability of Flight Dispatch, the overall value of the fleets was about 98.55%, similar to the figure recorded in 2012 (98.58%). Note that the restrictions already existing in 2012 remained, with a significant increase in the number of flights during the summer, together with large human resource constraints, hampering all efforts to improve the reliability of the TAP fleet.

With respect to the work performed for third-party customers, this segment represented approximately 27% of the total of big inspections, an effort resulting from the maintenance to the airplanes, namely of SATA, XL and Orbest. Note also the two major inspections associated with the complete modification of the cabin in two A330 aircrafts belonging to ILFC. The maintenance of the two A340 of the FAF – French Air Force –, continued to be provided in its entirety, with a dispatch reliability of 99.47%, which once again received great praise from Customers.

During the year 2013 some actions were also developed in order to increase productivity through changes in processes and procedures, as well as the improvement of working conditions in hangars and workshops, namely the establishment of the outpost for work close to the airplanes. The politics of specific training applied to TMAs was also redefined, with the consequent cost reduction and increased availability of skilled labour.

In terms of technological innovation, we have started using the Interior Cabin Inspection Program (ICIP), an application with physical support via touch screen devices (tablets) and wireless connectivity, with a view to monitoring the technical condition of the passenger cabin. This application is used in Operational Maintenance and contains all parameters and components of the long-haul airplane cabins associated with their registration, allowing visualization of the cabins on the screen, as well as the recording of deficiencies and discrepancies identified during the inspection, the checking of warehouse stock for the materials involved, the issuance of the documents for the works to be performed, and also an indication of the estimated times, in order to make the most appropriate planning of the required immobilization. Also, in order to

increase the information capacity associated with the technical condition of the aircrafts, the application for loading data from the technical log of the aircraft (ATLB Slips) has been redesigned and improved, with a new Graphical User Interface with web service capabilities, which allows access to any authorized user and greater ease and accuracy in loading data from the log. Also, links were established with other systems within the Company, for the direct import of information already available on other media, obviating their manual loading. Furthermore, this new platform has specific dashboards for researching malfunctions and analysing reliability, as well as the possibility of parameterization of algorithms to capture trends of failure, notifying the appropriate users according to previously established criteria.

Human Resources – Safety and health at work

In general, in the year 2013, 802 training activities took place, in a total volume of 96,491 hours, in a classroom and in a real working environment, covering 12,388 trainees. This training program experienced a small decrease in training volume of 12,204 hours (-12%), compared to the previous year, and an increase in the number of trainees, with 1,849 trainees (+17) having been involved. Among all the training activities, the most notable was the launch of the second module of the *Managing and Developing Teams* course, following the excellent acceptance that the first module got from the participants, aiming to deepening knowledge and developing the skills of 1st and 2nd line managers on matters deemed necessary to a leadership aligned with the organizational objectives.

The average headcount in 2013 was 1,896 workers, 1% below the previous year, having reached – on December 31st, 2013 –, the figure of 1.886 employees, corresponding to 22 workers less than in late 2012.

During the year, 40 employees left and another 23 were admitted, having also integrated 74 employees into permanent personnel (this does not include direct entries from abroad, on permanent personnel).

New course on health and safety at work

In October 2013, we started a new HSW course resulting from the integration of four previously independent courses – *Prevention of Accidents and Occupational Diseases*, *Noise Exposure*, *Working at a Height* and *Manual Handling of Loads* –, thus optimizing training and creating a single package focused on a safety culture. This course, now called Understanding *Health and Safety at Work*, aims to raise graduates' awareness of the need for protecting physical integrity, given the varied risks they are exposed to depending on the type of work they perform. It is expected that by mid--2015, about 1,600 employees of TAP–Maintenance and Engineering will have received this training.

Safety Management System – Implementation of risk management system

The strengthening of the Safety Management System of TAP–Maintenance and Engineering took place in accordance with the outlined implementation plan. After the phases of Safety Policy and Safety Promotion, the activities of Safety Assurance were also initiated, in 2012, which continued in 2013 with the completion of the second Safety Audit, by the auditors of the Audit Bureau of TAP–Maintenance and Engineering. This year, the development of procedures for Risk Management, the fourth pillar of the SMS, was also initiated.

Human activities within complex processes and of a strong technical and technological nature, as TAP–Maintenance and Engineering, imply an increased level of risk, especially when associated with an operational component. The risk results from uncertainty in achieving the goals and is conditioned or aggravated by both internal and external factors of the organization. The implementation of a Risk Management process seeks to reduce the uncertainty associated with the activity.

In TAP–Maintenance and Engineering, Risk Management has been operationalized in a holistic and cross-sectional manner, encompassing several aspects, which include not only Operational Safety (Safety) but also personal, commercial, compliance, financial and reputational risks, among others. The kick-off of the Risk Management training took place in the second module of the *Managing and Developing Teams* course, with the goal of raising awareness of middle management towards risk assessment processes, explaining the criteria of tolerance and acceptance, addressing the possible need for implementation of barriers and mitigation actions, referring to the methods of control and management of residual risk.

Also, in terms of awareness of this factor, the Safety Office of TAP–Maintenance and Engineering has created and publicized a new poster that calls for insight and critical thinking in a context where risk is never equal to zero. All these initiatives, both current and future ones, aim at the possibility of reducing uncertainty and increasing the sustainability of the business.

The development work on the processes of Risk Management and of the criteria for evaluation and acceptance of risk, conducted by the Safety Office of Maintenance and Engineering during the year 2013, was presented and approved at the 2nd meeting of the Safety Review Board (SRB) of this B.U., held in December, with the new approved methodologies applied in the activities of TAP–Maintenance and Engineering from the beginning of 2014.

In terms of stimulation of the Risk Management process, a Risk Seminar by TAP–Maintenance and Engineering – Risk Challenger –, is planned for early 2014 and will involve teams representing all areas of this B.U..

It is also worth mentioning the reorganization of electronic communication channels on Safety, namely the site of the ME Safety Office and Safety Library on the Campus of the Business Unit, as well as the use of the means available on the intranet to disseminate information on Safety, including the MSB (Maintenance Safety Bulletin), a monthly publication, the iGo Safety email and the permanent page in the TAP newspaper, dedicated to the dissemination of the SMS of TAP–Maintenance and Engineering.

Finally it is worth highlighting the fact that TAP–Maintenance and Engineering has joined the Maintenance Advisory Committee (MAC) of the Flight Safety Foundation (FSF), at its invitation. The FSF is a non-governmental organization based in the USA, established in 1947 with the aim of contributing to the development of aviation safety worldwide. MAC is the main body of analysis and advice on Safety issues in terms of maintenance and engineering activities, thus allowing FSF to shape its Safety initiatives, designing technical assistance programs and adapting the content for disclosure, seminars and workshops on this subject.

Quality Certifications

TAP–Maintenance and Engineering has received several follow-up audits of accreditation bodies, namely the audit by *Bureau Veritas* (standards ISO 9001 and EN 9110) and the audit by IPAC (*Instituto Português de Acreditação*) to the Calibrations Laboratory under certification of the NP Standard EN ISO / IEC 17025:2005.

During the year 2013, other quality audits were received by the aviation authorities and their customers, the operators, being essential to maintaining the various approvals for the activity.

In 2014, manuals, regulations and procedures of TAP–Maintenance and Engineering will continue to be updated, affected by the implementation of the new Air Ops Implementing Rule of EASA (EU Regulation 965/2012), namely those with greatest impact on EASA Part M. Similarly, the study on structural changes will continue to be implemented for the introduction of the Management Systems, in accordance with EASA NPA 2013-01 and EASA NPA 2013-19.

National and International Certifications

Portugal	IPAC (*Inst. Port. de Acreditação*): NP EN ISO / IEC 17025:2005
Portugal / EU	INAC / EASA: EASA Part-145 INAC / EASA: EASA Part-M Subpart G (CAMO) e Subpart I INAC / EASA: EASA Part-147
France	French Air Force / DGA: AQAP 2120 / ISO 9001:2008
EU	EASA (European Aviation Safety Agency): EASA Part-21 Subpart J (DOA)
USA	FAA (Federal Aviation Administration): 14 CFR Part 145
International	IOSA (IATA Operational Safety Audit): IATA *Bureau Veritas*: NP EN ISO 9001:2008 / EN 9110:2005

INFORMATION SYSTEMS AND TECHNOLOGICAL DEVELOPMENT

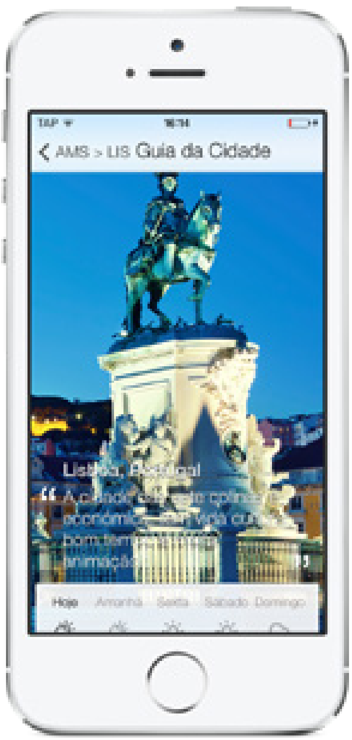
Compliance with the goals of efficiency that TAP continuously pursues, coupled with the ongoing need to find and identify opportunities to enable the Company to differentiate itself from competition, take the form of the imperative need for innovation of the process at all levels, precisely at a time when emerging technologies, from Social Networks to Cloud services and Mobility, are forming new technological ecosystems that enable the devising of innovative and increasingly integrated solutions, which can, in a significant way, help the Company to meet its main challenges.

In 2013, TAP continued to invest in change and renovations deemed necessary to meet the requirements of its strategic position, in line with the trends and demands of the market, having developed and integrated a range of solutions and services, not only as a means of differentiation but also as a way to ensure the evolution and simplification of procedures. It also continued to invest in mobility solutions, offering new free applications available to its Customers, in smartphones and tablets, as well as similar tools for employees of the Company, with the objective of increasing levels of efficiency and quality, simplifying access to services and improving the relationship with Employees. It was also a year of investment in terms of usability and design of applications, which promoted the creation of pleasant, simple and effective user experiences, being more integrated with the native operating systems of the equipment, with an appealing and modern look and, above all, more user friendly – key to increasing Customer satisfaction.

The proliferation of different, heterogeneous and even geographically dispersed systems, supporting a wide variety of business processes of the Group, introduced a new class of problems, both technological and business-related, where everything must be integrated. From the structural point of view, it is in this context that TAP keeps pursuing the strategic plan of systems development and integration, focusing on the growth of its infrastructure and information and technology systems, in a coherent and consistent manner, both in the integration and consolidation of information and in the integration of systems and applications, without jeopardizing the speed that the transformations of the business require. As a result of this plan, TAP continued with the development and expansion of the central structures of systems integration and architecture, more service-oriented, contributing to the improvement of information quality and greater automation of business processes. It was a year of rapid growth, with 400 services being made available, offering features from the most varied quadrants of the Company, with a growing level of use and reuse being used in a simple or complex way, materialized in the various solutions and products of the Company.

The ability to integrate information in a reliable, consistent and centralized manner, allowed TAP to continue evolving in its stage of maturity in terms of the knowledge process of its Client and in building a single view on it. Understanding the Customer Experience, the concept or process that mirrors the lifecycle of our Client, of how he perceives the products and services that TAP offers all the time, is crucial to the Company. There are many systems and applications that contain Client information but unfortunately, none of them has a full view of them. This has to be built, by collecting data from all sources, interpreting and consolidating information, making it available in a consistent and timely manner, at all points of contact with the client. All experiences that the Customer has with TAP are moments of relationship with the Company and, if he is treated differently in each circumstance, it can be disastrous. Communication in an appropriate manner, as well as the offering of distinctive products and services, is only effective if the Company knows the profile of the Customer and if it has a full view of all the experiences lived by him.

Building on the progress achieved in terms of the ability to integrate information and systems, 2013 was a year of deepening of the use of Cloud concept for solutions to support the business. The technological solutions of support to the business, using the concept of Cloud Computing, are increasingly used based on the same solutions as Private Cloud, Public Cloud, Community Cloud and Hybrid Cloud. This concept allows the use of resources based on services, which are characterized generally at IaaS – Infrastructure as a Service, Paas – Platform as a Service, and SaaS – Software as a Service. By using these concepts, TAP has been implementing and using Cloud solutions, for example opting for hiring mainframe services based on the IaaS – Infrastructure as a Service model.



MOST SIGNIFICANT DEVELOPMENTS UNDERWAY IN THE COMPANY

TAP, S.A.

Air Transport

// **PROS** (Revenue Management) – Start of implementation of revenue management in an O&D (origin-destination) logic, Status of the Project: Phase I-completed; Phase II-completed; Phase III-started in Q1 2014

// **Victoria Digital Card** – Available through the company's application for smartphones and tablets, and may be stored in the Passbook application, similar to what already happens with digital boarding cards generated through mobile check-in, making TAP a leader among airlines in terms of use of frequent flyer cards in the Passbook and applications

// **Flight Dispatch Control Centre** (FDCC) – Automatic centralization of the necessary information on events and operating conditions that may affect TAP flights, allowing, with the drastic reduction of time and effort in the manual collection of detailed information, to change the focus of Flight Operations officials towards analysis and decision-making

// **ATHOS Marketing** – Creating predictive segmentation models in the Marketing Dept. to support TAP's campaigns

// **TAP Cargo** – Launch of a new free app for IOS and Android, allowing customers to access information and cargo services, anywhere

TAP–Maintenance and Engineering

Developments within the integrated platform of information systems – COSMOS

// **GENESIS II – V2**
// Migration of GENESIS v1 engines to GENESIS v2 engines
// Migration of GENESIS v1 engines historic to GENESIS v2 engines historic

// **ARIES**
// Redesigning the system to allow communication with COMPASS, a planning system for flights and other TAP ones, registering flight times and cycles, leg to leg

// **CETUS/COMET/LIBRA**
// Reformulation of CAPLIST

// **CETUS**
// De-centralised movement (Material Reception Module)

// **DRACO**
// DRACO/DENEB Interface

// **MENSA**
// Management of Material in a customs warehouse
// Movement of material between TAP/Airport redoubt, accompanied by invoice

// **SPICA** (Special regime Inventory Control Application)
// Special Regime Material

// **SIS-M**
// Paperless invoicing via ICH (Iata Clearing House)

// **SAF-T**
// Electronic transmission of invoice data to the Tax Authority
// Adaptation to the various ordinances

// **AQUILA v3**
// New Check List functionality

// **RMM Pilot** (TAPME/AIRBUS) – Analysis of Technical Log slips

// **SPACE**
// Loading discrepancies in the records
// Changing the creation of MPM Client tasks
// SCO Interface: association of MDO of subcontracted employee to Job Number

// **TIME**
// ME/MA outpost (Type 'A' inspections)

// **POLARIS**
// HIL Module/Request for Material – Implementation of Reporting
// SLIP Technical Log Module – Improvement to respond to new requests
// Reliability of Dispatch (Remodelling) – New GUI with increased efficiency
// Multi MEL Dispatch – Management of multi MEL flights with dispatch
// MDO/MA/ML: PHASE II – Management of ML workforce, with warnings, requests for assistance, among others

// **GALAXY** (Business Intelligence) – Development of the first models for assurance, auditing, Billing, CFS (Customer Fleet System), as well as some specific reports

// **DENEB**
// Contracts for Purchasing and Leasing Services
// TAPME scans – Smart scan of all technical, legal and other TAPME information, with online search

TAP Serviços

// **SIS IATA FORM M** – System for the implementation of electronic invoicing between airline companies and other partners involved, covering TAP invoicing that can be integrated in the IATA clearing house – a requirement of this association for remaining in the Clearing House (ICH) – starting April 2013

// **ARAMIS CORREIO (MAIL)** – Implementation of a new solution for Mail Accounting, given the legal requirements (production of file SAF-T-PT) and the previous system's seniority (TAPRAS)

// **ELECTRONIC BILLING** – Implementation of electronic billing for suppliers, purchase orders and invoice statuses of all of TAP's tax entities

// **SAF-T** – Standard Audit File for Tax Purposes (Portuguese version) – A file enabling to easily export a predefined set of accounting records, allowing to satisfy the requirements in terms of information on inspection services, avoiding the need for expert auditors in the various systems

// **FlyStaff – DHC's** – Optimization of the process of creating reservations for the crew travelling as Dead Head Crew (DHC)

// **Central Information System (HR) in PGA** – Availability of procedures of Personnel Administration, Organizational Management, Time Management and Processing of Salaries, using the central IT system, for the PGA company

// **RDEC – Registration, Scanning and Forwarding of Mail** – Platform aimed at streamlining the process of receiving and dispatching mail

// **Sourcing&Procurement** – A Sourcing and Procurement tool, for supporting the entire purchase process, from negotiation to purchase and to receiving the goods – must include electronic catalogues and some features in online stores, namely shopping carts

PORTUGÁLIA–COMPANHIA PORTUGUESA DE TRANSPORTES AÉREOS, S.A.

// **Central Information System (HR)**
// Use of the system of ticket amenities
// Streamlining the administrative processing of the payroll, facilitating communication with the crew

UCS–CUIDADOS INTEGRADOS DE SAÚDE, S.A.

// ***Prevenir* (Prevent) Program** – Automation of the process of controlling the consumption of alcohol, drugs and tobacco on employees of the TAP Group

// **e-learning** + *Vale Prevenir* (It's better to Prevent) – Training course, developed in partnership between Human Resources, UCS and Megasis for promoting the *Prevenir* program

HUMAN RESOURCES

In order to continue to positively differentiate TAP, in an industry of accelerated competitiveness, in 2013 the Company started developing HR processes and programs that were in line with the best benchmarks in the market. As business partners and agents of change, the Human Resources' main mission is to ensure that the survival of the business depends, in large part, on its people and the way they contribute to value creation. Acting in a close interconnection with the HR Operations and Talent Management, the Human Resources Business Partners of the various TAP Business Units represent the HR in the Business, whose mission is to build leadership, organizational and cultural skills, and be credible agents of change, contributing to the development and achievement of the Company's strategic plans and objectives. On the transactional side, the HR Operations (Payroll and Personnel Administration, the Travel Office and the HR Management Information), continued to focus on ensuring the quality of services rendered. In the transformational aspect, the Talent Management integrates the areas: *Attract + Develop + Train + Support*, a concept that underpins the mission to attract and recruit the best human capital to work in TAP, train them, develop them and support them in the various dimensions, contributing to creating business value and enhance the balance between personal and professional life.

Talent Management I Recruitment and Selection (Attract) – The recruitment and selection processes at TAP are recognized nationally and internationally for their requirement of technical knowledge for the specifics of each function. However, even for functions with a greater focus on technology, the Talent Management I Recruitment and Selection Dept. seeks to identify the distinguishing characteristics that must be in line with the signature of the Company: TAP – *With Arms Wide Open!*.

Talent Management I HR Development (Develop) – The HR Development practices are based on the premise that people have to be involved, motivated and committed so as to maintain the sustainability of the business. The area called Employer Branding, started in 2013, aims to be a method of aligning the values of TAP with the business' objectives, internally and externally communicating the most relevant aspects of the TAP identity, inter alia, its organizational purpose, its deepest values, its management practices, and its policy of compensation and benefits, among others. All this, in order to sustain an image of *best company to work* in, with a differentiating TAP focused on people, thus influencing the creation and sustaining of high performance teams through several concrete actions. It is worth mentioning, in particular, the internal and external recognition of people, the continuous and specialized training for the professional growth of each employee, the focus on leadership development, the cycles of conferences and workshops that help better understand the business, and the focus on the role and importance of each employee in the value chain. So, by stimulating the many positive aspects of the *TAP personality*, we continued the Sympathy Program and the Recognize Program. Also in this context, 2013 was a year of consolidation of several new procedures and methods that had begun to be implemented some years ago, namely related to the mapping and evaluation of functions (coordinated by the Compensation and Benefits Dept.) and those related to annual goal-setting, monitoring and respective evaluation of performance (coordinated by the Performance Management).

During the year 2013, the Human Resource Development Dept. has continued to promote initiatives to strengthen skills, stimulate communication and commitment and create room for Employees, teams and their leaders to contribute. Note the HR Conference Cycle to which was added a plan of HR Workshops – initiatives integrating a strategy of organizational development, particularly focused in the areas of *sharing and creation of knowledge and communication*. In 2013, this program aimed to help minimize the effects of the crisis on people, by developing concepts such as stress management and uncertainty, positive vision of the future, involvement, teamwork, organizational and individual hope and progress. It was during this year, and still is in 2014, a space open to all of the TAP Group, with national and international speakers from different areas, always aligned with the needs of the Company's business. To date, 25 HR Conferences have taken place, involving about 4,000 workers, with an average of 10,000 hours of training.

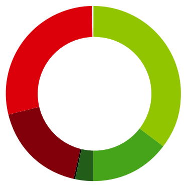
Talent Management I Social Service (Support) – Involves advising and supporting the active and retired workers in the various situations encountered both in their personal and professional life. Social service also operates in the social care for workers and pensioners, promoting quality of life programs, being responsible for the development and promotion of the Project *Abraçar a Vida* (Embrace Life). In 2013, this project materialized in the form of workshops and tackles the need to address the issue of retirement in a serious but relaxed manner, where myths are addressed without taboos. The planning of the transition from working life to retirement depends on each individual and can take place 3 years, 1 year, 1 month or 1 day in advance.

TAP Group Staff
31 December 2013

	Employees	% Total	Variation	
Ground Staff, Portugal	921	7.2%	2.2%	20
Ground Staff, Abroad	502	3.9%	-3.5%	-18
Total Air Transport – Ground Staff	1,423	11.1%	0.1%	2
Cabin Crew	2,299	17.9%	2.8%	63
Flight Deck Crew	832	6.4%	1.2%	10
Total Air Transport Flight Crew	3,131	24.3%	2.4%	73
Air Transport Staff	**4,554**	**35.4%**	**1.7%**	**75**
Maintenance and Engineering Portugal Staff*	**1,886**	**14.7%**	**-1.2%**	**-22**
TAP Serviços Staff	**419**	**3.3%**	**0.0%**	**0**
Other Staff of TAP, S.A.	**30**	**0.2%**	**-3.2%**	**-1**
Total TAP, S.A.**	**6,889**	**53.6%**	**0.8%**	**52**
Total SPdH, S.A.***	**2,262**	**17.6%**	**11.4%**	**231**
Remaining Companies	**3,705**	**28.8%**	**1.8%**	**67**
Total TAP, SGPS, S.A.	**12,856**	**100.0%**	**2.8%**	**350**

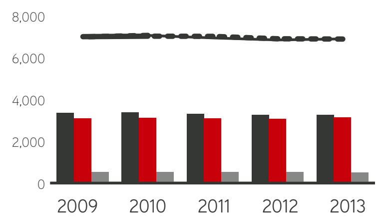
(*) Includes staff Abroad, of a total of 27 employees, in 2013 and 26 in 2012
(**) Not including non-placed and non-active staff
(***) Associated Company

Employees of TAP Group companies (%)
31 December



53.6% TAP, S.A.
35.4% Air Transport
6.4% Flight Deck Crew
17.9% Cabin Crew
11.1% Ground Staff
14.7% Maintenance and Engineering
3.3% TAP Serviços
0.2% Other Staff of TAP, S.A.
17.6% SPdH, S.A.
28.8% Remaining Companies

Active Staff of TAP, S.A.
31 December



Ground Staff, Portugal
Flight Crew
Ground Staff, Abroad
Total Staff – Dec 31
Total – Average Staff

Number of Employees of the TAP Group

On December 31st, 2013, the TAP Group (TAP, S.A. and other companies) had 12,856 employees on its personnel, 350 more than on December 31st, 2012. This was due mainly to increases in the associated company SPdH–Serviços Portugueses de Handling, and also in all the personnel of the subsidiary companies, as well as in the total human resources of the TAP, S.A. company, namely, in the personnel of the Air Transport Business Unit. Under the B.U. of Maintenance and Engineering there was a reduction of 22 employees, with the personnel of the TAP Serviços B.U. remaining stable.

Thus, in the headcount of TAP, SA (6,889 workers) there were increases in Cabin Crew and Flight Deck Crew (+63 Flight Attendants and Stewards and +10 Pilots). In the personnel of the other companies (3,705 employees) there was an increase of 67 elements, largely due to increases in the companies TAP–Maintenance and Engineering Brazil, LFP and Portugália, of 53, 23 and 7 Employees, respectively, having had a reduction in the company Cateringpor (-16). In turn, the personnel of the company SPdH–Serviços Portugueses de Handling registered an increase of 231 workers.

At the end of the year, TAP, S.A. held 53.6% of all employees of the Group, SPdH–Serviços Portugueses de Handling held 17.6% and the Remaining Companies: 28.8%. The average number of active personnel in TAP, S.A. totalled 6,881 employees, of which 539 were located abroad, which is less 4 workers than the value recorded in 2012.

Talent Management I Vocational Training (Train)

– This is considered a priority for TAP, for it is the investment in training that allows the development of technical, social, personal and management skills in workers, in order to sustain the competitive advantage of the business.

Being certified by DGERT, TAP's Vocational Training favours the use of internal trainers, with specialized and qualified know-how in the aeronautical activity who, in addition to being instructors, act as mentors and coaches of younger employees. It has a multidisciplinary team of skilled and accredited professionals, intervening with adjusted training in continuous professional updating, operating in several areas of skills: Specific technical training (initial and continuing) and Cross Training. The first part is aimed at the performance of tasks in each area of the Company, corresponding either to needs detected, or to the fulfilment of the national or international normative for Commercial Aviation. The cross-training offer is differentiated and seeks to add value to those to whom it is addressed, based on a diversity of performance formats, methodologies, teaching techniques and differentiating approaches.

TAP also continues to focus strongly on e-learning, which is internally and externally considered a success case due to the quality and diversity of content and tools developed, as well as the multidisciplinary team of specialists. An example of this is the fact that TAP won the Award for Creativity and Innovation in Training, for the teaching/training technologies at the service of education. In 2013, 181 e-learning courses were held, representing 15,300 hours of training and 4,483 trainees.

Volume of Training

	TAP, S.A.			TAP Group		
	2012	2013	Var.	2012	2013	Var.
Training Actions	2,864	2,932	2.4%	5,753	5,360	-6.8%
Participants	21,076	22,649	7.5%	38,171	36,495	-4.4%
Training Hours (000) man-hour	324.0	284.9	-12.1%	770.2	777.1	0.9%

OTHER ACTIVITIES OF TAP GROUP

With regards to the remaining shareholdings held by TAP, SGPS, S.A., it is important to mention the development of activity in areas related to the main businesses of the Group – Air Transport and Maintenance and Engineering –, which work through their services to enable a better control of the service chain, as well as the increase in competitive advantages promoted through the effects of synergies. The selection criteria for these investments was based on the assumption that the development of the respective activities contributes to the strengthening of the Group's main businesses, through returns on the capital invested, held by TAP, directly or indirectly, wholly or only as part of the share capital of that group of companies.

With the fundamental objective of supervising, in a direct and participatory manner, the management of some of its subsidiaries, developing complementary or collateral activities of its main business of air transport and maintenance, TAP also has a company which functions as a holding company, TAPGER–Sociedade de Gestão e Serviços, S.A..

Similarly to the trend in the Industry, TAP holds its financial investments in the following areas: Catering, Information Systems, Airport Shops and In-Flight Sales, Health-Care Services, Aeronautical Maintenance and Ground Handling Services.

Other TAP Group shareholdings, on 31 December 2013

EUR thousand

		Stake of TAP	Amount of TAP Share Capital	Net Income
Portugália, S.A.		**100%**	**15,000.0**	**5,154**
Aeropar Participações, S.A. (Brazil)		**100%**	**0.2**	**(19,547)**
	TAP–Manutenção e Engenharia Brasil, S.A.	98.64%	207,057.7	(41,017)
TAPGER–Sociedade de Gestão e Serviços, S.A.		**100%**	**2,500.0**	**5,501**
Catering	Cateringpor–Catering de Portugal, S.A.	51%	1,785.0	1,113
Airport Shops and In-flight Sales	LFP–Lojas Francas de Portugal, S.A.	51%	280.5	9,633
Information Systems	Megasis–Soc. de Serv. e Eng. Inf., S.A.	100%	500.0	68
Health-Care Services	UCS–Cuidados Integrados de Saúde, S.A.	100%	500.0	(54)

Similarly to the trend in the Industry, TAP holds its financial investments in the following areas: Catering, Information Systems, Airport Shops and In-Flight Sales, Health-Care Services, Aeronautical Maintenance, Ground Handling Services

PORTUGÁLIA–COMPANHIA PORTUGUESA DE TRANSPORTES AÉREOS, S.A.

General Meeting Committee

Chairman
Alda Maria dos Santos Pato

Secretary
José Carlos Magalhães Ferreira

Board of Directors

Chairman
Fernando Abs da Cruz Souza Pinto

Chief Executive Officer
Luiz Filipe Plácido Lapa

Member
Manoel José Fontes Torres

Member
Michael Anthony Conolly

Member
Fernando Jorge Alves Sobral
(until 15 September)

Member
João Caldas (since 16 September)

Audit Committee

Chairman
Luís Miguel Tavares de Almeida Costa

Member
Maria de Fátima Castanheira Cortês Damásio Geada

Member
Maria Paula Rodrigues da Costa

Chartered Accountant

PricewaterhouseCoopers & Associados, SROC, Lda.

Registered Office

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1749-078 LISBOA
Telef. +351 21 842 5500
Fax +351 21 842 5625
email: pga@pga.pt

Share Capital EUR 15,000,000

Taxpayer 502 030 879

Main Activity

Air Transport.

Particular note should be made, in 2013, of the IOSA audit (of IATA), with the company having renewed its IATA registration until October 2015. On 4 June 2013, PGA obtained the approval of Part 147 – Maintenance Training Organization (MTO). This project was born from the company's strategic vision which is aimed at guaranteeing autonomy within the scope of the training of aircraft maintenance technicians, thus sustaining its growth project with the training of employees and reducing the costs associated to the entire training process. The SMS (Safety Management System) project, one of the highlights of 2013, presented very positive results, having been very well received within the company. In 2014, another transversal project covering all Employees, involving the evolution from Quality to Compliance, will be implemented. Guaranteeing a safe and efficient operation is a concept that has been updated, with the implementation of new European regulations, and improved upon by the adoption of a more transversal perspective.

In terms of TAP Group, PGA has registered high levels of efficiency and contributed in a positive manner to the results of the Group, which has recognised the value added by the company. In the interim, the consolidation of the business model resulting from the restructuring undertaken in July 2007 was continued: flight capacity provider of TAP Group, under a Wet Lease contract with the company Transportes Aéreos Portugueses, S.A.. In 2007, the company was integrated into TAP Group, having changed its core business and continued, in 2013, with the exploitation of Group synergies and the improvement of the functional matrices identified.

PGA maintained its operation with the same fleet – 6 Fokker 100 and 8 Embraer 145 –, with capacities of 97 and 49 passengers, respectively. The average Flight Hours per day remained above that registered by analogous European companies operating the same type of equipment. Within the scope of SMS, reporting capacity represents one of the factors recognised as a good practice, a theme which was considered as most relevant at PGA, with repercussions on the improvement trend both in terms of quality and in the number of reports produced. These results are in line with the objectives that were established and reflect the communication and reporting culture that has been fostered, as well as greater assertiveness in reporting. It is important to mention that the decrease in the reporting of low priority events was due to the implementation of preventive maintenance actions in the respective fleets, thus limiting the overall number of events.

The human resources policy developed along two different strands, considered fundamental for the consolidation of PGA's human capital management. The first strand – modernisation of the administrative management systems –, involved the conclusion of the implementation of the IT system and Employees were granted access to FlyStaff, providing greater speed and flexibility in the management of travel benefits. The second strand – development of human capital –, involved the consolidation of the new performance and potential management model, enabling the assessment of Employees based on the competences model and on compliance with the defined objectives. In addition to contributing to the establishment of the network of service objectives, involving the participation of Employees, this change permits reinforcing the objectivity of the process and enriching the assessment interview. Furthermore, in line with the development of competences, the training needs by professional category of PGA were identified and the key functions for assessment by the HAY methodology were defined, projects that will constitute the basic pillars for the sustainable management of the individual development programmes of PGA Employees. The total Employees of PGA, as at 31 December 2013, was 558. It is also noteworthy that 35% of Employees are less than 35 years of age, and 47% have a seniority of more than 10 years, with the average age of the company being 40 years of age.

Operating performance

In 2013, the operation remained at a similar level as that of the previous year, with only a slight increase in block-hours flown, in the order of 0.4%.

Maintenance and Engineering

In 2013, it was necessary to reorganise the Route and Basic maintenance structure to account for the departures of qualified Aircraft Maintenance Technicians at the end of 2012 and beginning of 2013, of 11% and 14.5%, respectively. The difficulties felt in the recruitment market of technicians qualified and experienced in the type of fleet operated by PGA demonstrate the relevance of the company's strategic option, since 2009, to conduct their basic maintenance internally. This option, with a direct impact on the reduction of hired labour costs, also includes, among other effects, a reduction in the acquisition charges relative to components and materials, as well as the elimination of costs associated to the positioning of the aircraft at the premises of the service provider. In addition, basic maintenance has contributed to the training process of aircraft maintenance technicians with the knowledge and experience required to intervene within the scope of the maintenance line, enabling the needs of the organisation to be met and resulting in greater flexibility and mobility in the management of needs and allocation of employees in these two maintenance areas. The implementation, referred to

above – Maintenance Training Organisation (MTO) and respective EASA PART 147 certification –, permitted the holding, through this internal maintenance unit, of courses for the type of aircraft operated, with a significant reduction of costs and increased flexibility. In addition, the possibility of holding the *ab-initio* basic course for aircraft maintenance technicians, in order to overcome the extreme difficulty in obtaining resources in the national market with basic training, is being considered. In 2014, 41% of the current aircraft maintenance technicians will have at least a B1 type and/or B2 type training. A course for each of the F100 B2, ERJ145 B1 and ERJ145 B2 types and two F100 B1 type courses shall also be ministered, with the possibility of extending this training to third parties in 2015 currently under consideration. The organisation improved its operating performance (relative to the impact of technical anomalies) during the peak season – between 15 June and 15 September and during the Christmas and Easter weeks. From a technical viewpoint, the number of findings arising from SAFA inspections decreased relative to the previous year. The conclusion of the interior renewal programme and the reactivation of the aircraft painting routine, every six years, are also worthy of mention. For 2014, the structural renewal plan (which permits foreseeing the operation of the Fokker 100 and Embraer aircraft and limiting the risk of non-programmed maintenance) is noteworthy. Within the industry, there was a notable relocation of the logistical and technical support to the southern hemisphere relative to the F100, and to the west relative to the ERJ145. This process may give rise to a scarcity of components/materials, with the company currently working on identifying the best solutions in the market, with a view to offsetting any resulting operating constraints. In terms of aeronavigability management resources (SENG), fleet support, with respect to stocks of components, specific knowledge, and current staffing, aim to ensure that the current requirements of the operation are met. In terms of interventions to be undertaken at the hangar of PGA, 6 Checks Embraer C+5000FH and 1 Check Fokker C1+C3 are planned for 2014. The F100 fleet initiated the general engine revision cycle in 2012, with five workshop visits planned for 2014.

Quality

Safety: The introduction of SMS was decisive in extending operational safety across all areas of the company, with familiarisation training, which reached 95% of employees, having been initiated. At the same time, initiatives were taken aimed at improving the reporting culture, namely the reformulation and simplification of the Safety reporting forms and the carrying out of a Fair Culture Survey, covering 95% of employees. It is also worth mentioning the introduction of the new FDM tool, for the Embraer 145 fleet, enabling the reading of flight data of the Mini-QAR.

In-flight Service: The maintenance of quality standards led to the recognition, by the Customer, of the in-flight service quality of PGA.

Environmental Policy: Within the scope of the European Union Emissions Trading System (EU ETS), an audit of the 2012 data was conducted in March 2013. During that year, TAP Group operated 91,092 flights (intra-EU, Switzerland and Croatia operation) covered by the EU ETS (Emissions Trading System), with total CO_2 emissions of 1,281,902 tons. The 679,007 CO_2 emission licenses attributed to the Group were thus insufficient, resulting in the need to resort to the market/auction. The refinement of the existing tools has enabled to demonstrate that the Group has mechanisms that allow it to anticipate data inconsistencies and make corrections, generating progressively more reliable reports. The monitoring process is autonomously managed by PGA, with TAP being responsible for reporting to the competent authorities. Following the 38th Assembly of ICAO, the development of global Market Based Measures (MBM) was agreed upon, to be concluded at the next event in 2016, with implementation planned for 2020. In order to build momentum, the European Commission considered it adequate to propose a reduction of the percentage of CO_2 emissions covered by the EU ETS until 2020. Given that the proposal of the European Commission includes various measures whose application will affect the flights to be considered for the purposes of compliance with the obligations of the EU ETS, the following was proposed for 2013: an extension (up to one year) of the deadline for submission of the Annual Emissions Report and for returning the corresponding emission licenses with reference to that same year. The implementation of good practices within the scope of environmental energy efficiency is part of the company's environmental protection strategy, with various measures having been implemented. It is also important to mention the participation of PGA in environmental projects, promoting protocols with companies specialised in waste collection and treatment, as well as the implementation of various measures that have translated into a plan to reduce the company's environmental footprint.

SPDH–SERVIÇOS PORTUGUESES DE HANDLING, S.A.

General Meeting Committee

Chairman
José António de Melo Pinto Ribeiro

Secretary
Carlos Pedro Silva

Board of Directors

Chairman (non-executive)
António Alfredo Duarte Casimiro

Deputy Chairman
António Guilhermino Rodrigues

Member
Carlos Gomes Nogueira

Member (non-executive)
Luís Manuel da Silva Rodrigues

Member
Maria de Lurdes Fernandez da Luz Paula Alves

Executive Committee

Chairman (Chief Executive Officer)
António Guilhermino Rodrigues

Chief Finance Officer
Carlos Gomes Nogueira

Chief Operations Officer
Maria de Lurdes Fernandez da Luz Paula Alves

Statutory Auditor

Permanent Deloitte & Associados, SROC S.A.

Registered Office

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Fax +351 21 891 8701
email: welcome@groundforce.pt
Website: www.groundforce.pt

Share Capital EUR 500,000

Taxpayer 506 651 649

Main Activity

Provision of ground handling services for air transport, as well as professional training associated with the provision of these services.

Strategy – guaranteeing sustainability

After a long cycle of negative results, the company posted positive results for the first time in 2013. It is important to continue the process of improvement of the organisation and management conditions, in order to ensure the sustainability of adequate levels of EBITDA, in line with the best standards in the industry. In this regard, the improvement of operating efficiency, the reinforcement of service quality, together with a reduction of costs and the rationalisation of resources, have been identified as critical success factors. A fundamental factor, considering the fact that SPdH is a labour-intensive company, involves the optimisation and motivation of human capital, with an ambitious transformation programme having been designed, aimed at aligning human resources with the defined strategic positioning.

The Business – generating sustainable gains and mutual advantages for both parties

Within the scope of development of the commercial activity, nineteen contracts were renewed, and eight new customers were conquered. The activity of Groundforce is carried out in an increasingly competitive and demanding market, such that the in-depth knowledge of Customers' requirements and the establishment of relations of trust are extremely important, generating sustainable gains and mutual advantages for both parties. Negotiations and renegotiations were prepared and conducted with customers, namely regarding issues of pricing, commercial conditions and service levels, in coordination with operating area managers. The compatibility between the commercial objectives of customers and the operating capacity of the company is thus guaranteed. In addition, it was also possible to renew – with price increases –, all contracts, resulting in an increase in the average price per assisted movement. The increase in turnover project, which in general terms analyses, on a monthly basis, the collection of excess luggage, ticketing and other extras, for each customer, was also continued. This control allows the revenue of the customers and, consequently, the revenue of Groundforce, through the associated commission, to be increased. The values contracted with reference to excess luggage commission revenue and ticket issue fees are analysed on a monthly basis and invoiced to the customer in accordance with said values. In addition, with the opening of the Customer Service Desk in Lisbon and in Porto, the capacity to extend the nature and scope of services was boosted, with new contracts having been negotiated with Vueling, Royal Air Maroc, Iberia and Aigle Azur.

As in previous years, the commercial attitude followed by the company was maintained, characterised by a constant vigour in search of innovation and possible partnerships, managing and designing new products and/or services that are beneficial for Groundforce and its Customers. Also noteworthy is the launch of the project to sell specialised services outside the national territory or to conclude possible partnerships, which falls under Training, Consultancy and Transfer of Resources.

Quality – Quality and Reputation as strategic factors of development

Groundforce Portugal, adopting an integrated management system and aware of best practices, has maintained the critical certifications in Quality Management (NP EN ISO 9001:2008), Environment (NP EN ISO 14001:2004), Health and Safety at Work (OHSAS 18001:2007/NP 4397:2008), ISAGO (IATA certification that regulates the Security and Safety standards) and Cargo 2000 (Quality Management system for the air cargo industry promoted by IATA, having conquered, in 2013, the honourable status of Gold Member C2K – Cargo 2000). These certification processes guarantee that Groundforce satisfies all interested parties and complies with all the legal and regulatory requirements effectively, by means of concession, renewal and follow-up audits. The integration of all of these standards in the Management System of Groundforce represents a key contribution to the competitiveness of the company, granting greater organisation and credibility, and enabling the maximisation of benefits, in a continuous improvement process for all interested parties: Shareholders, Customers, Employees, Suppliers and Community, but above all to build a robust and sustainable reputation, a modern premium brand name and an essential commitment to 2014.

Information and Communication Systems

The recognition of the progressive contribution of and dependence on information technologies for the development and support of the business, led to the decision, at the beginning of 2013, of creating a Department that incorporates various competences, in order to ensure the connection between the business and its technological partners. In its first year of operation, the following core activities are noteworthy:

1) Organisational design of the area, definition of mission, objectives and strategy;

2) Renegotiation with the main technological partners, namely Megasis, of the contractual relationship, with a view to decreasing the cost of the services rendered, as well as the establishment of expected and measurable service levels.

3) Consolidation of the core application portfolio, in a new physical infrastructure that substitutes the current, near-obsolete infrastructure, and by migrating applications that were not part of the Groundforce/Megasis universe.

Human Resources – new contexts for the alignment of people management with the organisation's strategy

The Department of Human Resources initiated a new approach, trailing new paths of proximity and partnerships, in order to assist leaders in the effective management of human resources, promoting initiatives to enhance impact and increase its acceptance within the organisation. This enabled reflecting upon the strategy laid down and to facilitate the achievement of the defined objectives, basing the new management focus on a transformational paradigm of HR management, in which only human capital that is highly qualified, possesses specific know-how, is trained, motivated, available, has a positive attitude and a sense of belonging, and is in harmony with the mission, vision, principles and values, in a labour-intensive company such as Groundforce, can guarantee business success and the organisation's reputation. In this way, and as factors supporting the strategy of the Department of Human Resources, and without affecting the normal day-to--day management activities of the of the Department, in its different procedural approaches and associated methodologies, programmes, projects and activities – some of which were carried over into 2014 –, were designed and implemented within the scope of People Management and priority was given to, among others, the following: Integrated Forward-looking Human Resources Management Plan; Competences Management Model; New Performance Management Model; Strategic and Organisational Development Programmes such as: (1) SUPPORT Programme (2) TRANSFORM Programme (Organisational Change); and Welcome and Integration of Groundforce Plan, among others. In 2013, 304 employees were admitted, of which 13 are on a permanent contract and 291 are on a fixed-term contract. As at December 2013, SPdH had 2,299 employees under an employment contract with the company.

Training – vehicle for developing the key competences of people as a strategic asset

Groundforce has continued to pursue its activity, identifying the training and competence requirements, in order to organise, manage, control and effectively evaluate the aspects of the operation of the Management System. Training continued as a privileged means of transmitting information and knowledge to those that perform or may come to perform duties in the company (following *ab initio* training and on the job training internships to join the company), involving the exercise of functions in handling activities inherent to its core business, in which Customer requirements and the legal and/or regulatory requirements (namely, Airport Security and Dangerous Cargo), as well as other requirements applicable to the activity, are integrated, with awareness having been promoted and alerting – in correlation with the technical aspect –, to the current or potential negative aspects associated with the performance of tasks. 1,846 training actions were carried out, which corresponds to 4.52 days/employee and a global volume of 25,178 training hours.

Operating performance

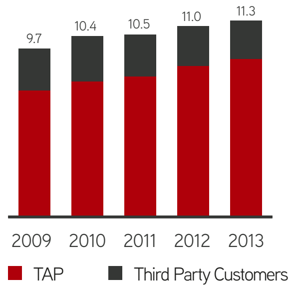
In 2013, the company assisted 81,656 movements, 14.8 million passengers and 96 thousand tons of cargo. In terms of service quality indicators, the company has improved its operating performance, with the number of luggage left behind having decreased to 12 (from 14 in 2012), Lisbon figures, and in terms of baggage delivery times, an average of 14 minutes in the delivery of the first baggage was achieved. The punctuality index of Groundforce came to 98%.

Economic performance

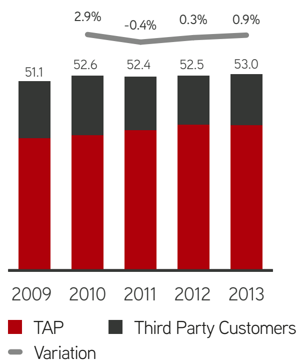
Turnover came to 105 million euros, 2% more than in 2012, reflecting the general behaviour of the market, through a slight increase in activity of customers (movements), of 1.4%. Net Income came to 2.1 million euros.

Prior note – Considering that the financial year of 2010 covered 14 months, the values for comparative analysis have been adjusted to 12 months.

Attended passengers in Lisbon
million



Total weighted attended movements in Lisbon
thousand



TAP–MAINTENANCE AND ENGINEERING BRAZIL

General Meeting Committee

Chairman
Luis Manuel da Silva Rodrigues

Secretary
Bernardo Accioly Molin

Board of Directors

Chairman
Luis Manuel da Silva Rodrigues

Member
Nestor Mauro Koch

Member
Maria Teresa da Silva Lopes

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Brazil
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Share Capital R$ 568,022,848

Main Activity

Aircraft Maintenance and Engineering.

In the development of its Aircraft and Component overhaul activity, TAP–Maintenance and Engineering Brazil has two Maintenance Centres, located in the city of Rio de Janeiro (GIG) and in Porto Alegre (POA), covering a total area of over 370,000 m2.

The company has a productive capacity in excess of 1,600,000 HH year, and has been certified by the main international certifying bodies (EASA; FAA; TCCA; ANAC) to carry out the general overhaul of all aircraft models of the Airbus, Boeing and Embraer (Authorised Service Centre) fleets, which operate in South America, in addition to over 17,000 P/Ns of aeronautical components (Engines; Landing Gear; Accessories and Avionics).

In 2013, TAP–Maintenance and Engineering Brazil, S.A. continued its process of development of actions, aimed at improving its operating performance, in what was year 3 of a 5-year Restructuring Plan. Hence, the improvement of the company's economic and operational performance was continued. The efforts have yielded positive results, both in terms of Revenue and Costs, showing clear signs of a sustainable trend. In Revenue, there was an expansion and diversification of the customer portfolio, which resulted in an increase of revenue from 180.3 million Reais to 215.4 million Reais, equivalent to a variation of +19.4% in the local accounting system (GAP Brazil).

This growth was evenly distributed throughout the year, with 11 of the 12 months having registered a year-on-year positive variation. For the first time, three months with a turnover in excess of 20 million Reais were also registered. The growth of Revenue was derived both from stronger penetration in current Customers and the entry of new Customers. Note should also be made of the start of the most significant operation in the military maintenance market, with the arrival of the first F5 aircraft in a group of 58. This is a segment that has an enormous potential and which due to multiple constraints over the last 5 years, TAP–Maintenance and Engineering Brazil has not had the opportunity to serve. Apart from this specific market segment, the principal opportunity, and where a progressively stronger effort should be concentrated, continues to reside in the areas of highest value added – Engines, Landing Gear and Components.

Underlying this commercial growth was the continuous transformation of operating activity, with significant improvement of the indicators at all levels. This is demonstrated by the fact that TAP–Maintenance and Engineering Brazil successfully carried out its first intervention on a Lufthansa Cargo aircraft in the first quarter of 2013. On a more general level, the development of our operating capacity was reflected in the increase of the satisfaction indices of all customer airline companies.

In terms of Results in IFRS, Revenue increased by 15.0% to 225 million Reais due to a combination of stronger penetration in current customers and new businesses, both highlighting the improved competitiveness of M&E Brazil. The growth of Operating Costs was restricted to 4.8%, mainly due to the growth of activity. It should be noted that Personnel Costs increased by 1.4%, well below the legally mandated ceiling of 5.8%, reflecting the continued efforts to restructure and improve productivity that have been undertaken. As a consequence, EBITDAR improved by 18.5% to – 69.5 million Reais. In spite of the fact that there is still a long way to go, an improvement of more than two digits, for the third consecutive year, reinforces the objective of reaching equilibrium in the medium term.

In 2013, very significant improvements were registered in 2 areas that are critical for the recovery of the company: i) the value of fiscal and labour contingencies decreased by 500 million Reais through thorough and ongoing efforts before Brazilian courts; ii) the value of the local Pension Fund deficit, which stood at 60 million Reais one year earlier, was reduced to about 5 million Reais through the successful migration to Petros 1 year earlier and prior to the increase of local interest rates.

TAPGER–SOCIEDADE DE GESTÃO E SERVIÇOS, S.A.

TAPGER is a public limited liability company based in Lisbon, created by TAP in 1997 for the purpose of achieving more direct and active management of the various complementary or collateral activities of the core business of air transport and maintenance, with a view to its development. The company's objective is the supervision of the management of its participated companies, particularly their respective financial and economic performance, and the provision of assistance and support to the companies Lojas Francas de Portugal S.A. and Cateringpor–Catering de Portugal, S.A., in specific areas, as established under the Joint Venture Agreement and Technical Service Agreement, respectively. In order to ensure this assistance and the entire administrative process in a more satisfactory manner, TAPGER maintains a service contract with TAP, S.A. (TAP Serviços).

During 2013, TAPGER monitored the activity developed by its participated companies and held the necessary general meetings for the approval of the respective accounts relative to the financial year of 2012.

Election of Governing Bodies in TAPGER participated companies

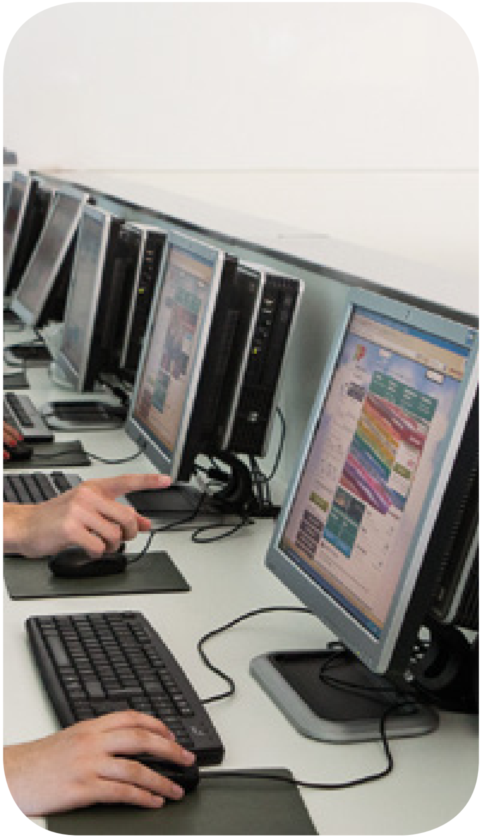
In addition, in the respective General Meetings for the approval of the accounts and, in conformity with the guidelines of the shareholder TAP, SGPS, S.A., TAPGER proceeded with the election/re-election, for the three-year period 2013/2015, of members of the Governing Bodies in the following companies of this holding:

// In the company LFP–Lojas Francas de Portugal, S.A., TAPGER proceeded with the re-election of all of the members of the Governing Bodies, and a new Chairman of the Board of the General Meeting, Nicolas Girotto, was elected.

// In the company Cateringpor–Catering de Portugal, S.A., TAPGER proceeded with the re-election of the members of the Board of the General Meeting and of the members of the Supervisory Board.

In addition, at TAPGER, the Director Mário Marmelo Castanheira Guilherme tendered his resignation with effect from 31 December 2013.

Net income for 2013 grew by 6.9% in relation to 2012 (355.3 thousand euros more), having increased from 5.146 million to 5.501 million euros, an increase similar to that of the dividends received from the participated companies (303.8 thousand euros more).



General Meeting Committee

Chairman
Alda Maria dos Santos Pato

Secretary
José Carlos Magalhães Ferreira

Board of Directors

Chairman
Fernando Abs da Cruz Souza Pinto

Member
Mário Marmelo Castanheira Guilherme

Member
Michael Anthony Conolly

Statutory Auditor

Permanent PricewaterhouseCoopers & Associados, SROC, Lda.

Registered Office

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Fax +351 21 841 6666

Share Capital EUR 2,500,000

Taxpayer 503 986 798

Main Activity

Provision of commercial consulting and management services, studies and preparation of contracts and support to international trade operations.

LFP–LOJAS FRANCAS DE PORTUGAL, S.A.

General Meeting Committee

Chairman
Nicolas Girotto

Secretary
Anabela Gomes Lopes

Board of Directors

Chairman
Luiz da Gama Mór

Chief Executive Officer
Nuno Filipe Martins do Amaral

Member
Alexander Angel Anson Esparza

Member
Andrea Belardini

Member
Luís António Domingos Fernandes Silvério Monteiro

Audit Board

Chairman
José Vieira dos Reis

Member
Benjamin Harmstorf

Member
Maria de Fátima Castanheira Cortês Damásio Geada

Chartered Accountant

PricewaterhouseCoopers & Associados, SROC, Lda.

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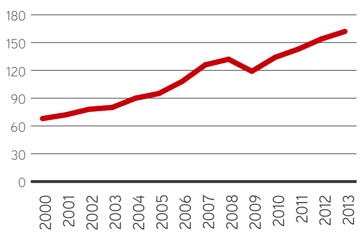
Share Capital EUR 550,000

Taxpayer 503 346 128

Main Activity

Operation of Airport Shops and In-Flight Sales.

Sales
EUR million



LFP maintained the positive evolution recorded in the last few years, both in terms of sales and net income, in spite of the fact that its activity was developed in an adverse economic and financial environment. In 2013, the company achieved sales value of 162,465 thousand euros and net income of 9,633 thousand euros, showing a positive variation of 5.2% and 2.1%, respectively, in relation to the same period of 2012. It should be noted that the flow of passengers boarding at national airports increased by 5%, year-on-year, reflecting the good tourist year in Portugal, which largely contributed to the company having managed to achieve, yet again, its best result ever, combined with revenue levels that are also historic.

The year of 2013 can also be considered as one of consolidation, since the investments made in new shops and concepts, especially at Lisbon airport, recorded their first full year. The main shop and the Just Luxury shop were cumulatively remodelled, in order to create a common layout, for passengers boarding at terminal 1 of Lisbon airport. At the same time, and under the expansion of the shopping area of this airport, investments were made in accomplishing the opening of two additional shops, which enabled broadening the portfolio of articles to a more encompassing range of passengers.

Pursuing this same objective, customs authorisation was received so as to enable sales upon arrival in the restricted area, hence, all passengers may now acquire articles from any shop upon their arrival to the country and not merely at their departure.

It was thus possible to meet the expansion of passenger traffic with an increased number of shops, with the intensification of the offer of new products and with better service to passengers, which was accompanied by a plan of promotions, adapted to each airport and to the respective passenger profile.

MEGASIS–SOCIEDADE DE SERVIÇOS E ENGENHARIA INFORMÁTICA, S.A.

In 2013, Megasis sought to maintain the strategic alignment with its shareholder and main customer. Aimed at the achievement of this objective, note should be made of the continued effort in the maintenance and expansion of knowledge on the industry and the Commercial Aviation business, and the analysis of emerging technological needs which continuously challenge the Industry. The activity of Megasis has thus remained entirely focused on providing support to the companies of the TAP Group, with priority given to the provision of services with the high levels of quality and efficiency required to pursue the Group's strategic objectives. It should be recalled that in 2013 TAP maintained the objective of maintaining positive results, where the increased commitment to improve efficiency through productivity gains and reduced consumption was determinant in this regard. In addition to the growth objectives derived from its activity, TAP also continued totally concentrated on its commitments and obligations concerning safety and security, environment, social responsibility and quality of service provided to its customers. We are proud to note that the important contribution of Megasis in the pursuit of these objectives was once again confirmed and recognised, through the quality of its technological support in the automation and integration of business processes and, fundamentally, through the demonstrated capacity of innovation and response to the challenges and requirements placed before it. Apart from the technological support required by the Business Units, Megasis continued the implementation of the previously drawn up strategic plan, based on three fundamental lines:

// *Development of processes aimed at the definition and maintenance of the TAP Group's technological architecture* – In this regard, special note should be made of the improvements introduced in the Service Line Production process, enabling the standardisation of concepts and forms of action, as well as the redefinition of the Service Portfolio and structures of Service Levels and Priorities of action in the resolution of incidents;

// *Development of strategic technological assets which facilitate and enable the construction and integration of information systems according to the defined technological and application architectures* – Note should be made of the contracting of an IaaS – Infrastructure as a Service – which enables the implementation of a larger 5-year plan, aimed at transforming a considerable series of proprietary technologies into open technologies. The use of the IaaS, simultaneously with the projects of the transformation plan referred to above will enable consolidating technological platforms, reducing costs and lowering the level of risk generally associated to technological transformations of this nature;

// *Development of specific and units added products for the Group's Business Unit* – Here, we highlight the developments carried out in the area of mobility, automation of processes and creation of segmenting and predictive models.

Particular note should also be made of the efforts developed in pursuing the continued consolidation of the strategy involving the structuring of relations between Megasis and Group companies, in business centres and functional centres with competence and know-how capable of contributing, in a very evident and proactive manner, to the improvement of business processes and quality of the final service provided to customers.

To finalise, it should be pointed out that Megasis has met its commitments to the shareholder, by boosting productivity based on increased quality and quantity of the services offered and, concomitantly, maintaining the company's levels of competitiveness.

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José Carlos Magalhães Ferreira

Board of Directors

Chairman
Michael Anthony Conolly

Chief Executive Officer
Eduardo Jorge Dias Rodrigues

Member
Maria dos Prazeres Nunes Ramalho Monteiro

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Website: www.megasis.pt

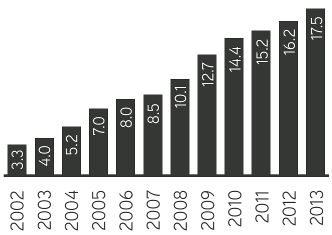
Share Capital EUR 500,000

Taxpayer 502 199 210

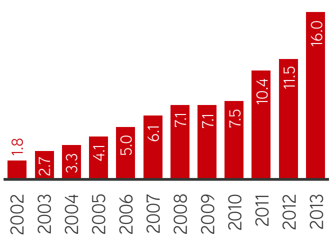
Main Activity

Provision of services in the area of the development and maintenance of computer software.

Users of TAPNet services
thousand Users



Service requests
thousand



CATERINGPOR–CATERING DE PORTUGAL, S.A.

General Meeting Committee

Chairman
Alda Maria dos Santos Pato

Secretary
José Carlos Magalhães Ferreira

Board of Directors

Chairman
Luiz da Gama Mór

Chief Executive Officer
Mário José Santos de Matos

Member
Sílvio Canettoly

Audit Board

Chairman
Maria de Fátima Castanheira Cortês Damásio Geada

Member
Miguel de Azeredo Perdigão

Member
PricewaterhouseCoopers & Associados, SROC, Lda.

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email: catering@cateringpor.pt
Website: www.cateringpor.pt

Share Capital EUR 3,500,000

Taxpayer 502 822 112

Main Activity

Preparation and sale of In-Flight meals as well as provision of services and logistics support to aircraft.

The goal of 10 million meals produced was surpassed in 2013, corresponding to an increase of 6.5% in relation to the previous year and a daily average above 28,000.

In view of the profile of the passenger traffic growth at Lisbon Airport, based on low cost carriers and TAP, the surpassing of this milestone was essentially due to this latter company, since, as it is known, the service pattern of the former show a limited contribution to catering activity in general, and in particular, at this airport.

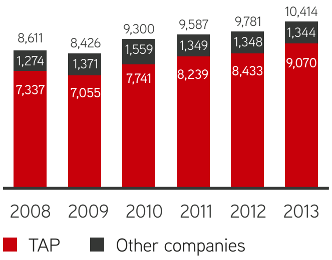
In this context, plus the fact that TAP's fleet is expected to grow in 2014, the company's installed capacity of 35,000 meals/day is in full use, posing new challenges to the respective productive process in the short term, which will have to be followed, in the very near future, by an upgrade of its scale of production.

The company has been pursuing an effort to modernise and enhance its efficiency, and this year benefited from the implementation of a portal to receive and select procurement proposals. This instrument falls under the policy of transparency and expedition of processes with the market upstream, stimulating national production and, in view of the high standards of the product, contributing to its higher quality and competitiveness.

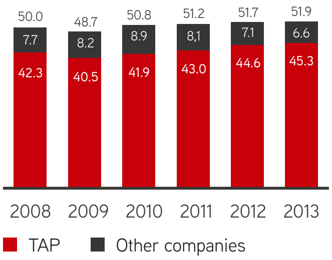
The ISO 22.000 and Environmental certification processes are also underway, which are expected to be completed by the end of 2014. In this specific context, the construction and installation of effluent treatment equipment to control the respective contents and implement consequent improvements are at a final phase.

Concerning social cohesion, healthcare insurance coverage was generalised in 2013, and the company also supported social solidarity actions developed under a voluntary work scheme – *Consigo* –, a noteworthy initiative of a group of workers.

Number of meals
thousand



Number of flights attended
thousand



	2013	2012	Var. (%)	Var. (abs.)
Number of meals				
TAP	9,069,590	8,432,997	7.5%	636,593
Other companies	1,344,227	1,348,387	-0.3%	-4,160
Total	**10,413,817**	**9,781,384**	**6.5%**	**632,433**
Number of flights attended				
TAP	45,302	44,630	1.5%	672
Other companies	6,597	7,058	-6.5%	-461
Total	**51,899**	**51,688**	**0.4%**	**211**

UCS–CUIDADOS INTEGRADOS DE SAÚDE, S.A.

During 2013, the activity of UCS continued focused on providing healthcare to the TAP Group and assuring compliance with national and international legal and regulatory requirements, with respect to Safety, Hygiene and Health, and Aviation Medicine.

Maintaining the four core areas of activity of UCS, Occupational Medicine, Hygiene and Safety, Aviation Medicine, and General and Family Medicine, it was deepened the scope of its intervention and consolidated, with its customers, both the direct provision of healthcare and relations with health risk managers, a special area in which the company has increasingly assumed greater responsibility.

Regarding health risk management, the following should be noted in particular:

// The increased activity of Occupational Medicine, showing a significant effort towards greater control of workers' health surveillance in the Group, with a rate of coverage of over 90% having been achieved, on average, in the main operating areas;

// The activity of the Aeronautical Medical Centre (CMA), medical licensing of pilots and air traffic controllers, which grew throughout the entire year of 2013. This trend accentuated during the second semester of the year, following the termination of medical examinations by INAC I.P.. Indeed, this institute henceforth exclusively conducts supervisory, audit and regulatory duties, in the light of the new European regulations (EASA). The CMA of the UCS has thus become the centre with the largest share of aeronautical medical certification activity of the country. Its increased activity, which reached over 40% in the last semester reflects the agility, capacity and quality of response of the CMA and this should heighten in 2014, constituting a notable challenge and opportunity for UCS, as the healthcare providing unit, highly specialised in the area of medicine and aeronautical certification.

Internally, and in order to assure the pursuit of its activity, UCS has undertaken the mandatory licensing required by the Ministry of Health and Health Regulatory Entity.

At the same time, a quality certification programme was started formally in May 2013, the Health Accreditation Process by the Directorate-General for Health, in fact, the accreditation model recommended by the National Health Accreditation Programme.

This process focuses on healthcare to customers and implies:

// Development of structured processes of work, internal interaction and with customers, so as to make them more clear, fluid and efficient;

// Promotion and encouragement of participation by professionals, strengthening skills;

// Appraisal and continuous improvement of health results (outcomes).

The achievement of the accreditation, after a process of internal and external audit by the Directorate--General for Health, grants recognition that the health unit complies with the necessary requirements for the development of quality customer care and is committed to a process of continuous improvement, adjusting to the needs and expectations of customers and professionals, which should be reflected in a positive effect on its activity and the search for satisfaction by TAP's customers.

UCS thus seeks to assure solid bases of continuity and development of its activity, equipping itself with a culture of quality, efficiency and adaptability which enhance its robustness to face the challenges of competitiveness and relevance of service provision as designed.

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José Carlos de Azevedo Magalhães Ferreira

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Michael Anthony Conolly

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Maria Helena Arrobas do Carmo Paiva Peixoto

Member
Orlanda do Céu Silva Sampaio Pimenta d' Aguiar

Statutory Auditor

Permanent PricewaterhouseCoopers & Associados, SROC, Lda.

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Website: www.ucs.pt

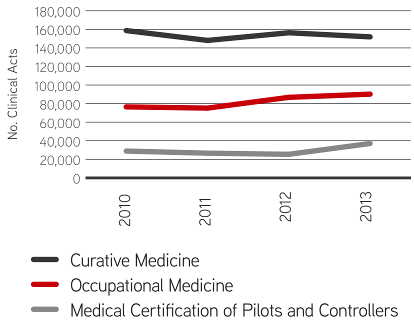
Share Capital EUR 500,000

Taxpayer 503 486 647

Main Activity

Providing out-patient health--care (medical appointments, complementary diagnostic tests and treatment); implementation of safety, hygiene and health at work activities; medical certification of pilots and air traffic controllers; consultancy in the organisation and management of health-care services.

Evolution of clinical activity



RISK MANAGEMENT

Management of risk and internal control

Risk Management is a process developed by the Administration, the Management and all the employees of the organisation, and is designed in order to identify potential events that might affect the Group, as well as to manage risk within the Company's risk profile level, aimed at assuring safety and compliance with the initially defined objectives.

Stages of the Risk Management process in the TAP Group

The assessment of internal control and risk, carried out by the heads of the Business Units and/or respective processes, shows advantages that are considered noteworthy, in view of their relevance:

// Awareness-raising and accountability of the managers for Internal Control and Risk Management activities;

// Possibility of increasing the frequency of control activities;

// Focus on audits in the Business Units and most critical processes (follow-up of exceptions);

// Central monitoring;

// Reduction of the cost of control activities.

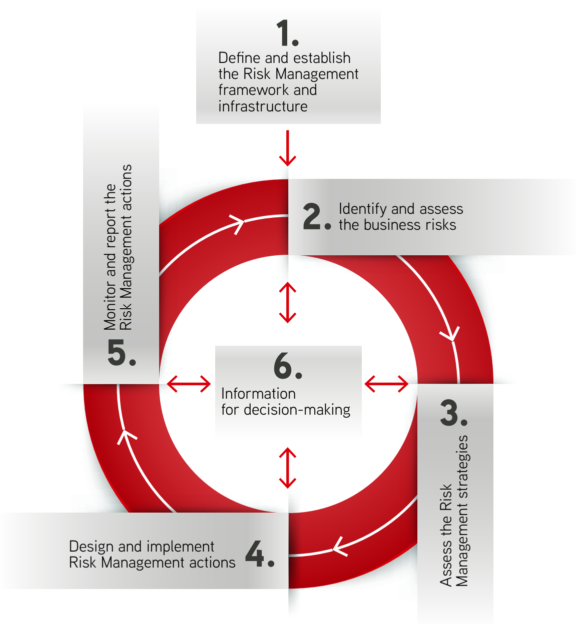
In this process, Internal Audit takes on a progressively important role, with its action leading to the use of best practices, especially in terms of compliance with the Code of Ethics and contributing to improve the Internal Control environment, and promoting the following actions in particular:

// Identification and reporting of effective and potential situations of fraud;

// Prevention and inhibition of fraudulent behaviour;

// Recommendation of good practices concerning management and control;

// Promotion and participation in projects and initiatives of development of Internal Control policies and procedures.



The area has also progressively monitored risk management processes, through activity based on the analysis of business process and system risk, namely transversal risks of operational, financial and information system bases. With the development of these actions, as noted by the IIA, Internal Audit has contributed, in an increasingly important form, to the establishment and consolidation of a climate of confidence among the stakeholders, and has provided assurance in risk control, promoting the alignment of all the organisation's levels in the pursuit of this objective. To summarise, by enabling identification, questioning and making recommendations, with a view to overcoming any detected inefficiencies, this area thus represents an instrument of added value for the optimisation and qualitative evolution of the risk management processes.

Risk factors and their management

Operational risk (Security | Safety)

Model of action whereby the possibility of damage to people and assets is minimised or eliminated, through a continuous process of identification of situations of potential danger and management of the respective associated risk.

Risks of economic and financial nature

Systems and actions of monitoring and control of economic and financial risk, follow-up of economic and geopolitical development, particularly in countries showing high social and political instability, and internal audit of procedures, contracting and transactions.

Information technology risk

Systems used by organisations to identify weaknesses and threats.

Fire risk – prevention

Risk management system for fire, explosion and spillage of chemical products. The systems includes the internal security and safety plans, the continuous training of Employees, the manuals for protection against explosive atmospheres (ATEX Manuals), simulation drills based on risk scenarios, and an internal audit plan.

Maintenance and Engineering risk

At TAP–Maintenance and Engineering, risk management is inherent and integrated in the responsibilities defined in the context of the aeronautical certifications and accreditations held[1] which are compulsory to guarantee the continuity of its activity.

(1) EASA Part 145 (Maintenance Organisations); EASA Part M (Continued Aeronavigability); NP EN ISO 9001:2008 (Quality Management Systems), among others.

Occupational health and safety risk

Risk management system linked to the professional activity, based on a systematic programme of identification, assessment, measurement and control of risks to occupational health and safety, aimed at prevention and promotion of health and the reduction of occupational accidents and work-related diseases, in order to assure and improve occupational health and safety at the Company.

Financial risk management

Financial risk management policies

The economic, financial, social and geopolitical environment in which the TAP Group's activity developed last year continued to show potential risks and adverse situations which constrained the Group's management conduct. However, likewise, this same economic and financial context also offered opportunities and positive developments which were used to improve the Group's market positioning.

The negative aspects to be noted, among others, include the depreciation of the Brazilian real, the worsening of economic and social tensions in some of the emerging economies, for example in Venezuela, and the maintenance of high, albeit stable, levels of oil prices. Among the positive aspects, we highlight the balancing of public finance in Portugal, the stabilisation of conditions in financial markets and the maintenance of low levels of Euribor rates.

In the everlastingly complex puzzle in which an activity develops that covers many different countries across three continents, factors as diverse as the instability in north Africa, with impact on national tourism, and pressures on currencies outside Europe, such as the real or bolivar, as well as the suspension of the Guinea Bissau line, and so many others, constrain the action and results of the TAP Group.

In this context, the management of risk, in other words, the continuous effort to adapt to change, is of determinant importance.

Price risk

In air transport activity, close to half the Group's ticket revenue is generated in two markets, Portugal and Brazil. During 2013, these two markets generated almost the same income, around 500 million euros. Over the last few years, the weight of the Portuguese market has declined gradually in total income, while, in contrast, the weight of the Brazilian market has increased in relative terms. Both Portugal and Brazil currently each account for around one quarter of passenger transport revenue, however, while the income generated in Brazil has grown continuously, in absolute terms, the income generated in the national market has stagnated or even contracted slightly.

This behaviour in the Group's two main markets is not unrelated to the performance of the respective economies in recent years, reflecting the strong increase of purchasing power of the Brazilian consumer and the economic growth in Brazil, contrasting with the recession that has been experienced in Portugal. The increased number of destinations served in Brazil, over the last few years, has also contributed to a larger and better coverage of the vast Brazilian market, boosting sales in Brazil and, reciprocally, in Europe, with destination in Brazil.

While the income arising from ticket sales in the Brazilian market represents close to a quarter of the total figure, in terms of air transport activity, measured by the passenger kilometres used (RPK), Brazil accounts for 40% of the total. Consequently, the value of the income generated on the routes between Brazil and Europe is already of a very significant weight in the Group's total income, whether generated in the Brazilian market, in the Portuguese market or in any other European market using TAP's hubs.

The evolution and growth of the volume of activity, in terms of flights, seats offered and passenger kilometre, show a more irregular path than the growth of sales because the former partly depend on the expansion of the operation and opening of new lines and the combination of demand on both sides of the Atlantic. For this reason, for example, in 2013, sales grew by over 5% in Brazil, but there was near stability in the volume of passengers and passenger kilometres on Brazilian routes.

In Europe, with the exception of Portugal, there was significant growth of TAP's income in most countries, but particularly in the German market, which is not unconnected to the role played by the STAR Alliance and strong use of Frankfurt hub. Other markets, such as France, Italy, United Kingdom and Switzerland also showed good dynamics, in spite of the context of economic stagnation of the European economy. In general terms, Europe – in stark contrast to Portugal – has shown growth of sales, volume of activity, number of passengers and passenger kilometres. The geographic coverage of the TAP Group has expanded consistently with more routes, more flight frequencies and new markets, in buoyant countries such as Russia and Romania. As a whole, Europe accounts for around 38% of both income (Europe, without Portugal) and total passenger kilometres (between Europe and Portugal) and close to 60% of the Group's total passengers.

Africa represents close to 7% of ticket income and 11% of the activity of the Group, having shown a dynamic performance during 2013. Angola, which accounts for over half the African sales and activity, countered the positive trend in terms of activity (offer and passengers), although sales increased significantly.

In the American markets, Venezuela grew significantly in terms of sales, having reached a weight in sales equivalent to that of the North American market, of approximately 4%.

The overall growth of ticket income, of around 5%, was the result, during 2013, of a balanced combination of a higher flight load factor and an expressive increase of the yield and average tariff. The premium passenger segment, for example, covering executive passengers as well as, for example, corporate customers with tariffs that are higher than the average, grew significantly during the year.

The Group's overall offer did not increase in the year, with the passenger-kilometre offered (ASK) indicator having remained stable for the operation as a whole, in comparison to the previous year.

Exposure to the air transport activity market shows two levels of diversification. One is more global, intercontinental, where the Group is a well positioned player in the connection between Europe and South America, with capacity to adapt, adjust and expand its operation (where the new Colombia and Amazon routes are examples). The other level of diversification is in Europe and Africa, with growing coverage of markets and various destinations, to the east and north in Europe, and likewise in Africa, in particular in the geographic area closest to Europe (where Ghana, the new Cape Verde lines and the increased frequencies to São Tomé are examples). This diversity of medium and long-haul destinations served, as well as the dispersion of sales in many markets characterised by very different dynamics, constitutes an important factor in the mitigation of market risks to which air transport is subject.

While passenger air transport activity has managed to overcome the economic crisis, cargo transport activity has undergone some retraction over the last 3 years. The decline of cargo sales, derived from both lower yield and tonnage, has been the result of various factors, including the need of a trade-off between passengers and cargo when flight load factors increase, which has been the case. Competition in cargo is intense and loyalty to routes is lower than in passenger transport.

In turn, maintenance activity has constituted an unfavourable element in the evolution of the Group's total income. During 2013, maintenance activity in Portugal recorded a significant loss of revenue, with this decline having been particularly pronounced in engine maintenance and less so in aircraft and component maintenance.

The changes in the engine maintenance business were partly due to the fact that this maintenance segment has undergone considerable transformations, with alterations of technology and models, which has necessarily implied constant investment in licenses and training in order to uphold competitiveness in this area, apart from which, the ongoing renewal of fleets of customer companies and the increased reliability of equipment leads to lower need for inspections and repairs by operators.

Regarding airframe revisions, a higher load of work for the TAP fleet means lower availability of the hangars to receive new external customers, where this fact has been reflected in the revenue from third parties. In terms of available capacity, TAP M&E Brazil has given a special contribution to the airframe revision activity.

TAP M&E Brazil once again increased its sale during the year, and currently shows turnover levels that are very close to those of maintenance in Portugal (as is the case with the sale of tickets, between Portugal and Brazil). As a whole, these two maintenance branches account for close to 6% of the Group's turnover in 2013.

Taking into consideration the combined effect of the weight of income from cargo and maintenance activities and the decline experienced in these business areas, these activity components have an overall negative impact on the Group's total growth rate.

Risk of price of fuel and other costs

Over the last 3 years, the fuel expenses have represented close to 30% of total costs in the Group. Average jet fuel prices in markets have fluctuated around 1,000 dollars per ton for the past 3 years, to which margins or additional costs of commercial or tax-related nature should be added. This market level has corresponded to oil prices of around 110 dollars a barrel. The euro exchange rate relative to the dollar has also showed limited volatility, fluctuating at levels of 1.30-1.40.

The quantity of fuel consumed strictly depends on the number of flight hours and shows a high correlation with the number of passenger kilometres offered in the entire network. In contrast to previous years, when there was an increase of consumption derived from more hours and more flights, in 2013 this variable stabilised and the offer, although more diversified, did not increase as a whole.

Total fuel expenditure fell by around 5% in 2013, as a result of a moderate average increase in the euro exchange rate and a minor reduction in the average price of jet fuel observed during the year. This combination of factors should also include consideration of the hedging component, which covered 40% of consumption, although with limited impact due to the low volatility and slight decline of prices observed in the market, albeit with a positive contribution to the final value.

As evident in the past years of 2008 and 2011, with strong fluctuations in oil prices and important impacts on the net operating income of the TAP Group, the sensitivity of net operating income to this market variable is very significant and constituted one of the determinant data for the activity's profitability.

In terms of costs, the heading that is the second most important and determinant of the operating accounts, staff costs, had shown relatively stable behaviour in the past. However, since 2011, and as a result of the alterations arising from the Portuguese public debt adjustment programme, wage policy, imposed on the entire corporate perimeter of the Portuguese State, was subject to successive amendments which have significantly affected the labour costs of companies. Therefore, in 2013, staff costs increased by over 10% in relation to the previous year, in view of the restoration of holiday and Christmas allowances. The weight of the heading of staff costs in total income currently represents about one fifth of the total.

Since fuel costs and staff costs presently account for half the total costs of the Group, the remaining market exposure resides in the different costs of the operation (an operation which hardly varied in terms of volume during 2013), dependent on the prices applied by airport entities, costs related to navigation rates, catering, handling, consumption in maintenance activity and commercial costs, among others. Exposure also resides in the cost inherent to equipment, amortisation, operating leases, respective financial costs, and lastly miscellaneous provisions and taxes.

Exchange rate risk

Exchange rate exposure, arising from the Group's activity, is a complex reality in view of its operation at a global scale and the fact that three quarters of sales are obtained outside Portugal.

On the revenue side, ticket sales carried out in Portugal, plus sales carried out in Europe (and, to a much lesser extent, in Africa) in countries whose currency is the euro or is indexed to the euro represent half the total ticket revenue. Of the other half, the remaining 40% of revenue from ticket sales are denominated in currencies with higher volatility and greater risk, while the remaining 10% comprise of sales in currencies with low volatility in relation to the euro (such as the Swiss franc) and other in Europe with average volatility (pound, eastern or northern European currencies).

The majority of the sales outside Europe are reflected in exposure to the dollar, not directly, in most cases, but rather through sales in currencies such as the Brazilian real or Angolan kwanza, since in these countries the tariffs are established based on the dollar. This exposure applies to approximately one third of total ticket revenue (covering Brazil, Angola and United States). However, in the case of Brazil, the movement of the real could enhance the effects of exchange rate devaluation on revenue, since a devaluation of the real in relation to the dollar could lead to a decline of sales in the Brazilian market, due to increased tariffs through the exchange rate effect.

The rest of the exposure is dispersed over various currencies which, in specific cases, can have significant impact on accounts and results. The situation of Venezuela is an example of this, with considerable losses having occurred in the recent past, as a result of the strong devaluation of the bolivar and negative impacts of the restrictions to the transfer of revenue generated locally. However, based on the contacts maintained between IATA, the Venezuelan Government and TAP, S.A., the Executive Board of Directors believes that the devaluation which occurred in 2014 will not have an impact on the Group's treasury with respect to the turnover gained up to December 2013.

While, on the revenue side, sensitivity to the dollar (by one third of total ticket revenue and part of maintenance revenue) and, to a certain extent, the Brazilian real, is relevant, the fact that fuel, at current prices, also represents exposure to the dollar of an equivalent magnitude, leads to unfavourable net exposure to the dollar, since many other operating costs of the Group are denominated in this currency. Hence, the exchange rate balance to the dollar continues at a deficit as a result of the costs related to maintenance, navigation and airport rates, catering, handling and insurance, where the dollar is present, the operating leases and a part, albeit not negligible, of financial costs (since around 11% of the total debt is in dollars), although it is not easy to quantify this overall net exposure.

To summarise, in the current economic circumstances, the Group shows a surplus net exposure, in its revenue, to the Brazilian real and to a lesser extent to the Venezuelan bolivar, supporting the risk of depreciation and devaluation of these currencies, in the short term. In the medium term, other factors might partially offset the effect of the exchange rate devaluation, should it persist, namely an increased competitiveness-price of these destinations, from the perspective of European issuer markets. In the opposite direction, the Group shows a deficit net exposure, in its costs and liabilities, to the dollar, being penalised by its appreciation or, should the opposite occur, the Group could benefit from any depreciation of the dollar, as took place in 2013.

Interest rate risk

The TAP Group continues to hold remunerated liabilities corresponding to around half of its total liabilities. This debt has maturities up to 2020, with its average maturity period being approximately 3 years, which could increase in the event of a successive renewal of existing short term lines.

Under normal conditions of market stability, close to one fifth of the value of the loans is renewed each year. In recent years, the restriction to credit in the markets has made the accomplishment of financing operations more difficult and more expensive. In 2012, on the other hand, during the privatisation process, the negotiation and restoration of capital were interrupted, with the consequent need for adjustment in 2013 being even more important.

In 2013, the contracting of financing operations was resumed and by the end of the year, the Group' debt stock was close to the opening balance for the year, offsetting the entire volume of programmed amortisation.

The main alteration observed in the characteristics of the debt was an increase of the proportion in total debt of the current debt component (which includes the short term liabilities of the medium and long term financing) from around 25% in 2012 to approximately 37% of the total in 2013. In addition to the contracting of credit lines, new long term financial lease operations were also contracted during the year from national and international banks, involving five aircraft which were thus refinanced after the end of their previous leases. Although the overall debt has remained at the same levels as the previous years, net debt decreased significantly by around 18%, in relation to 2012.

The margins applied in the new operations were lower than those observed in the last operations that were carried out or renewed, namely in 2011, although clearly above the average prices for the total financing and leasing in force. The average cost of the debt remained, as a whole, at moderate levels, which is evident in the financing cost headings of the consolidated income statement. The fixed interest rate component of debt stood at slightly above 50% of the total at the end of 2013, compared with close to 60% at the end of 2012.

Credit and liquidity risk

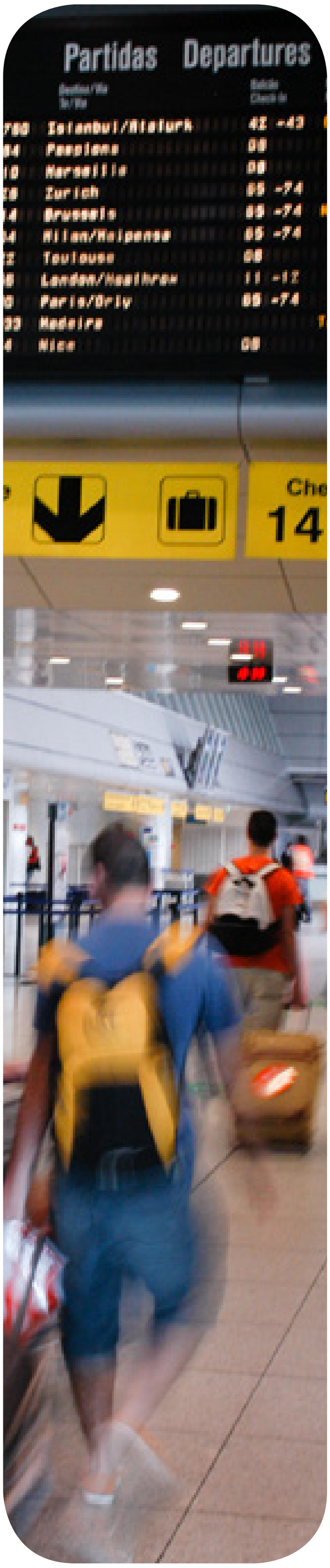
At the end of 2013, the TAP Group has surplus liquidity invested in the national market, in an optimised manner, in terms of availability, risk and remuneration, as well as significant values of deposits at the Representations, expressing a positive treasury position. This position reflects the combination of different factors although it was especially due to the favourable evolution of operating cash flow throughout the year, as a consequence of the good performance of the passenger air transport activity. It should be noted in particular that a substantial part of the values at the Representations refers to values deposited in Venezuela with inherent difficulty of repatriation.

In general, and excluding political factors, the overall credit quality of customers and debtors continues favourable, as well as the average collection period of receivables.

In relation to financial prospects, the significant improvement recorded in capital markets throughout this last year enable foreseeing greater facility of financing and better price conditions in the near future. Although a considerable part of the outstanding refinancing operations were carried out at the end of 2013, there appears to be growing interest by financers and lessors in participating in future operations that the TAP Group may place on the market.

In addition to short and long term financial management and cash management, also in the area of current asset management, there has been rigorous monitoring of customers' positions and the repercussions of the effects of the economic crisis on their credit quality, and it was possible to limit the aggravation, for example, of the adjustments to a negligible value in terms of the scale of the activity.

Of the total value of the accounts receivable from customers, the balances of airline companies and travel agencies are settled, primarily, through the IATA Clearing House system, which substantially minimises credit risk for the TAP Group.



TAP GROUP ECONOMIC AND FINANCIAL PERFORMANCE

Changes to Group structure

As at 31 December 2013, the following subsidiaries were included in the consolidated financial statements:

- // TAP–Transportes Aéreos Portugueses, SGPS, S.A.
  - // Transportes Aéreos Portugueses, S.A. (TAP, S.A.)
  - // TAPGER–Sociedade de Gestão e Serviços, S.A. and subsidiaries:
    - // CATERINGPOR–Catering de Portugal, S.A.
    - // L.F.P.–Lojas Francas de Portugal, S.A.
    - // U.C.S.–Cuidados Integrados de Saúde, S.A.
    - // MEGASIS–Sociedade de Serviços e Engenharia Informática, S.A.
  - // PORTUGÁLIA–Companhia Portuguesa de Transportes Aéreos, S.A. (PORTUGÁLIA)
  - // AEROPAR, Participações, S.A. (AEROPAR) and subsidiary:
    - // TAP–Manutenção e Engenharia Brasil, S.A. (former VEM) (TAP M&E Brazil)

Subsidiaries are all the entities over which the Group has decision-making power in relation to financial and operating policies, generally represented by over half of voting rights. The existence or effects of potential voting rights that are currently exercisable or convertible are considered in the evaluation of whether the Group has control over another entity. The equity and net income of these subsidiary companies corresponding to third party holdings are presented under the non-controlling interests headings, respectively, in the consolidated financial position under a specific heading of equity and in the consolidated profit and loss statement.

The purchase method is used to record the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition. For acquisitions after 1 January 2010, the costs directly associated to the acquisitions are recorded, in the consolidated financial statements of TAP Group, as costs for the year in which the acquisition was made, recognised in the consolidated profit and loss statement. Identifiable assets acquired and contingent liabilities assumed in a business combination are measured initially at their fair value on the acquisition date, regardless of the existence of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets and liabilities acquired is recorded as goodwill. Subsidiaries are consolidated by the full integration method, as of the date when control is transferred to the Group. If the acquisition cost is less than the fair value of the net assets of the acquired subsidiary (negative goodwill), the difference is recognised directly in the Income Statement under the heading Other Income and Gains. Internal transactions, balances, unrealised gains in transactions and dividends distributed among Group companies are eliminated. Unrealised losses are also eliminated, unless the transaction reveals evidence of impairment of a transferred asset.

Associates are defined as all entities over which the Group has significant influence but not control, generally with investments of between 20% to 50% of voting rights.

The following entity was classified as an associate:

- // SPdH–Serviços Portugueses de Handling, S.A. (SPdH)

In March 2009, a consortium of three banks (BIG, Banif and Banco Invest) transferred the stake owned in SPdH (50.1%) to TAP, S.A.. On the same date and during the period in which the concentration process at the Competition Authority was pending, TAP, S.A. transferred the exercise of its voting and supervision rights, whilst majority shareholder of SPdH, to an independent entity of TAP Group. On 19 November 2009, the Competition Authority, following an in-depth investigation, decided to adopt a decision of prohibition relative to the concentration operation which consisted in the acquisition, by TAP, S.A., of the exclusive control of SPdH, through the acquisition of a 50.1% stake of the share capital of SPdH. The Competition Authority thus imposed the forced separation of SPdH via the sale, by TAP Group, of the shares relative to at least 50.1% of the share capital of SPdH. Until the sale, the regulator imposed that SPdH should be administered by a trustee, acting on behalf of the Competition Authority, and managing SPdH independently from TAP Group. On 18 June 2012, a purchase and sale contract was celebrated between, on the one hand, TAP, S.A., TAP SGPS, Portugália and SPdH and, on the other hand, Urbanos Grupo, SGPS, S.A. for the acquisition, by the latter, of 50.1% of the capital of SPdH, which shall take effect from 20 July 2012, date of the deliberation of the Competition Authority regarding the decision of non-opposition to the said operation. In the interim, on 17 October 2012, Pasogal SGPS, S.A. took over from Urbanos Group, SGPS, S.A. all the rights and obligations that emerged from said contract and Shareholders' Agreement.

Investments in associates are accounted for using the equity method. In accordance with the equity method, financial holdings are recorded at their acquisition cost, adjusted by the value corresponding to the Group's holding in the variations of the equity (including net income) of the associates, and by dividends received. The differences between the acquisition cost and the fair value of the identifiable assets, liabilities and contingent liabilities of the associate on the acquisition date are recognised, if positive, as Goodwill and maintained under the respective heading. If these differences are negative, they are recorded as gains for the financial year under the heading *Gains and Losses in associated companies*. An assessment of the interests in associates is carried out when there are indications that the asset may be impaired, with any impairment losses that also exist in this item being recorded as costs. When impairment losses recognised in previous years cease to exist, they are reversed. The accounting policies of associates are changed whenever necessary, so as to guarantee consistency with the policies adopted by the Group.

The attached consolidated financial statements of the Group were prepared in conformity with the International Financial Reporting Standards adopted by the European Union (IFRS – formerly called the International Accounting Standards – IAS) issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC), in force on the date of the said financial statements.

Economic Situation

Consolidated net income of TAP Group

In the Air Transport market, at a worldwide level, in spite of the context of relatively slow economic growth, demand registered normal growth, driven by a solid economic performance in emerging regions, where less mature air transport markets continue to expand strongly. Over the course of the year the performance profile was characterised by a definitive improvement trend, in a clear demonstration of the growing importance of the connectivity that commercial aviation provides to today's world. However, in Europe, the profitability of the region's airline companies is still conditioned by the development of activity in a market considered mature, where the expansion of demand is significantly more moderate, and by the impact of the continuing economic crisis throughout the Euro zone. For the air cargo markets, 2013 was still a difficult year, ending with a growth of 1.4%, under the effects of significantly slow progress during the first half of the year. In the interim, aircraft fuel prices, within the upper end of the scale over the last three years, continued to restrain the profitability of the Industry.

Regarding the companies of the TAP holding, which follow TAP's strategic guidelines, efforts were made to promote the increased profitability of the activities of the respective sphere of intervention. In support of this objective, actions were continued aimed at the ongoing improvement of the quality associated to the different aspects of the services provided, the differentiation of the products offered, combined with the adoption of best practices, as well as the continuous increase in productivity levels. In addition, actions were continued with a view to reduce costs and increase efficiency through the optimisation of existing resources, with transversal effects on all the companies of TAP Group.

However, within the context described above, the consolidated performance at the aggregate level of all the Group's companies, although negative, with TAP SGPS having ended 2013 with a net income of shareholders of the parent company of the value of -5.9 million euros, represents an improvement of 19.6 million euros relative to the -25.5 million euros recorded in 2012, Restated result.

Contributing to this result was the net income calculated for the companies Groundforce, with 2.1 million euros, AEROPAR – the company owning 47.64% of the share capital of TAP–Maintenance and Engineering Brazil, with -19.5 million euros, while the company TAP, S.A. recorded a positive result of 34.0 million euros. Pre-tax income came to -0.4 million euros, representing an improvement of 10.5 million euros compared to the -10.9 million euros recorded in 2012.

Net Operating Income

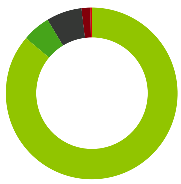
At the operating level (before interest and taxes), the Company recorded 44.1 million euros, representing 3.3 million euros more than in 2012.

It is important to note, with a relevant impact on results, the behaviour of fuel prices, which remained at permanently high levels throughout the entire year. It should also be noted that Fuel costs, which during the period between 2001 and 2003 varied between 140 million euros and 150 million euros, represented in 2013 a value in the order of 768.0 million euros for the company TAP, S.A., i.e. 33.0% of the Total Operating Costs and Losses of this company. That amount represented 5.4% less than the value recorded in 2012, corresponding to a decrease of 43.5 million euros, of which 43.8 million euros are attributable to the price effect, mainly due to the exchange rate appreciation of the euro relative to the USD.

Net operating costs and losses, not including depreciation, amortisation and leasing of aircraft and spare parts, stood at 2,511.1 million euros, 43.5 million euros more or 1.8% more than in 2012.

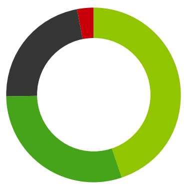
Total operating income and gains reached 2,722.9 million euros, which compares to the 2,682.4 million euros of the previous year, corresponding to an increase of 1.5%. Total sales and services rendered increased by 51.0 million euros, 1.9% more than the value achieved in the previous year. This result was mainly due to the behaviour of the revenue generated by Air Transport which increased by 90.7 million euros (+4.0%). The revenue of Maintenance and Engineering decreased by 38.4 million euros (-20.8%), with the other services rendered, arising from activities complementary to the Company's core business having presented a slightly lower performance at 1.3 million euros (-0.7%) relative to 2012.

Operating Revenues and Gains
2013



- 86.1% Sales and Services Rendered – Air Transport
- 5.4% Sales and Services Rendered – Maintenance and Engineering
- 6.6% Sales and Services Rendered
- 1.8% Other
- 0.1% Operating Subsidies

Operating Costs and Losses
2013



- 44.9% Cost of Goods Sold and Materials Consumed and External Supplies and Services, except Fuel
- 30.0% Fuel
- 22.3% Personnel Costs
- 2.8% Other

Consolidated net income of TAP Group
EUR million

	2013	2012 Restated
Operating Revenues and Gains	2,722.9	2,682.4
Pre-tax Earnings	(0.4)	(10.9)
Net Income of shareholders of the parent company	(5.9)	(25.5)
Net Income for the year of minority interests	5.0	5.4

Fuel Costs TAP, S.A.
EUR million

	2013	2012	var. (abs.)
Total (*)	768.0	811.5	-43.5
Price Effect			-43.8
Quantity Effect			2.7
Acquisition of the CO_2 emission Allowances			1.0

(*) Includes charges relative to the acquisition of the CO_2 emission allowances

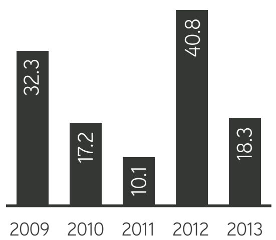
Consolidated Net Operating Income of TAP Group

EUR million

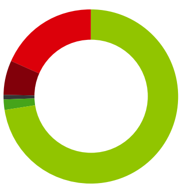
	2013	2012 Reexpresso
Operating Revenues and Gains	**2,722.9**	**2,682.4**
Sales and services rendered	2,669.0	2,618.0
Air Transport	2,344.1	2,253.3
Maintenance and Engineering	146.8	185.2
Other sales and services rendered	178.2	179.5
Operating subsidies	3.9	4.3
Gains and losses in associated companies	0.7	4.1
Other revenues and gains	49.4	56.0
Operating Costs and Losses	**(2,563.1)**	**(2,521.9)**
Cost of goods sold and materials consumed	(214.8)	(205.0)
External supplies and services, except fuel	(937.4)	(956.6)
Fuel	(768.0)	(811.5)
Personnel costs	(571.9)	(506.9)
Other	(6.5)	0.5
Other costs and losses	(64.6)	(42.4)
Depreciation and amortisation costs/reversals	**(115.8)**	**(119.8)**
Net operating income (earnings before interest and taxes)	**44.1**	**40.8**

Gross Fixed Capital Formation

EUR million



2013



- 72.5% Basic Equip. (Aircraft + Spare Engines + Misc. Machinery and Equipment + Other)
- 2.0% Buildings and Other Constructions
- 0.9% Transport Equipment
- 6.3% Administrative Equipment
- 18.3% Other (Other Tangible Fixed Assets + Intangible Assets + Tools and Dies)

Total gains and losses in associated companies stood at 0.7 million euros, which corresponds to the appropriation of the shareholding in the net income of the associated company SPdH.

Regarding costs, the headings related to the acquisition of consumed materials and services, excluding fuel, decreased by 9.4 million euros, 0.8% less than in 2012. Total personnel costs reached 571.9 million euros, i.e. 65.0 million euros more than in the previous year, reflecting the variations in all of the respective headings, namely personnel remunerations and social charges.

Financial Results

Net financial income stood at 44.5 million euros, reflecting an improvement in the order of 7.2 million euros in relation to the result for 2012. The performance of the financial function was mainly influenced by the decrease in interest paid.

EBITDAR

Net working capital to deal with financial and investment costs, measured by EBITDAR (Earnings Before Interest, Taxes, Depreciation and Rent derived from fleet leasing) reached 225.4 million euros, corresponding to 10.9 million euros more than in 2012.

Financial Situation

The consolidated total Assets of TAP, SGPS, S.A. reached 1,695.2 million euros, while the degree of use of the Assets, expressed through the ratio between the Company's Turnover and Total Assets reached 1.58.

In 2013, for TAP Group, total Gross Fixed Capital Formation reached 18.3 million euros. This amount is essentially related to investments in the acquisition of spare parts, rotary engines and engine equipment for the aircraft fleets, as well as the acquisition of equipment for the A319/320 simulator, and maintenance, catering, transport and administrative equipment, including investment in data and telecommunications processing equipment.

The analysis of the economic and financial indicators shows that the Net Worth of the Company stands at -373.3 million euros, reflecting an improvement of 7.5 million euros relative to 2012. Reference should also be made to the existence of minority interests to the value of 8.5 million euros, relative to the companies LFP–Lojas Francas de Portugal and Cateringpor.

The share capital of TAP, SGPS, S.A. is composed of 1,500,000 nominative shares, with the value of 10 euros each, fully held by Parpública–Participações Públicas, SGPS, S.A., a company 100% owned by the Portuguese State.

Total Liabilities of TAP, SGPS, S.A. stood at 2,068.5 million euros, with 820.3 million euros being relative to Non-Current Liabilities and 1,248.2 million euros relative to Current Liabilities, which currently represents 60.3% of total Liabilities, 8.6 p.p. more than in 2012.

Regarding debt structure, bank loans and financial leasing, by the end of 2013 the total reached 1,050.6 million euros. Liabilities relative to the current remunerated debt of 390.5 million euros represented 37.2% of the total, corresponding to 12.2 p.p. more than in 2012.

OUTLOOK FOR 2014

After growth of 3.0% in 2013, and following the upturn of global activity observed in the second half of the year, the outlook for 2014 points to an improvement in the evolution of the world economy, with growth being expected to reach around 3.7%. Particularly underlying this performance of the evolution of the world economy was some revival in the advanced economies, where product differentials remain high and, in view of the risks, an accommodative monetary policy is expected, continuing the efforts towards budget consolidation. In turn, in a large part of the emerging markets and developing countries, it is expected that the stronger external demand by the advanced economies will drive growth, although the existence of internal weaknesses remains a concern.

Thus, in the USA, GDP growth of 2.8% is expected, after having reached the value of 1.9% in 2013, where this evolution should be driven by final internal demand partially based on a reduction of budget restriction, as a result of the recent budget agreement. In Japan, where it is expected that the temporary fiscal stimulus should offset the increased consumption tax, predictions point to the maintenance of the level of growth of the economy, which stood around 1.7% in 2013. In China, following the introduction of various measures aimed at controlling the increase of credit, it is expected that there will be a slight moderation in the evolution of growth, shifting from 7.5% to 7.7% in 2013. In Brazil, the economic revival is expected to continue at a moderate rate, maintaining the growth rate at 2.3%. This evolution should be supported by the exchange rate depreciation, the recovery of consumption and policies aimed at stimulating investment.

In the euro zone, after some acceleration in the last quarter of 2013, growth of economic activity is expected to stand at 1.1% in 2014 (-0.4% in 2013), following an evolution which should remain moderate, increasing only at the end of the year. Underlying this behaviour is internal demand, which should benefit from the increased confidence in a context of less uncertainty, the favourable effects of the accommodative monetary policy and a less restrictive budget policy, as well as the increased real disposable income, through effect of the lower commodity prices. Also noteworthy is the positive impact of the strengthening of external demand on exports of the euro zone. These prospects, however, could be negatively constrained by the need for additional restructuring of the balances of the public and private sectors in some countries, as well as the high level of unemployment.

Regarding the Portuguese economy, the projections point to a moderate recovery of activity, in the context of the process of correction of the macroeconomic disequilibria accumulated over the last decades, taking place under the maintenance of regular conditions for the financing of the economy. This projection foresees a progressive recovery of internal demand, continuing, in particular with respect to both public and private consumption, constrained by the process of budget consolidation and deleveraging of the private sector, and by the maintenance of adverse conditions in the labour market. Exports should continue to show strong growth, supported by the recovery of external demand, albeit at a lower rate than that observed in the period before the financial crisis. Hence, it is expected that Portuguese economic activity will grow by 1.2% (after a contraction of 1.4% in 2013), with the continuation of some structural constraints holding back the economy's potential growth, in particular, the debt levels of various institutional sectors, the still relatively low level of qualifications of the active population and the strong segmentation of the labour market, which promotes long lasting unemployment and the high rotation of some groups of workers. Under the adjustment process, special note should be made of the commitment, undertaken by the authorities in the Framework of the Stability and Growth Pact, to achieve a structural budget balance of -0.5% of GDP in the medium term, as an essential factor to assure a sustained downward trend of public debt.

Regarding the Air Transport Sector, the predictions indicate that 2014 will be the second consecutive year of strengthened profitability since 2012, a year when the Industry recorded a net profit of 7.4 billion dollars. However, it is expected that profit margins will remain low, following the continued pressure on yields, arising from the maintenance of strong competition, with considerable variation of performance between the different airline companies and regions. In particular, in the North Atlantic, it is expected that there will be a significant improvement of performance, under the effect of a stronger American economy and a consolidated air industry, with the continued negative impact on performance, for European airline companies, arising from weak domestic markets in some parts of the euro zone, although benefiting, to a certain extent, from the performance of joint ventures in the North Atlantic. In Africa, it is expected that net income should reach around break-even.

Pressure is expected to be exerted on costs, with the price of jet fuel remaining within the high range of the last three years, where this heading accounted for 34% of the total operating costs of TAP, S.A. in 2013, 13.2 p.p. more than in 2009. However, forecasts indicate that the improved scenarios of the Industry's structure, along with efficiency gains, should enable leveraging the expected improvement in the economic cycle.

2014 will mark 100 years since the inauguration of the first regular commercial air service. Throughout the first century of aviation, the Industry has evolved, connecting people in a powerful manner and boosting the growth of economies. Airline companies currently transport over 3 billion people per year, and more than a third of the value of all goods commercialised internationally is transported by air. Getting people and goods to their destinations in the most efficient manner improves competitiveness. It is therefore of the utmost importance that countries, in the development of their policies, adopt a strategic vision of the air transport Industry, which recognises its importance as a driving force for economic growth.

For TAP, in the perspective of an economic scenario characterised by continuing high unemployment, intensification of social pressures and lower purchasing power, in addition to the permanently high fuel prices, the Company proposes, in 2014, to continue its commitment to the main objective of sustainable growth of the TAP Group's results, facing all challenges and maintaining a long term vision in the construction of its future. Thus, its main objective has been defined as the maximisation of profitability of its different types of business, aimed at enabling, in a sustainable way, its path of consolidation of positive net income and creation of value. However, 2014 promises to be another year of difficult challenges, with higher levels of competition in the Group's main businesses – Air Transport of Passengers and

Cargo and Aircraft Maintenance –, in addition to the adoption of strategies that enable quick adjustments to sudden changes in markets, such as the growing sophistication within the commercial scope, the diversification of revenue, the development of robust segments, and a progressive scale effort, based on making the most of new opportunities.

It is foreseen, therefore, that commercial improvement will continue to be pursued, giving priority to a strategy of growth of network and exploration of expansion opportunities, and pursuing the effort to stimulate the load factor, with intensified commercial aggressiveness. In this regard, with the exploitation of new markets representing a fundamental tool for the consolidation of the Company at an international level, it is important to note, as an objective for 2014, the diversification of the network, broadening TAP's visibility as a company connecting the air traffic between Europe, Brazil and Africa, with the creation of ten new connections. In this regard, it is important to note the start-up of the operation for six new destinations in Europe – Nantes, Hannover, Gothenburg, Belgrade, Tallin and Saint Petersburg – and four on the American continent – Manaus and Bethlehem, in Northern Brazil, a region that had not yet been covered by the TAP network, and Bogota and Panama.

It is also expected that it will be necessary to continue the consolidation of the strategy followed by the Company, promoting the optimisation and increased flexibility of its organisational structure and costs. Over the last few years, TAP has made a continuous internal effort aimed at increasing its efficiency and lowering costs, which included a vast and diversified series of measures and enabled the achievement of significant savings, so that TAP is now very well positioned in terms of unit costs. In this context, plans have been laid for a structural assessment of the efficiency levels that have been achieved in the meantime and the refocus and boosting of the optimisation effort in areas that might show even greater potential. Hence, in this perspective, under its *Continuous Improvement Programme*, TAP has the following specific objectives for 2014: i) Identification of areas of focus and potential additional optimisation; (ii) Configuration of a programme of operational improvement initiatives, which enable boosting TAP's effort to increase competitiveness.

Moreover, considering that the quality of the service provided to passengers is inseparable from the future of the Company, the Company's main objective for 2014 is to continue its improvement supported by technological innovation, promoting, at the same time, the efficient and effective use of the existing resources. Along the same lines, the Company will remain committed to continuing to pursue efforts to improve its positioning, namely, by intensifying permanent communication with the Customer, in particular, via online, allowing the latter to participate and feel increasingly more heard. In turn, in an effort to reinforce TAP's role as the global showcase of the Portuguese essence, in areas such as culture, gastronomy or oenology, the gastronomic creations will continue to be included in the in-flight service of aircraft in 2014, through the reinvention of typical Portuguese cuisine, through a combination of tradition and modernity.

In the context of the fleet constitution, 2014 is expected to return to growth, with the foreseen opening of various new medium and long-haul routes and the planned addition of six aircraft to TAP's fleets, and the constitution of the PGA fleet being maintained. The six aircraft referred to above represent significant growth, of around 10%, aimed at meeting the evolution of passengers recorded in 2013, and enabling the expansion of the network of operations planned for 2014. The reinforcement of the operation should take place through the operationalisation, close to June 2014, of two long-haul A330-223 aircraft and four medium-haul aircraft composed of two A319-111 and two A320-214, all under medium/long term operating leases. Airbus officially announced a delay of approximately 2 years in the delivery of the new A350-900 XWB to TAP, with the first delivery having been moved from early 2015 to early 2017. The delivery of the twelve aircraft should take place over 3 years, with the working party for the specification of these aircraft starting-up during 2014, as imposed by the scheduling of this manufacturer.

Regarding TAP–Maintenance and Engineering Portugal, in the commercial context, the prospects for 2014 are markedly positive, with a set of negotiations underway with European operators for Aircraft (Airframe) Maintenance, where particular note should be made of a new potential customer, Brussels Airlines, with the A330 fleet. Likewise, in relation to the Engine Maintenance business, market investigation is being pursued for various CFM56 product models, which is expected to result in the accomplishment of contracts with some new customers of different geographic areas. The Business Unit continues to follow the development of the A350 in Toulouse, having participated since March 2011 in the Airline Office (AIO), a body created by Airbus aimed at gathering the feedback of future operators, as well as preventing possible modifications after the delivery of the aircraft, through the early identification of situations that might affect the operation.

In the operational area, with respect to engine maintenance activity, focus is expected on the development of improvements in the planning and control of activities, with a view to increasing efficiency, reducing TAT (Turn Around Time) and increasing customer satisfaction. At the same time, since the repair of Thrust Reversers is progressively conducted in-house, following the reduction of its subcontracting outside TAP, it has become essential to control this process through well defined procedures, not only involving TAT, but also the control of quality and documentation for this type of units. The need to stabilise this process is also aimed at a future marketing of the service. It is also expected that TAP will manage to obtain the classification of its engine fleet as True Engines, with conversations already having been started with the manufacturer CFMI. This classification is attributed to operators that only place original parts in their engines, in thus way enabling a more extended and efficient after sales service.

In the area of Components, the continued development of new in-house repair capabilities is foreseen, essentially with respect to electronic units. The re-start of the repair and overhaul activity of Boeing 707 landing gear is expected, following the new contracts with IAMCO/NATO. The development of a Tool Traceability project is also expected, through the creation of a wireless network and use of PDAs to record inspection, measurement and testing equipment.

In the context of Continuous Improvement, projects that are transversal to TAP-Maintenance and Engineering will be launched, with multidisciplinary teams favouring the participation of employees who have not yet participated in other projects. A new Lean tool is foreseen to be introduced, related to the theory of constraints. In addition to the continued monitoring and implementation of the actions arising from projects currently underway, the holding of yet another Continuous Improvement Week is planned, aimed at identifying small projects with rapid implementation and short term gains.

An event is under preparation for the SMS of TAP-Maintenance and Engineering, which will include the participation of teams representing the different areas of TAP-Maintenance and Engineering, operational and management, aimed at stimulating the Risk Management process and achieving an important assessment of the current primary concerns of the Business Unit. The hazard identification process and mapping of the inherent risks should be carried out by the management structures, but should also be extended to the operational areas, thus promoting the incorporation of the whole experience of the organisation. After this action, and based on the hazards that are identified as the most significant for the sustainability of the business, the hazard register will be updated and risk matrices applied under scenarios of occurrence. It is expected that an integrated Risk Management IT electronic platform will be implemented in TAP-Maintenance and Engineering by the end of the year.

Also in the context of Safety Assurance, the new phases in the implementation of the SMS of the Business Unit will be started, namely, the IEP (Internal Evaluation Programme) and Management of Change. The Internal Audit Programme will be adapted to a philosophy based on Risk Management. Finally, since it was not possible to start this in 2013, as planned, the procedures of the ERP (Emergency Response Plan) of the Business Unit will be updated, in line with the respective TAP plan, and specific processes will be developed for application in emergency and contingency situations typical of Maintenance and Airworthiness Management activities.

In the Maintenance and Engineering business in Brazil, 2013 was the third year of the 5-year Restructuring Plan started in 2011, under which decisive steps have been taken for the transformation of the company: the growth of Revenue in reais (+19.4%), marking the 3rd consecutive growth of around 20%; the elimination of tax contingencies, of close to 500 million reais, through legal proceedings won in court, and the almost elimination of the deficit of the Pension Fund, of around 60 million reais. The combination of these elements and, primarily, the perspective that the effort will continue to bear fruit, already configures a transformed business unit, where it is expected, consequently, that the improvement of the results observed in the three previous years should accelerate in 2014. The company's focus shall continue, with custom adjustments, on three key pillars: i) improvement of the productive capacity and efficiency, which has been evident in the customer satisfaction reports and in the success of the most recent audits; ii) improvement of the commercial capacity, which based on the previous point, has enabled the confidence of new and important customers to be conquered; iii) economic / financial rehabilitation, which has allowed, among others, greater success in the treatment of tax and labour proceedings.

Also noteworthy is the continued effort of the Company to fulfil its Social Responsibility, Preservation of the Environment and Ecological Responsibility commitments, through the development of a multiplicity of initiatives in these areas.

In addition, within a strategic perspective, the role of TAP, continuously chosen by the Company's Management, is important as a stimulator of national tourism, promoting the image of Portugal and consequent economic development. In this regard, it is also important to emphasise that over two thirds of the revenue generated by TAP are obtained abroad, a fact of significant importance, with direct impact on the creation of employment and wealth for the Country.

To summarise, the objective is to continue the transformation of TAP into a solid company within the European space, equipped to make the most of all the opportunities presented in the market niche in which it operates, and to differentiate itself due to its operating efficiency and aggregate value of the services provided.

HISTORY OF TAP

The creation of Transportes Aéreos Portugueses (TAP)

1945

14th March

Transportes Aéreos Portugueses is created as a section of the Civil Aeronautics Secretariat. Recruitment of technical staff from the Military and Naval Aeronautical Schools begins, and a group of 11 pilots receives specialised training at BOAC (British Overseas Airways Corporation).

The first two 21-passenger DC-3 Dakota aircraft are purchased.

1946

The first General Pilots' Course is given in Portugal and, on 19th September, the first commercial route is launched: Lisbon-Madrid.

On 31st December, the Lisbon-Luanda-Lourenço Marques route is launched, known as the Imperial Air Route. With 12 enroute stop-overs and taking 15 days (return), it is the longest route in the world, operated using a DC-3.

1948

TAP becomes a definitive member of IATA.

A new image is adopted and the first ticket office is opened

1950

Maintenance and Engineering begins to provide technical assistance, at the Lisbon and Porto airports, to foreign companies without the means to maintain their own aircraft.

Transformation into a private company

1953

1st June

Transportes Aéreos Portugueses achieves the status of a private company (S.A.R.L.) with mixed capital, majority-owned by the State.

1960

The inaugural flight of the Lisbon-Goa route which lasts close to 19 hours is performed and the Friendship Flight is launched between Lisbon and Rio de Janeiro.

The first European company to operate exclusively with jets

1967

The first B727 arrives at the Company, and the last Super-Constellation is decommissioned. TAP thus becomes the first European company to operate exclusively with jets.

1971

The Company's services are transferred to new premises at Lisbon airport, and new maintenance facilities are opened, including Hangar 6.

1972

The first two of four Boeing 747-200 become part of the Company's fleet.

TAP takes a 50% stake in the Azorean company SATA, holding the chairing position at its Board of Directors.

1974

TAP's network includes over 40 destinations located on four continents, operated by a fleet of 32 technologically-advanced aircraft.

Nationalisation of TAP

1975

16th April

TAP becomes a State-owned company through Decree-Law number 205-E/75.

1979

The Company's modernisation programme is implemented, which also changes the corporate name to TAP–Air Portugal.

Strengthening of TAP's fleet

1983

The first Boeing B737-200 aircraft arrives at the Company for medium-haul routes and the Lockheed L1011-500 Tristar for long-haul.

Maintenance and Engineering is awarded, for the first time, by the Federal Aviation Administration of the USA (FAA), with the Repair Station certificate, endowing TAP with the most extensive licence to repair aircraft and their components. TAP wins the international tender for major inspections of 35 B727-100 aircraft owned by the Federal Express Corporation (FEC).

1987

Maintenance and Engineering goes ahead with an extensive programme of structural modifications in Douglas DC-10 aircraft of the FEC, which is the first time this has happened anywhere in the world.

1988

The first A310-300 begins operating.

1991

17th August

TAP becomes a public limited company (TAP, S.A.), with capital majority-owned by the State through Decree-Law number 312/91.

TAP enters into the Airbus era

1992

The first A320 are delivered, equipped with the most advanced technology: fly-by-wire controls.

1994

The first two A340-300s become part of the fleet, and the Strategic Plan for Economic and Financial Restructuring (PESEF) is launched.

1997

The first two A319 become part of the TAP fleet, and the cutting edge technology of Electronic Ticketing (ET) is introduced for domestic flights.

A strategic alliance agreement is signed with SAirGroup.

1998

TAP becomes a founding-member of the Qualiflyer Group.

TAP's recovery

2000

The Maintenance and Engineering Quality system is awarded its first certification from APCER in conformity with NP EN ISO 9002 Standard, as a company for the Maintenance of Aircraft, Engines and Components.

2001

A hub strategy is adopted, with Lisbon airport as the centre for operations.

Due to internal problems, the SAirGroup is forced to abandon its intention to acquire a 34% stake in TAP.

2003

26th April

The TAP Group is created through the incorporation of a holding company, TAP, SGPS, following a corporate restructuring process, which also involved the creation of the company SPdH–Serviços Portugueses de Handling, S.A., through Decree-Law number 87/2003.

2005

The Company's new corporate image is presented (TAP Portugal).

TAP joins the world's largest airline alliance, as a company-member of the STAR Alliance.

2006

Renewal of the long-haul route fleet, composed of A310 and A340 aircraft, with the first Airbus 330-200 arriving for the operation of the Brazil, USA and Africa routes.

The TAP Group and the OMNI Group sign a contract to sell all the shares of White–Airways, S.A..

2007

After the Competition Authority had issued its decision of non-opposition to the operation, TAP acquired the entire share capital of Portugália–Companhia Portuguesa de Transportes Aéreos, S.A, with Gertiserv–Sociedade de Gestão e Serviços, S.A. having been the intermediary, and specifically incorporated for this purpose.

IATA, International Air Transport Association, announces, in Canada, that Fernando Pinto, CEO of TAP, begins a one year term as Chairman of the Governing Board of the Association, electing the environment and operational safety as priorities.

TAP signs a contract for the acquisition of twelve A350 XWB aircraft with Airbus, in Toulouse, with the option of three additional aircraft, including a letter of intention for a further eight aircraft of the A320 family.

2008

The stake of Globália in SPdH (50.1%) is acquired by three financial institutions, Banco de Investimento Global BIG (19.94%), Banco de Investimento, S.A. BANIF (15.1%) and Banco Invest, S.A. (15.1%).

2009

TAP is the first airline company in the world to launch the CO_2 Emissions Compensation Programme.

TAP continues its efforts to sell the stake that it was forced to reacquire, the majority of the share capital of SPdH, with the corresponding shares having been delivered to an independent entity, EUROPARTNERS, which holds an active role in the realization of AdC decision-making.

2010

The company Lojas Francas de Portugal opens a new shop, integrated in the new concept *Just for Travellers*, at Lisbon airport.

TAP–Maintenance and Engineering Brazil receives the qualification, attributed by the manufacturer Embraer, as a service centre authorised in Brazil (Embraer Authorised Service Centre – EASC).

2011

The Safety Policy of TAP–Maintenance and Engineering is published.

TAP launches the new campaign and Company slogan *With Arms Wide Open*.

2012

Approval by the Council of Ministers (Decree-Law number 210/2012, of 21 September) of the 3rd and 4th phases of the indirect reprivatisation process of the share capital of TAP–Transportes Aéreos Portugueses, S.A. (TAP, S.A.), following the reprivatisation of the share capital of TAP–Transportes Aéreos Portugueses, SGPS, S.A. (TAP SGPS, S.A.). Within the scope of the 3rd phase of the reprivatisation process, Synergy Aerospace Corporation (Synergy) was admitted to participate in the moment subsequent to the direct sales process (Resolution of the Council of Ministers number 88-B/2012, of 18 October) having, subsequently, submitted a binding proposal, which took place on 7 December 2012. Following the assessment of the binding proposal, the Government considered that said proposal did not include elements to allow a conclusive judgement, having determined the conclusion of this process. The Reprivatisation Process has thus remained suspended since that time.

Acquisition, by a national Group, of 50.1% of the share capital of the ground handling company SPdH–Serviços Portugueses de Handling, S.A., with TAP remaining in possession of 49.9% of the share capital.

Implementation of the Safety Management System–SMS, a system transversal to all the Company's operational areas, supported by a policy which defines Safety as a fundamental value of TAP, in which all the employees are requested to participate.

Extension, to most European enroute stop-overs of the TAP network, of the check-in service through mobile telephone.

Implementation of a booking engine, in mobile equipment (smartphones and tablets), enabling booking air tickets, from the search and selection of flights to the payment of the purchase.

Reinforcement of the provision of online check-in, which is now possible to carry out through the internet, mobile devices or at any of the kiosks and counters at the airports.

Launching of a new mobile site which covers the entire market of mobile devices.

Cateringpor received Halal certification, enabling a new meals option, produced in accordance with the principles prescribed by Islamic Law.

Celebration by TAP– Maintenance and Engineering of 25 years promoting *Ab Initio* courses for Aircraft Maintenance Technicians.

CONSOLIDATED FINANCIAL STATEMENTS TAP, SGPS, S.A.


PORTUGAL

Index

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013 And 2012
Values in thousand euros

Assets	Note	31 December 2013	31 December 2012 Restated	1 January 2012 Restated
Non-current assets				
Tangible fixed assets	5	735,110	838,250	952,332
Investment properties	6	3,864	4,274	2,862
Goodwill	7	193,039	200,895	206,395
Other intangible assets	8	774	1,313	1,424
Other financial assets	13	2,220	2,848	3,258
Deferred tax assets	15	32,008	24,109	23,758
Other accounts receivable	18	40,681	47,591	34,398
		1,007,696	**1,119,280**	**1,224,427**
Current assets				
Inventories	20	108,899	125,115	142,429
Customers	21	205,690	231,574	250,482
Advances to suppliers	16	8,895	5,378	11,221
State and other public entities	17	14,403	17,836	18,620
Other accounts receivable	18	66,351	56,572	156,615
Deferrals	19	12,636	9,597	10,805
Cash and bank deposits	22	270,611	85,353	167,365
		687,485	**531,425**	**757,537**
Total assets		**1,695,181**	**1,650,705**	**1,981,964**

Equity and liabilities				
Equity				
Share capital	24	15,000	15,000	15,000
Legal reserves	24	3,000	3,000	3,000
Currency conversion reserves	24	(20,145)	(13,579)	(6,867)
Fair value reserves	24	4,541	(1,680)	(1,236)
Adjustment of equity holdings		(2,260)	(2,260)	(2,260)
Retained earnings	24	(376,088)	(364,398)	(286,815)
Net income for the year	24	(5,868)	(25,487)	(71,868)
Total equity of the Group		**(381,820)**	**(389,404)**	**(351,046)**
Non-controlling interests	25	8,508	8,599	7,801
Total equity		**(373,312)**	**(380,805)**	**(343,245)**
Non-current liabilities				
Provisions	26	25,287	30,838	158,086
Loans received	27	660,131	775,390	985,709
Liabilities related to post-employment benefits	28	47,593	71,026	78,540
Deferred tax liabilities	15	25,821	24,239	23,933
State and other public entities	17	59,898	76,557	84,868
Other accounts payable	31	1,546	2,380	1,958
		820,276	**980,430**	**1,333,094**
Current liabilities				
Suppliers	30	118,286	116,029	165,081
Advances from customers	29	1,358	1,047	1,202
State and other public entities	17	29,505	29,727	29,087
Shareholders	14	–	50,000	–
Loans received	27	390,512	258,674	245,209
Other accounts payable	31	286,968	263,585	222,633
Advances from customers - tickets to be used	32	364,507	278,658	263,510
Deferrals	19	57,081	53,360	65,393
		1,248,217	**1,051,080**	**992,115**
Total liabilities		**2,068,493**	**2,031,510**	**2,325,209**
Total equity and liabilities		**1,695,181**	**1,650,705**	**1,981,964**

The notes are an integral part of the consolidated statement of financial position as at 31 December 2013.

CONSOLIDATED INCOME STATEMENT

For 2013 and 2012
Values in thousand euros

	Note	2013	2012 Restated
Sales and services rendered	35	2,669,027	2,618,049
Operating grants	36	3,852	4,312
Gains and losses in associates	37	706	4,110
Variation in production	38	(5,072)	(7,887)
Own work capitalised	39	1,593	1,144
Cost of goods sold and materials consumed	40	(214,811)	(205,028)
External supplies and services	41	(1,705,328)	(1,768,063)
Personnel costs	42	(571,855)	(506,883)
Inventory adjustments (losses/reversals)	43	(5,908)	(1,964)
Impairment of debts receivable (losses/reversals)	44	(366)	3,323
Provisions (increases/decreases)	45	3,623	3,687
Fair value increases/reductions	47	(410)	2,210
Other income and gains	48	49,359	55,972
Other costs and losses	49	(64,598)	(42,443)
Earnings before interest, taxes, depreciation and amortisation		**159,812**	**160,539**
Depreciation and amortisation costs/reversals	50	(115,751)	(119,776)
Net operating income (earnings before interest and taxes)		**44,061**	**40,763**
Interest and similar revenue received	51	6,155	5,696
Interest and similar costs paid	51	(50,656)	(57,371)
Pre-tax earnings		**(440)**	**(10,912)**
Corporate income tax for the year	52	(475)	(9,196)
Net income for the year		**(915)**	**(20,108)**
Net income of shareholders of the parent company		**(5,868)**	**(25,487)**
Net income of non-controlling interests	53	4,953	5,379
Basic and diluted earnings per share (euros)	24	(4)	(17)

The notes are an integral part of the consolidated income statement as at 31 December 2013.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

For 2013 and 2012
Values in thousand euros

	Note	2013	2012 Restated
Net income		**(915)**	**(20,108)**
Elements which may be reversed in the income statement:			
Currency conversion gains and losses	24	(6,566)	(6,712)
Gains and losses in cash flow hedge instruments	24	8,122	(444)
Deferred tax of cash flow hedge instruments	15	(1,901)	–
Other gains and losses	15	–	(408)
Elements which may be reversed in equity:			
Remeasurements	26 e 28	12,837	(6,318)
Deferred tax of remeasurements	15	960	1,011
Income recognised directly in equity		**13,452**	**(12,871)**
Comprehensive income		**12,537**	**(32,979)**
Attributable to:			
TAP SGPS Shareholders		7,584	(38,358)
Non-controlling interests	53	4,953	5,379
Total income and costs recognised for the year		**12,537**	**(32,979)**

The notes are an integral part of the consolidated comprehensive income statement as at 31 de December de 2013.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

From 1 January 2012 to 31 December 2013
Values in thousand euros

	Share capital	Legal reserves	Currency conversion reserves (Note 24)	Fair value reserves (Note 24)	Adjustment of equity holdings	Retained earnings	Net income for the year	Sub-total	Non-controlling interests (Notes 25 and 53)	TOTAL
Financial position as at 1 January 2012 (restated)	**15,000**	**3,000**	**(6,867)**	**(1,236)**	**(2,260)**	**(286,815)**	**(71,868)**	**(351,046)**	**7,801**	**(343,245)**
Transactions with shareholders in 2012	**–**	**–**	**–**	**–**	**–**	**(71,868)**	**71,868**	**–**	**(4,581)**	**(4,581)**
Application of net income and distribution of profit and reserves	–	–	–	–	–	(71,868)	71,868	–	–	–
Distribution of dividends to non-controlling interests	–	–	–	–	–	–	–	–	(4,581)	(4,581)
Comprehensive income in 2012	**–**	**–**	**(6,712)**	**(444)**	**–**	**(5,715)**	**(25,487)**	**(38,358)**	**5,379**	**(32,979)**
Net income for the year	–	–	–	–	–	–	(25,487)	(25,487)	5,379	(20,108)
Other comprehensive income	–	–	(6,712)	(444)	–	(5,715)	–	(12,871)	–	(12,871)
Financial position as at 31 December 2012 (restated)	**15,000**	**3,000**	**(13,579)**	**(1,680)**	**(2,260)**	**(364,398)**	**(25,487)**	**(389,404)**	**8,599**	**(380,805)**
Transactions with shareholders in 2013	**–**	**–**	**–**	**–**	**–**	**(25,487)**	**25,487**	**–**	**(5,044)**	**(5,044)**
Application of net income and distribution of profit and reserves	–	–	–	–	–	(25,487)	25,487	–	–	–
Distribution of dividends to non-controlling interests	–	–	–	–	–	–	–	–	(5,044)	(5,044)
Comprehensive income in 2013	**–**	**–**	**(6,566)**	**6,221**	**–**	**13,797**	**(5,868)**	**7,584**	**4,953**	**12,537**
Net income for the year	–	–	–	–	–	–	(5,868)	(5,868)	4,953	(915)
Other comprehensive income	–	–	(6,566)	6,221	–	13,797	–	13,452	–	13,452
Financial position as at 31 December 2013	**15,000**	**3,000**	**(20,145)**	**4,541**	**(2,260)**	**(376,088)**	**(5,868)**	**(381,820)**	**8,508**	**(373,312)**

The notes are an integral part of the consolidated statement of changes in equity as at 31 December 2013.

CONSOLIDATED CASH FLOW STATEMENT

For 2013 and 2012
Values in thousand euros

	Note	2013	2012
Operating activities:			
Revenue from customers		3,217,526	2,778,853
Payments to suppliers		(2,254,223)	(2,163,497)
Payments to personnel		(450,562)	(405,438)
Corporate income tax payment/revenue		(8,047)	(5,521)
Other revenue/payments relative to operating activity		(216,103)	(93,684)
Cash flow from operating activities		**288,591**	**110,713**
Investment activities:			
Revenue from:			
Other tangible fixed assets		1,424	40,894
Financial investments		515	336
Interest and similar income		2,503	4,383
Loans granted		4,600	2,500
Dividends		–	410
Payments relative to:			
Other tangible fixed assets		(11,276)	(36,530)
Other intangible assets		(23)	–
Loans granted		(3,100)	(7,819)
Cash flow from investment activities		**(5,357)**	**4,081**
Financing activities:			
Revenue from:			
Loans received		285,874	71,243
Payments relative to:			
Loans received		(174,948)	(84,546)
Financial leasing contracts		(106,752)	(132,506)
Interest and similar costs		(43,082)	(43,049)
Dividends		(5,044)	(4,600)
Cash flow from financing activities		**(43,952)**	**(193,458)**
Variations in cash and cash equivalents		239,282	(78,664)
Effect of currency conversion differences		(19,086)	(3,329)
Cash and cash equivalents at the beginning of the year		**43,022**	**125,015**
Cash and cash equivalents at the end of the year	22	**263,218**	**43,022**

The notes are an integral part of the consolidated cash flow statement as at 31 December 2013.

NOTES TO THE FINANCIAL STATEMENTS FOR 2013

1 – Economic activity of the "Group"

The "Group", composed of TAP – Transportes Aéreos Portugueses, SGPS, S.A. ("TAP SGPS") and its subsidiaries ("Group" or Group) has its head office at Lisbon Airport and is dedicated to air transport operations involving passengers, cargo and mail, the implementation of maintenance and engineering works, provision of attendance services during air transport stopovers, operation of duty free shops at airports and catering for aviation.

TAP – Transportes Aéreos Portugueses, SGPS, S.A. was incorporated on 25 June 2003 under Decree-Law number 87/2003, of 26 April, and its share capital was fully underwritten and paid-up in kind by Parpública – Participações Públicas, SGPS, S.A. ("Parpública"), through the entry of shares representing the entire share capital of the company Transportes Aéreos Portugueses, S.A. ("TAP S.A.").

The Group's core business consists of the air transport of passengers, cargo and mail, operating scheduled flights in Mainland Portugal and in the Autonomous Regions of Madeira and the Azores, Europe, Africa, North Atlantic, Mid-Atlantic and South Atlantic. The Group has 20 representative offices in foreign countries and 4 in Portugal. Moreover, the Group also carries out maintenance and engineering work for its fleet and third parties.

Head office	Aeroporto de Lisboa, Edifício 25
Share Capital	Euros 15.000.000
Taxpayer Number	506 623 602

The consolidated financial statements reported herein, which include the assets, liabilities, costs and income of the "Group" companies as listed in Note 2.3.1., were approved at the meeting of the Executive Board of Directors of 25 March 2014. However, these statements are still subject to approval by the General Meeting of Shareholders, under the terms of the commercial legislation in force.

The members of the Executive Board of Directors who have signed this report declare that, to the best of their knowledge, the information provided herein was drafted in conformity with the applicable Accounting Standards, presenting a true and adequate view of the assets and liabilities, the financial situation and the results of the companies included in the Group's consolidation perimeter.

2 – Accounting policies and valuation criteria

The main accounting policies applied in the preparation of these consolidated financial statements are described below.

2.1. – Basis of Presentation

The present consolidated financial statements of the Group were prepared in conformity with the International Financial Reporting Standards adopted by the European Union (IFRS – formerly called the International Accounting Standards – IAS) issued by the International Accounting Standards Board (IASB) and with the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC), in force on the date of preparation of the aforesaid financial statements.

The consolidated financial statements attached herewith were prepared under the assumption of going concern, using the accounting ledgers and records of the companies included in the consolidation (Note 2.3.1), and based on historical cost, with the exception of derivative financial instruments, assets available for sale, investment properties and customer loyalty programmes, which are recorded at fair value.

In the preparation of the consolidated financial statements, in conformity with the IFRS, the Executive Board of Directors used critical estimates, assumptions and judgements of impact on the value of the assets and liabilities and the recognition of income and costs for each reporting period. Although these estimates were based on the best information available on the date of the preparation of the consolidated financial statements, the current and future results could differ from these estimates. The main assertions that involve a higher level of judgement or complexity, or more significant assumptions and estimates for the preparation of the said financial statements, are disclosed in Note 2.31.

The "Group" states, explicitly and without reservations, that the consolidated financial statements were prepared in compliance with the IAS/IFRS standards and their SIC/IFRIC interpretations, approved by the European Union.

2.2. – Comparability

The values presented in the consolidated financial statements for the period ended on 31 December 2013 are comparable in all significant aspects with the values for 2012. It should be noted that the comparative figures of the financial statements for the year ended on 31 December 2013 were restated, as disclosed in Note 2.30, in view of the adoption of IAS 19 (revised).

2.3. – Basis of consolidation

2.3.1.– Subsidiaries

The subsidiaries all the entities over which the Group considers there is control.

The Group considers that there is control over an entity when the Group is exposed or entitled, as a result of its involvement, to a variable return of the entity's activities and has the capacity to affect this return through its power exercised over the entity, namely, when it directly or indirectly holds over half of the voting rights. The existence and/or effect of voting rights, which are currently exercisable or convertible, are considered in the evaluation of whether the Group has control over another entity.

Third party holdings in the equity and net income of these companies is presented separately in the consolidated statement of financial position and consolidated income statement, respectively, under the heading of "Non-controlling interests" (Note 25).

The companies included in the consolidated financial statements are listed below:

Name	Head office	Core business	Share-holders	% share capital held 2013	2012
TAP-Transportes Aéreos Portugueses, SGPS, S.A.	Lisbon	Management and administration of holdings	Parpública	100.00%	100.00%
Transportes Aéreos Portugueses, S.A.	Lisbon	Aeronautical activities	TAP SGPS	100.00%	100.00%
TAPGER-Sociedade de Gestão e Serviços, S.A. (TAPGER)	Lisbon	Provision of management services	TAP SGPS	100.00%	100.00%
Portugália-Companhia Portuguesa de Transportes Aéreos, S.A. (Portugália)	Lisbon	Aeronautical activities	TAP SGPS	100.00%	100.00%
Cateringpor-Catering de Portugal, S.A. (Cateringpor)	Lisbon	*Catering*	TAPGER	51.00%	51.00%
L.F.P.-Lojas Francas de Portugal, S.A. (LFP)	Lisbon	Duty free shop operation	TAPGER	51.00%	51.00%
Megasis-Soc. de Serviços e Engenharia Informática, S.A. (Megasis)	Lisbon	Engineering and provision of IT services	TAPGER	100.00%	100.00%
U.C.S.-Cuidados Integrados de Saúde, S.A. (UCS)	Lisbon	Provision of health care services	TAPGER	100.00%	100.00%
Aeropar, Participações, S.A. (Aeropar)	Brazil	Management and administration of holdings	TAP SGPS	99.00%	99.00%
			Portugália	1.00%	1.00%
TAP–Manutenção e Engenharia Brasil, S.A. (former VEM) (TAP M&E Brazil)	Brazil	Maintenance and aeronautical engineering	TAP SGPS	51.00%	51.00%
			Aeropar	47.64%	47.64%

The purchase method is used to record the acquisition of subsidiary companies. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition.

For acquisitions after 1 January 2010, the costs directly associated to acquisitions (consulting services, legal advisory services, administrative costs, among other) are stated, in the consolidated financial statements of the "Group", as costs for the year when the acquisition took place, recognised in the consolidated income statement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the acquisition date, independently of the existence of any non-controlling interests. Any excess of the acquisition cost over the fair value of the Group's share of the identifiable assets and liabilities acquired is recorded as goodwill, which is detailed in Note 7.

Subsidiaries are consolidated by the full integration method, as of the date when control is transferred to the Group.

If the acquisition cost is less than the fair value of the net assets of the acquired subsidiary (negative goodwill), the difference is recognised directly in the income statement under the heading "Other income and gains".

Internal transactions, balances, unrealised gains in transactions and dividends distributed among Group companies are eliminated. Unrealised losses are also eliminated, unless the transaction reveals evidence of impairment of a transferred asset.

When, at the date of acquisition of control, the "Group" already has a previously acquired stake, the fair value of that stake contributes to the determination of the positive or negative goodwill.

When the acquisition of control is carried out for a percentage of less than 100%, in the application of the purchase method, the non-controlling interests can be measured at fair value or at the proportion of fair value of the acquired assets and liabilities, with that option being defined in each transaction.

Subsequent transactions involving the sale to or acquisition of holdings from non-controlling interests, which do not imply the loss of control, do not result in the recognition of gains, losses or goodwill, with any difference between the transaction value and the book value of the traded holding being recorded in equity.

Contingent prices of future events are considered at their fair value on the acquisition date, regardless of their probability of occurrence. Any subsequent remeasurement does not affect the goodwill balances, unless made up to 12 months after the acquisition date.

The accounting policies of subsidiaries were changed whenever necessary, so as to guarantee consistency with the policies adopted by the Group.

2.3.2. – Associates

Associates are all entities over which the Group has significant influence through participation in decisions relative to their financial and operational policies, but not control or joint control, generally representing 20% to 50% of the voting rights. Investments in associates are accounted for using the equity method.

According to the equity method, financial holdings are recorded at their acquisition cost, adjusted by the value corresponding to the Group's holding in the changes in equity (including net income) of the associates, and by dividends received.

The differences between the acquisition cost and fair value of the identifiable assets, liabilities and contingent liabilities of the associate on the acquisition date are recognised as goodwill when positive, and maintained under the respective heading. If these differences are negative, they are recorded as gains for the financial year under the heading "Gains and losses in associated companies".

An assessment of the interests in associates is carried out when there are indications that the asset may be impaired, with any impairment losses that also exist in this item being recorded as costs. When impairment losses recognised in previous years cease to exist, they are reversed.

Unrealised gains in transactions between the Group and its associates are eliminated up to the extent of the Group's stake in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of impairment of the transferred asset.

When considered necessary, the accounting policies of the associates are changed, so as to guarantee consistency with the practices adopted by the Group.

The following entity qualifies as an associate:

Name	Head office	Core business	Share-holders	% share capital held 2013	2012
SPdH – Serviços Portugueses de Handling, S.A. ("SPdH")	Lisbon	*Handling*	TAP SGPS	43.90%	43.90%
			Portugália	6.00%	6.00%

The investments in associates are presented in detail in Notes 10 and 26.

2.4. – Segmental reporting

As recommended in IFRS 8, the Group presents its operating segments based on the management information produced internally. In fact, the operating segments are reported in a manner consistent with the internal management information model, entrusting the senior person with the taking of operational decisions for the entity, who is responsible for the allocation of resources in the segment and assessment of its performance, as well as the taking of strategic decisions.

Business segment is a group of assets and operations of the Group that are subject to different risks and returns than those of other business segments, being reported in a manner consistent with the internal reporting for the management.

Five business segments have been identified: air transport, maintenance and engineering, duty free shop, catering and others.

The accounting policies for segmental reporting are those used in a consistent manner within the Group. All inter-segment income is valued at market prices and eliminated in the consolidation. The information relative to the identified segments is presented in Note 55.

2.5. – Currency conversion

2.5.1. – Functional and reporting currency

The elements included in the financial statements for each Group entity are measured using the currency of the economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in thousand euros, which is the Group's functional and reporting currency.

2.5.2. – Balances and transactions expressed in foreign currency

All Group assets and liabilities expressed in foreign currency were converted into Euros using the exchange rates in force on the date of the financial position.

Currency conversion differences, favourable and unfavourable, arising from differences between the exchange rates in force on the date of the transactions and those applicable on the collection, payment or financial position date, were recorded as income and costs in the consolidated income statement for the year.

2.5.3. – Group companies

The results and financial position of all Group entities which possess a functional currency that is different from its reporting currency are converted into the reporting currency as follows:

(i) The assets and liabilities of each financial position are converted at the exchange rate in force on the date of the consolidated financial statements. Any resulting currency conversion differences are recognised as a separate component in equity, under the "Currency conversion reserves" heading.

(ii) The income and costs of each income statement are converted at the average exchange rate of the reporting year, unless the average rate is not a reasonable approximation of the cumulative effect of the rates in force on the dates of the transactions. In this case, the income and costs are converted at the exchange rates in force on the dates of the transactions.

The adjustments to the goodwill and fair value of an acquisition of a foreign entity are treaty as assets and liabilities of a foreign entity, and are converted at the closing exchange rate on the reporting date.

Any resulting currency conversion differences of a monetary item that is part of the net investment in a foreign operating unit are recognised in a separate component of equity and stated through profit or loss at the time of the disposal of the net investment or settlement of these amounts.

The exchange rates used in the conversion of the financial statements expressed in a currency other than the Euro or to update balances expressed in a foreign currency were as follows:

Currency	2013	2012
BRL	3.2576	2.7036
USD	1.3791	1.3194
VEF	8.6216	5.6558
AOA	133.56	126.01

For the Brazilian subsidiaries, the monthly balances were converted at the rate of the last day of each month, as follows:

Month	2013	2012
January	2.6892	2.2893
February	2.5871	2.2872
March	2.5703	2.4323
April	2.6236	2.4920
May	2.7664	2.4935
June	2.8899	2.5788
July	3.0330	2.5117
August	3.1122	2.5804
September	3.0406	2.6232
October	2.9962	2.6389
November	3.1587	2.7391
December	3.2576	2.7036

2.6. – Tangible fixed assets

Tangible fixed assets acquired by 1 January 2004 (IFRS transition date) are recorded at acquisition cost, or revalued acquisition cost pursuant to the accounting principles generally accepted in Portugal until that date, minus depreciation and accumulated impairment losses.

Furthermore, on the transition date, the subsidiary "TAP S.A." applied the exception foreseen in IFRS 1 – First-time Application of International Financial Reporting Standards, through which the fair value of some categories of assets may be considered at deemed cost, reported on the transition date (1 January 2004).

Thus, taking effect as of 1 January 2004, the assets belonging to the buildings category of the said subsidiary were revalued at their corresponding fair value on that date. The fair value of these tangible fixed assets items was determined through an asset valuation study conducted by an independent specialised entity (Colliers P&I), which also determined the remaining useful life of these assets, on the transition date.

Tangible fixed assets acquired after the transition date are presented at acquisition cost minus depreciation and impairment losses. The acquisition cost includes all expenditure directly attributable to the acquisition of the assets.

Subsequent costs are included in the acquisition cost of the asset or recognised as separate assets, as deemed appropriate, only when it is probable that future economic benefits will flow to the Group and the respective cost can be measured reliably. Any other expenditure related to repairs and maintenance is recognised as a cost for the financial year when they are incurred.

Depreciation is calculated based on acquisition cost, using the straight line method by twelfths and the rates that best reflect estimated useful life, as follows:

	Years of useful life	Residual value
Buildings and other constructions	20 – 50	–
Basic equipment:		
Flight equipment:		
Aircraft	16	10%
Aircraft under financial leasing	16	10%
Spare engines and spare parts	16	10%
Spare engines under financial leasing	16	10%
Other basic equipment	7 – 16	0 – 10%
Transport equipment	4 – 10	–
Tools and utensils	8 – 16	0 – 10%
Administrative equipment	5 – 16	–
Other tangible fixed assets	10	–

The residual values of the assets and respective useful lives are reviewed and adjusted, if necessary, on the reporting date. If the book value is higher than the recoverable value of the asset, it is readjusted to its estimated recoverable value through the recording of impairment losses (Note 2.10).

Gains or losses arising from a write-off or disposal are determined by the difference between the proceeds of the disposals minus transaction costs and the book value of the assets, and are recognised in the income statement as operating income and gains or costs and losses.

2.7. – Investment properties

Investment properties are real estate assets (land, buildings or parts of buildings) held with the objective of capital appreciation, receipt of rents, or both. The investment properties were initially measured at fair value on the IFRS transition date, and valued subsequently in accordance with the fair value model, which is applied to all assets classified as investment properties.

The fair value of the investment properties is determined based on valuations conducted by external valuators taking into consideration the conditions of their use or best use, according to whether they are rented or not.

2.8. – Intangible Assets

Intangible assets are recorded at acquisition cost minus depreciation and impairment losses, using the straight line method over a period that varies between 3 and 10 years.

Intangibles developed internally, namely research expenses, are recorded as a cost when incurred. Development expenses are only recognised as assets if they demonstrate technical capacity to complete the intangible asset and this intangible asset is available for use or marketing.

2.9. – Goodwill

Goodwill represents the excess of acquisition cost over the fair value of the assets, liabilities and identifiable contingent liabilities of the subsidiaries on the acquisition date.

Goodwill is not amortised and is subject to impairment tests, at least once a year. Impairment losses relative to goodwill cannot be reversed. Gains or losses arising from the sale of the control of an entity include the value of the corresponding goodwill.

For the effect of impairment tests, the goodwill is associated to the lowest cash generating units to which it belongs. Cash generating units represent the Group's investment in each business area in which the "Group" operates: air transport, maintenance and engineering, duty free shops, catering and others.

2.10. – Impairment of non-financial assets

Non-financial assets that do not have a defined useful life, are not subject to depreciation or amortisation, but are subject to annual impairment tests. Assets subject to amortisation/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that their book value might not be recoverable.

Whenever the determined recoverable value is lower than the book value of the assets, the Group assesses whether the situation of loss is of a permanent and definitive nature, and if this is the case, the respective impairment loss is recorded. In cases where the loss is not considered permanent and definitive, the reasons substantiating this conclusion are disclosed.

An impairment loss is recognised by the amount of the excess book value of the asset in relation to its recoverable value. The recoverable amount is the highest value between the fair value of an asset, minus its selling costs, and its value in use.

In order to carry out impairment tests, assets are grouped at the lowest level at which it is possible to separately identify cash flows (cash generating units to which the asset belongs), when it is not possible to do so on an individual basis, for each asset.

Impairment losses, recognised in previous periods, are reversed when it is concluded that the recognised impairment losses no longer exist or have diminished (with the exception of goodwill impairment losses – see Note 2.9).

The reversal of impairment losses is recognised in the income statement under the headings "Impairment of assets not subject to depreciation/amortisation" and "Impairment of assets depreciable/amortisable assets", unless the asset has been revalued, in which case the reversal will correspond to a revaluation increase. However, an impairment loss is reversed up to the limit of the amount that would be recognised (net of amortisation or depreciation) if the impairment loss had not been recorded in previous financial years.

2.11. – Financial assets

The Group classifies its financial investments under the following categories: loans granted and accounts receivable, financial assets at fair value through profit or loss, investments held to maturity and financial assets available for sale. The classification depends on the purpose for which the investment was acquired. Classification is determined at the time of the initial recognition of the investments and revalued on each reporting date.

All acquisitions and disposals of these investments are recognised on the date of signing the respective purchase and sale contracts, regardless of the financial settlement date.

Investments are initially recorded at their acquisition value, with their fair value being equivalent to the price paid and payable, including transaction costs, except for financial assets at fair value through profit or loss. Subsequent measurement depends on the category into which the investment is classified, as follows:

Loans granted and accounts receivable

Loans granted or accounts receivable are non-derivative financial assets with fixed or determinable payments and which are not listed on an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of negotiating the debt.

They are included in current assets, except when the assets have maturities above 12 months after the date of financial position, in which case they are classified as non-current assets.

Loans granted and accounts receivable are initially measured at fair value and subsequently at amortised cost, and are included in the statement of financial position under the heading of "Other accounts receivable".

Financial assets at fair value through profit and loss

A financial asset is classified under this category if acquired principally for the purpose of selling in the short term or if so designated by the management. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the reporting date. These assets are measured at fair value through the income statement.

Investments held to maturity

Investments held to maturity are non-derivative financial assets, with fixed or determinable payments and fixed maturities, that the Group has the intention and ability to hold them to maturity. Investments in this category are recorded at amortised cost using the effective interest rate method.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are either designated in this category or not classified under any other category. They are included in non-current assets, unless the management intends to dispose of the investment within 12 months after the reporting date. These financial investments are recognised at market value, defined as the respective stock market price on the date of financial position.

If there is no active market, the Group establishes fair value through valuation techniques, which include the use of recent commercial transactions, reference to other instruments with similar characteristics, discounted cash flow analysis and option pricing models modified to reflect the issuer's specific circumstances.

Potential gains and losses arising in this way are recorded directly in the fair value reserve, unless there is impairment, until the financial investment is sold, received, or disposed of in any way, at which time the accumulated gain or loss, formerly recognised in the fair value reserve, is included in net income for the year.

If there is no market value or if it is not possible to determine one, the investments in question are maintained at acquisition cost. Loss of value is recognised as an impairment loss when justified.

Impairment of financial assets

(i) – Loans granted, accounts receivable and investments held to maturity

On each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired (difference between the recoverable value and the value as at the reporting date of the financial asset) recorded against profit or loss. Various indicators are used to identify situations of impairment, such as:

// Analysis of default;
// Default for over 6 months;
// Financial difficulties of the debtor;
// Probability of bankruptcy of the debtor.

The adjustment for impairment losses is determined by the difference between the present value of the estimated future cash flow, discounted at the original interest rate, and the value as at the reporting date of the financial asset, and is recorded against profit or loss for the year, under the heading of "Impairment of debts receivable".

(ii) – Financial assets available for sale

If there is a prolonged decline in the fair value of the financial assets available for sale, the cumulative loss – measured as the difference between acquisition cost and current fair value, minus any impairment loss in that financial asset previously recognised through profit or loss – is annulled through equity and recognised through profit or loss for the year.

A recognised impairment loss, relative to financial assets available for sale, is reversed if the loss has been caused by specific external events of an exceptional nature that are not expected to recur, but which subsequent external events have reversed. Under these circumstances, the reversal does not affect the profit and loss statement, whereas the reversal of impairment loss of a debt instrument, classified as available for sale, must be recognised through profit or loss for the year.

These categories of assets are derecognised when (i) the Group's contractual rights expire upon the receipt of their cash flow; (ii) the Group has substantially transferred all the risks and benefits associated to their holding; or (iii) even if the Group retains part, but not substantially all the risks and benefits associated to their holding, it has transferred the control over the assets.

2.12. – Derivative financial instruments

The Group uses derivatives for the purpose of managing the financial and operating risks to which it is exposed. Whenever expectations of changes in interest rates or jet fuel prices justify this, the Group seeks to hedge against adverse movements through derivative instruments, such as interest rate swaps (IRS), swaps and options.

The selection of derivative financial instruments is essentially driven by their economic properties. Derivative financial instruments are recorded in the statement of financial position at their fair value.

Since they are considered effective hedges (cash flow hedges), changes in fair value are initially recorded against equity and subsequently recorded through net operating income for jet fuel instruments, and net financial results for interest rate instruments, on their settlement date.

Accordingly, in net terms, the costs associated to hedged loans are accrued at the rate inherent to the contracted hedging operation. Gains or losses arising from the premature rescission of this type of instrument are recorded through profit or loss, when the hedged operation also affects net income.

Whenever possible, the fair value of derivatives is estimated on the basis of listed instruments. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash-flow method and option valuation models, in accordance with prevailing market assumptions. The fair value of derivative financial instruments is included, essentially, in the headings of other current accounts receivable and other current and non-current accounts payable.

Hedge accounting

The possibility of classifying a derivative financial instrument as a hedge instrument follows the provisions of IAS 39 – Financial instruments: recognition and measurement.

Derivative financial instruments used for hedging can be classified as hedge instruments for accounting purposes, provided that they cumulatively comply with the following conditions:

- // On the starting date of the transaction, the hedge relationship is identified and formally documented, including the identification of the hedged item, the hedge instrument and the assessment of the effectiveness of the hedge;
- // It is expected that the hedge relationship will be highly effective, on the starting date of the transaction and throughout the life of the operation;
- // The effectiveness of the hedge can be measured reliably, on the starting date of the transaction and throughout the life of the operation;
- // For cash flow hedge operations, it should be highly probable that they will occur.

2.13. – Income tax

Income tax includes current and deferred tax. Current income tax is determined on the basis of net income, adjusted in accordance with tax law in force on the reporting date.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised when there is reasonable certainty that they may be used to reduce future taxable profit, or when there are deferred tax liabilities whose reversal is expected to occur in the same period that the deferred tax assets are reversed. These deferred tax assets are reviewed on each reporting date, and reduced when their future use is no longer probable.

In order to determine the deferred tax, the tax rate used is that expected to be in force during the period when the temporary differences will be reversed. The value of tax to be included, both in current and deferred tax, arising from transactions or events recognised directly in equity, is recorded directly in these same headings. Therefore, the impact of alterations in the tax rate is also recognised in net income, except when it refers to items recognised directly in equity, in which case this impact is also recorded directly in equity.

2.14. – Inventories

Inventories are valued according to the following criteria:

Goods and raw materials

Goods and raw materials, both subsidiary or in effective use, are valued at the lower of acquisition cost and net realisable value. Acquisition cost includes expenses incurred up to arrival of goods at the warehouse, using the weighted average cost as the costing method.

The inventories held essentially refer to parts used in aircraft maintenance activities.

Material recovered internally is valued at cost.

Products and work in progress

Products and work in progress are valued at the lower of production cost (which includes the cost of incorporated raw materials, labour and general manufacturing costs, based on the normal production level) and the net realisable value.

The net realisable value corresponds to the estimated selling price minus estimated finishing and marketing costs. Differences between cost and net realisable value, if lower, are recorded in the heading "Inventory adjustments".

2.15. – Current receivables

The balances of customers and other current receivables are recorded initially at fair value and recognised subsequently at amortised cost, minus any impairment losses required to place them at their expected net realisable value (Notes 18 and 21).

Impairment losses are recorded when there is objective evidence that the Group will not receive all amounts owed in accordance with the original conditions of the accounts receivable.

2.16. – Cash and cash equivalents

The cash and cash equivalents heading includes cash, bank deposits and other short term investments with original maturities of up to 3 months, which can be mobilised immediately without any significant risk of fluctuations in value. For the purposes of the cash flow statement, this heading also includes bank overdrafts, which are presented in the statement of financial position, in current liabilities, under the heading "Loans received"

2.17. – Share capital and own shares

Ordinary shares are classified under equity (Note 24).

Costs directly attributed to the issue of new shares or other equity instruments are presented as a deduction, net of tax, from the value received as a result of the issue.

Costs directly imputable to the issue of new shares or options, for the acquisition of a business are included in the acquisition cost, as part of the purchase value.

Own shares are recorded at their acquisition value, as a reduction of equity, under the heading "Own shares", with any gains or losses inherent to their disposal being recorded under other reserves. Pursuant to the applicable commercial legislation, while own shares are held by the company, a reserve of an amount equal to their acquisition cost is unavailable.

2.18. – Loans received / remunerated liabilities

Remunerated liabilities are initially recognised at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the repayment value is recognised in the income statement over the period of the debt, using the effective interest rate method.

Remunerated liabilities are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the date of financial position (Note 27).

2.19. – Financial costs related to loans

Financial costs related to loans are generally recognised as financial costs, in accordance with the accrual principle.

Financial costs of general and specific loans, directly related to the acquisition, construction (if the period of construction or development exceeds one year) or fixed assets production, are capitalised, to form part of the asset's cost.

Capitalisation of these charges begins once preparations are initiated for the construction or development of the asset and is suspended after its utilisation begins or when the respective project is suspended or substantially concluded.

2.20. – Provisions

Provisions are recognised whenever the Group has a present legal, contractual or constructive obligation, as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions for current lawsuits are constituted in accordance with the risk assessments carried out by the Group and its legal advisors, based on historical success rates by type of legal action and probability of unfavourable outcomes for the Group.

Provisions for future operating losses are not recognised. The provisions are reviewed on the reporting date and adjusted to reflect the best estimate on that date (Note 26).

2.21. – Post-employment benefits

Some of the Group's subsidiaries have undertaken to make monetary payments to their employees for retirement pension supplements, early retirement benefits, health care and seniority bonuses.

As mentioned in Note 28, the Group has set up autonomous Pension Funds as a way of financing part of its liabilities for these payments. In order to estimate the liabilities related to the defined benefit plans referred to above, the Group periodically obtains actuarial calculations of these liabilities determined in accordance with the projected unit credit method.

The Group records the remeasurement directly in the consolidated comprehensive income statement, namely those arising from changes in demographic assumptions and differences between real data and these same assumptions.

The liabilities recognised in the consolidated statement of financial position represent the present value of the liabilities related to the defined benefit plans, minus the fair value of the assets of the funds, under the heading "Liabilities related to post-employment benefits".

Plans showing surplus funding are recorded as assets, when there is explicit authorisation for their offsetting with future employer contributions, or if the reimbursement of this financial surplus is explicitly authorised or permitted.

Gains and losses generated by a curtailment or settlement of a defined benefit pension plan are recognised through profit or loss for the year when the curtailment or settlement occurs. A curtailment occurs when there is a material reduction in the number of employees or when the plan is modified so that the benefits are materially reduced.

Costs related to past liabilities resulting from the implementation of a new plan or increases in the benefits attributed are recognised immediately through the Group's profit or loss.

The contributions made under the defined contribution plans are recorded as costs in the consolidated income statement on the date when their payment falls due. According to these plans, in the event of the fund not having sufficient assets to pay all the employees the benefits related to their work provided in the current year and previous years, the sponsor faces no legal or constructive obligation to make additional contributions.

2.22. – Current payables

The balances of suppliers and current payables are stated initially at fair value and subsequently measured at amortised cost (Notes 30 and 31).

2.23. – Grants

State grants are recognised only after it becomes certain that the Group will comply with the respective conditions and that the grants will be received.

Operating grants, received for the purpose of compensating the Group for costs incurred, are recorded systematically in the income statement during the periods when the costs that these grants seek to cover are recognised.

Investment grants received by the Group to compensate fixed asset investments are included under the heading "Other current accounts payable" and recognised through profit or loss, during the estimated useful life of the respective subsidised asset, through deduction of the depreciation/amortisation.

2.24. – Leases

Tangible fixed assets acquired under financial leasing contracts as well as the corresponding liabilities are accounted for by the financial method.

According to this method, the asset cost is recorded in tangible fixed assets, the corresponding liability is recorded in liabilities under the heading of loans received, the interest component of lease payments and depreciation of the asset, calculated as described in Note 2.6, are recognised as costs in the profit and loss statement of the year to which they refer.

Leases where a significant portion of the risks and benefits of ownership are retained by the lessor, and the Group is the lessee, are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are recorded in the income statement over the period of the lease.

2.25. – Distribution of dividends

The distribution of dividends to shareholders is recognised as a liability in the Group's financial statements for the year when the dividends are approved by the shareholders and up to the time of their payment.

2.26. – Revenue recognition and the accrual basis

Income from sales is recognised in the consolidated income statement when the risks and benefits inherent to the possession of the respective assets are transferred to the buyer and the income can be quantified reasonably.

Revenue from the sale of passenger and cargo transport is recorded as a liability when the sale is made, under the heading "Advances from customers – tickets to be used". When the ticket is used or cancelled, its value is transferred from this heading to income for the year or to an account payable, depending on whether the transport has been: i) carried out by the Group or the ticket has been cancelled and is not subject to reimbursement ii) made by another airline carrier or the ticket has been cancelled but is subject to reimbursement, respectively, by a value which is usually different from that recorded at time of its sale. From time to time, the balance of "Advances from customers – tickets to be used" is analysed to adjust the balance of tickets sold to check for those that have already been used or that are no longer valid and thus, not suitable for flight or reimbursement.

Commissions attributed by the Group on ticket sales are deferred and recorded as costs for the year, according to the distribution of the periods between years of the respective transport revenue.

For the "TAP Victoria" frequent flyer programme, the Group follows the procedure, under defined conditions and based on flights carried out, of granting free air miles to customers who join the said loyalty scheme, which may subsequently be used for flights with favourable conditions, such as reduced fares. Based on the number of miles attributed and not used or expired at the end of each year and on the unit value attributed, at fair value, the Group defers the revenue corresponding to the estimate of the value perceived by the customer in the attribution of miles.

The complete work method has been adopted for the recognition of revenue from maintenance contracts. According to this method, the income directly related to work in progress is recognised in the profit and loss statement up to the point at which it is likely that the costs incurred are recoverable within the terms of the contract.

Contract costs are recognised as a cost in the year in which they occur. When it is likely that total costs of the contract will exceed the total revenue of the contract, the expected loss is recognised as a cost.

The provisional invoicing of maintenance work for third parties that were still in progress as at 31 December 2013 is recorded under the deferrals heading.

Sales are recognised net of taxes, discounts and other costs inherent to their completion, at the fair value of the sum received or receivable.

Group companies record their income and costs as they are generated, pursuant to the accrual principle, independently of the time when they are paid or received.

The differences between amounts received and paid and the corresponding costs and income are stated under the headings of deferrals, current accounts receivable and current accounts payable (Notes 19, 18 and 31, respectively).

2.27. – Contingent assets and liabilities

Contingent liabilities relative to which an outflow of funds affecting future economic benefits is only possible are not recognised in the consolidated financial statements, but are disclosed in the notes, unless the possibility of an actual outflow of funds affecting future economic benefits is remote, in which case they are not disclosed.

Provisions for liabilities which meet the conditions established in Note 2.20 are recognised.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed in the notes when a future economic benefit is probable.

2.28. – Consolidated cash flow statement

The consolidated cash flow statement is prepared in accordance with IAS 7, through the direct method. The Group classifies assets with maturity of less than three months and for which the risk of alteration of value is insignificant under the heading of "Cash and cash equivalents". For the effects of the consolidated cash flow statement, this heading also includes bank overdrafts, which are presented in the consolidated statement of financial position, under the heading "Current loans received".

The cash flows are classified in the consolidated cash flow statement, depending on their nature, into (1) operating activities, (2) investment activities and (3) financing activities.

Operating activities essentially include revenue from customers, and payments to suppliers and employees. These activities also include payments of net indirect taxes, income tax and payments related to retirement benefits.

The cash flow covered in investment activities includes, namely, acquisitions and disposals of financial investments, dividends received from associate companies, and revenue and payments arising from the purchase and sale of tangible and intangible assets.

Financing activities cover, namely, payments and revenue relative to loans received, payments related to interest and associated expenses, the acquisition of own shares and payment of dividends.

2.29. – Subsequent events

Events occurred after the reporting date, which provide additional information on conditions which existed on that date, are reflected in the consolidated financial statements.

Events occurred after the reporting date, which provide information on conditions which arise after this date, are disclosed in the notes to the consolidated financial statement, if materially relevant.

2.30. – New standards, amendments and interpretations of existing standards

New standards and interpretations of mandatory application as at 31 December 2013

The interpretations and amendments of existing standards issued by the IASB, identified below, are of mandatory application for financial years that begin on 1 January 2013:

Standards and interpretations effective as at 31 December 2013:

Description	Amendment	Effective date
IAS 1 - Presentation of the financial statements	Presentation of other comprehensive income	1 July 2012
IAS 12 - Income taxes	Deferred taxes	1 January 2013
IAS 19 - Employee benefits	Defined benefits	1 January 2013
Improvement to standards 2009 – 2011	Clarifications	1 January 2013
IFRS 1 - First-time adoption of the IFRS	Hyperinflation and removal of fixed dates	1 January 2013
IFRS 7 - Financial instruments: disclosure	Presentation of offsetting	1 January 2013
IFRS 13 - Fair value: measurement and disclosure	New standard - unification of the concept of fair value	1 January 2013
IFRS 1 - First-time adoption of the IFRS	Subsidised loans	1 January 2013
IFRIC 20 - Stripping costs in the production phase of a surface mine	New interpretation – treatment of waste removal costs	1 January 2013

The introduction of these interpretations and amendments of the standards mentioned above did not have relevant impacts on the Group's financial statements, with the exception of the adoption of IAS 19 (revised).

As a result of the adoption of the revised version of IAS 19, the following alterations were made to the consolidated statement of financial position, as at 1 January and 31 December 2012, and to the consolidated income statement for the year ended on 31 December 2012, reported previously:

Values in thousand euros

	1 January 2012		
	Statement before the effects of restatement	Adoption of IAS 19 (revised)	Restatement
Assets			
Total assets		**–**	**1,981,964**
Equity and liabilities			
Equity			
Share capital	15,000	–	15,000
Legal reserves	3,000	–	3,000
Currency conversion reserves	(6,867)	–	(6,867)
Fair value reserves	(1,236)	–	(1,236)
Adjustment of equity holdings	(2,260)	–	(2,260)
Retained earnings	(281,876)	(4,939)	(286,815)
Net income for the year	(76,807)	4,939	(71,868)
Total equity of the Group	**(351,046)**	**–**	**(351,046)**
Non-controlling interests	7,801	–	7,801
Total equity	**(343,245)**	**–**	**(343,245)**
Liabilities			
Liabilities related to post-employment benefits	78,540	–	78,540
Other liabilities	2,246,669	–	2,246,669
Total liabilities	**2,325,209**	**–**	**2,325,209**
Total equity and liabilities	**1,981,964**	**–**	**1,981,964**

Values in thousand euros

	31 December 2012		
	Statement before the effects of restatement	Adoption of IAS 19 (revised)	Restatement
Assets			
Total assets	**1,650,705**	**–**	**1,650,705**
Equity and liabilities			
Equity			
Share capital	15,000	–	15,000
Legal reserves	3,000	–	3,000
Currency conversion reserves	(13,579)	–	(13,579)
Fair value reserves	(1,680)	–	(1,680)
Adjustment of equity holdings	(2,260)	–	(2,260)
Retained earnings	(359,091)	(5,307)	(364,398)
Net income for the year	(30,794)	5,307	(25,487)
Total equity of the Group	**(389,404)**	**–**	**(389,404)**
Non-controlling interests	8,599	–	8,599
Total equity	**(380,805)**	**–**	**(380,805)**
Liabilities			
Liabilities related to post-employment benefits	71,026	–	71,026
Other liabilities	1,960,484	–	1,960,484
Total liabilities	**2,031,510**	**–**	**2,031,510**
Total equity and liabilities	**1,650,705**	**–**	**1,650,705**

Values in thousand euros

	31 December 2012		
	Restatement before the effects of restatement	Adoption of IAS 19 (revised)	Restatement
Sales and services rendered	2.618.049	–	2.618.049
Operating grants	4.312	–	4.312
Gains and losses in associates	4.110	–	4.110
Variation in production	(7.887)	–	(7.887)
Own work capitalised	1.144	–	1.144
Cost of goods sold and materials consumed	(205.028)	–	(205.028)
External supplies and services	(1.768.063)	–	(1.768.063)
Personnel costs	(513.201)	6.318	(506.883)
Inventory adjustments (losses/reversals)	(1.964)	–	(1.964)
Impairment of debts receivable (losses/reversals)	3.323	–	3.323
Provisions (increases/decreases)	3.687	–	3.687
Fair value increases/reductions	2.210	–	2.210
Other income and gains	55.972	–	55.972
Other costs and losses	(42.443)	–	(42.443)
Earnings before interest, taxes, depreciation and amortisation	**154.221**	**6.318**	**160.539**
Depreciation and amortisation costs/reversals	(119.776)	–	(119.776)
Net operating income (earnings before interest and taxes)	**34.445**	**6.318**	**40.763**
Interest and similar revenue received	5.696	–	5.696
Interest and similar costs paid	(57.371)	–	(57.371)
Pre-tax earnings	**(17.230)**	**6.318**	**(10.912)**
Corporate income tax for the year	(8.185)	(1.011)	(9.196)
Net income for the year	**(25.415)**	**5.307**	**(20.108)**
Net income of shareholders of the parent company	**(30.794)**	**5.307**	**(25.487)**
Net income of non-controlling interests	5.379	–	5.379
Basic and diluted earnings per share (euros)	(21)	4	(17)

New standards and interpretations whose application is not mandatory as at 31 December 2013

There are new standards, amendments and interpretations of existing standards, which, although they have already been published, are only mandatory for annual financial years which begin on or after 1 January 2014, regarding which the Group has decided not to adopt them for this financial year, as follows:

Standards effective in the EU on or after 1 January 2014:

Description	Amendment	Effective date
IAS 32 – Financial instruments: presentation	Offsetting of financial assets and liabilities	1 January 2014
IAS 36 - Impairment of assets	Disclosures on the recoverable value of impaired assets	1 January 2014
IAS 39 – Financial instruments: recognition and measurement	Novation of derivatives and continuity of hedge accounting	1 January 2014
Amendments IFRS 10, 11 and IAS 27	Exemption from consolidation for investment companies	1 January 2014
IFRS 10 - Consolidated financial statements	New standard - Consolidation	1 January 2014
IFRS 11 - Joint arrangements	New standard - Accounting treatment of joint arrangements	1 January 2014
IFRS 12 - Disclosure of interests in other entities	New standards - Disclosure for all interests in other entities	1 January 2014
Amendments IFRS 10, 11 and 12	Transition regime	1 January 2014
IAS 27 - Separate financial statements	Consolidation removed from scope	1 January 2014
IAS 28 - Investments in associates and joint ventures	Application to joint ventures	1 January 2014

Standards and interpretations effective in the EU on or after 1 January 2014, not endorsed by the EU:

Description	Amendment	Effective date
IAS 19 - Employee benefits	Accounting of the contributions of employees or other entities	1 July 2014
Improvement to standards 2010 – 2012	Clarifications	1 July 2014
Improvement to standards 2011 – 2013	Clarifications	1 July 2014
IFRS 9 - Financial instruments: classification and measurement	New standard - classification and measurement of financial instruments	To be defined
Amendment IFRS 9 - Financial instruments: hedge accounting	Amendment - substantial revision of hedge accounting	To be defined
IFRIC 21 – Government Rates (Levies)	New interpretation - Accounting of liabilities due to rates and taxes	1 January 2014

The Group has not yet concluded the calculation of all the impacts resulting from the application of the aforesaid standards, and therefore, has chosen against their early adoption. However, the Company does not expect that they will have materially relevant impacts on its net worth and results.

2.31. – Relevant accounting estimates and judgements

The preparation of the consolidated financial statements requires that the Group's management make judgements and estimates which affect the amounts of the income, costs, assets, liabilities and disclosures on the reporting date.

These estimates are determined by judgements of the Group's management, based: (i) on the best information and knowledge of present events, supplemented, in some cases, by reports prepared by independent experts, and (ii) on the actions the Group considers it may develop in the future. However, on the execution date of the operations, their results may differ from these estimates.

The estimates and assumptions that present a significant risk of leading to a material adjustment in the book value of the assets and liabilities in the following financial year are presented below:

Impairment of goodwill

The Group conducts an annual goodwill impairment test, which it records in the statement of the financial position, pursuant to the accounting policy indicated in Note 2.9. The recoverable values of the cash generating units are determined based on the calculation of value in use. This calculation requires the application of estimates.

The estimated value in use implies a high degree of judgement by the Executive Board of Directors, concerning the determination of expected cash flows, applicable discount rates and residual values.

Income tax

The Group recognises liabilities for additional tax payments that may result from reviews carried out by the tax authorities. When the final outcome of these situations is different from the initially recorded values, the differences will have an impact on income tax for the financial year when these differences occur.

Deferred taxes

The Group recognises and settles income tax based on the earnings of its operations, calculated in accordance with the local corporate legislation, considering the rules of the tax legislation, which are different from the values calculated in accordance with the IFRS. Pursuant to IAS 12, the Group recognises deferred tax assets and liabilities based on the existing difference between the book value and tax base of its assets and liabilities. The Group periodically analyses the recoverability of the deferred tax assets based on historical information on taxable profit, the projection of future taxable profit and the estimated time of reversal of temporary differences.

The estimates were determined based on the best information available on the date of preparation of the consolidated financial statements; however, situations may occur in subsequent periods which, due to not being predictable on this date, were not considered in these estimates. Pursuant to IAS 8, any changes to these estimates, which occur after the date of the consolidated financial statements, are corrected through profit or loss prospectively.

Post-employment benefits

The present value of the liabilities related to retirement benefits is calculated based on actuarial methodologies, which use specific assumptions. Any changes of these assumptions will have a relevant impact on the book value of these liabilities. The demographic assumptions used in the calculation of the liabilities related to retirement pensions are described in Note 28. The Group's policy is to periodically review the main demographic assumptions, when their impact on the consolidated financial statements is materially relevant.

Recognition of provisions and adjustments

The Group is involved in several on-going lawsuits for which, based on the opinion of its legal consultants, a judgement is made to determine whether a provision for these contingencies should be recorded.

The adjustments of accounts receivable are calculated, essentially, based on accounts receivable by age, the risk profile of customers and their financial situation.

Inventory adjustments are calculated based on criteria pertaining to the nature, purpose of use, age and turnover of materials.

Customer loyalty programme

The Group defers the revenue, under the customer loyalty programme "TAP Victoria", based on the unit value of the mile, at the fair value perceived by the customer. Changes in the assumptions used by the Group in the calculation of this estimate may have a significant impact.

Tangible fixed assets and intangible assets

The determination of the useful life of assets and their residual value, as well as the method of depreciation/amortisation, is essential to determine the amount of depreciation/amortisation to be recorded in the consolidated income statement for each financial year.

These parameters are defined in accordance with the best judgement of the Executive Board of Directors for the assets in question, also considering the practices adopted by companies in the sector at an international level.

2.32. – Fair value of financial assets and liabilities

IFRS 13 introduced new disclosure requirements on offsetting rights (of assets and liabilities) that are not stated, the offset assets and liabilities, and the effect of this offsetting on exposure to credit risk.

In the determination of the fair value of a financial asset or liability, if there is an active liquid market, the market quotation at the reporting reference date is applied. This constitutes level 1 of the fair value hierarchy as defined by IFRS 13.

If there is no active market, evaluation models, whose main inputs are observable on the market, are used. This constitutes level 2 of the fair value hierarchy as defined by IFRS 13.

For some types of more complex derivatives, more advanced valuation models containing assumptions and data that are not directly observable in the market are used. In these cases, the Group uses internal estimates and assumptions. This constitutes level 3 of the fair value hierarchy as defined by IFRS 13.

3 – Financial risk management policies

The economic, financial, social and geopolitical environment in which the Group's activity developed last year continued to show potential risks and adverse situations which constrained the Group's management conduct. However, likewise, this same economic and financial context also offered opportunities and positive developments which were used to improve the Group's market positioning.

The negative aspects to be noted, among others, include the depreciation of the Brazilian real, the worsening of economic and social tensions in some of the emerging economies, for example in Venezuela, and the maintenance of high, albeit stable, levels of oil prices. Among the positive aspects, we highlight the balancing of public finance in Portugal, the stabilisation of conditions in financial markets and the maintenance of low levels of Euribor rates.

In the everlastingly complex puzzle in which the activity develops, covering many different countries across three continents, factors as diverse as the instability in north Africa, with impact on national tourism, and pressures on currencies outside Europe, such as the real or bolivar, as well as the suspension of the Guinea Bissau line, and among so many others, have constrained the activity and results of the "Group".

In this context, the management of risk, in other words, the continuous effort to adapt to change is of extreme importance.

Price risk

In air transport activity, close to half the Group's ticket revenue is generated in two markets, Portugal and Brazil. During 2013, these two markets generated almost the same income, around 500 million Euros. Over the last few years, the weight of the Portuguese market has declined gradually in total income, while, in contrast, the weight of the Brazilian market has increased in relative terms. Both Portugal and Brazil currently each account for around one quarter of passenger transport revenue, however, while the income generated in Brazil has grown continuously, in absolute terms, the income generated in the national market has stagnated or even contracted slightly.

This behaviour in the Group's two main markets is not unrelated to the performance of the respective economies in recent years, reflecting the strong increase of purchasing power of the Brazilian consumer and the economic growth in Brazil, contrasting with the recession that has been experienced in Portugal. The increased number of destinations served in Brazil, over the last few years, has also contributed to a larger and better coverage of the vast Brazilian market, boosting sales in Brazil and, reciprocally, in Europe, with final destination in Brazil.

While the income arising from ticket sales in the Brazilian market represents close to a quarter of the total figure, in terms of air transport activity, measured by the passenger kilometres used (PKUs), Brazil accounts for 40% of the total. Consequently, the value of the income generated on the routes between Brazil and Europe is already of a very significant weight in the Group's total income, whether generated in the Brazilian market, in the Portuguese market or in any other European market using TAP's hubs.

The evolution and growth of the volume of activity, in terms of flights, seats offered and passenger kilometre, show a more irregular path than the growth of sales because the former partly depend on the expansion of the operation and opening of new lines and the combination of demand on both sides of the Atlantic. For this reason, for example, in 2013, sales grew by over 5% in Brazil, but there was near stability in the volume of passengers and passenger kilometres on Brazilian routes.

In Europe, with the exception of Portugal, there was significant growth of income in most countries, but particularly in the German market, which is not unconnected to the role played by the Star Alliance and strong use of Frankfurt hub. Other markets, such as France, Italy, United Kingdom and Switzerland also showed good dynamics, in spite of the context of economic stagnation of the European economy. In general terms, Europe – in stark contrast to Portugal – has shown growth of sales, volume of activity, number of passengers and passenger kilometres. The geographic coverage of the "Group" has expanded consistently with more routes, more flight frequencies and new markets, in buoyant countries such as Russia and Romania. As a whole, Europe accounts for around 38% of both income (Europe, without Portugal) and total passenger kilometres (between Europe and Portugal) and close to 60% of the Group's total passengers.

Africa represents close to 7% of ticket income and 11% of the activity of the Group, having shown a dynamic performance during 2013. Angola, which accounts for over half the African sales and activity, countered the positive trend in terms of activity (offer and passengers), although sales increased significantly.

In the American markets, Venezuela grew significantly in terms of sales, having reached a weight in sales equivalent to that of the North American market, of approximately 4%.

The overall growth of ticket income, of around 5%, was the result, during 2013, of a balanced combination of a higher flight load rate and an expressive increase of the yield and average fare. The premium passenger segment, for example, covering executive passengers as well as, for example, corporate customers with fares that are higher than the average, grew significantly during the year.

The Group's overall offer did not increase in the year, with the passenger kilometre offered (PKO) indicator having remained stable for the operation as a whole, in comparison to the previous year.

Exposure to the air transport activity market shows two levels of diversification. One is more global, intercontinental, where the Group is a well positioned player in the connection between Europe and South America, with capacity to adapt, adjust and expand its operation (where the new Colombia and Amazon routes are examples). The other level of diversification is in Europe and Africa, with growing coverage of markets and destinations, to the east and north, in Europe, and likewise in Africa, in particular in the geographic area closest to Europe (where Ghana, the new Cape Verde lines and the increased frequencies to São Tomé are examples).

While passenger air transport activity has managed to overcome the economic crisis, cargo transport activity has undergone some retraction over the last 3 years. The decline of cargo sales, derived from both lower yield and tonnage, has been the result of various factors, including the need of a trade-off between passengers and cargo when flight load levels increase, which has been the case. Competition in cargo is intense and loyalty to routes is lower than in passenger transport.

In turn, maintenance activity has constituted an unfavourable element in the evolution of the Group's total income. During 2013, maintenance activity in Portugal recorded a significant loss of revenue, with this decline having been particularly pronounced in engine maintenance and less so in aircraft and component maintenance.

The changes in the engine maintenance business were particularly due to the fact that this maintenance segment has undergone considerable transformations, with changes of technology and models, which has necessarily implied constant investment in licenses and training in order to maintain competitiveness in this area, apart from which, the ongoing renewal of fleets of customer companies and the increased reliability of equipment leads to lower need for inspections and repairs by operators.

Regarding airframe revisions, a higher load of work for the TAP fleet means lower availability of the hangars to receive new external customers, where this fact has been reflected in the revenue from third parties. In terms of available capacity, TAP M&E Brazil has given a special contribution to the airframe revision activity.

TAP M&E Brazil once again increased its sales during the year, and currently shows turnover levels that are very close to those of maintenance in Portugal (as is the case with the sale of tickets, between Portugal and Brazil). As a whole, these two maintenance bases account for close to 6% of the Group's turnover in 2013.

Taking into consideration the combined effect of the weight of income from cargo and maintenance activities and the decline experienced in these business areas, these activity components have an overall negative impact on the Group's total growth rate.

Risk of price of fuel and other costs

Over the last 3 years, the fuel expenses have represented close to 30% of total costs in the Group. Average jet fuel prices in markets have fluctuated around 1,000 dollars per ton for the past 3 years, to which margins or additional costs of commercial or tax-related nature should be added. This market level has corresponded to oil prices of around 110 dollars a barrel. The euro exchange rate relative to the dollar has also showed limited volatility, fluctuating at levels of 1.30-1.40.

The quantity of fuel consumed strictly depends on the number of flight hours and shows a high correlation with the number of passenger kilometres offered in the entire network. In contrast to previous years, when there was an increase of consumption derived from more hours and more flights, in 2013 this variable stabilised and the offer, although more diversified, did not increase as a whole.

Total fuel expenditure fell by around 5% in 2013, as a result of a moderate average increase in the euro exchange rate and a minor reduction in the average price of jet fuel observed during the year. This combination of factors should also include the hedging component, which covered 40% of consumption, although with limited impact due to the low volatility and slight decline of prices observed in the market, albeit with a positive contribution to the final value.

As evident in the past years of 2008 and 2011, with strong fluctuations in oil prices and important impacts on the net operating income of the "Group", the sensitivity of net operating income to this market variable is very significant and constituted one of the determinant data for the activity's profitability.

In terms of costs, the second most important and determinant item of the operating accounts, personnel costs, had shown relatively stable behaviour in the past. However, since 2011, and as a result of the changes arising from the Portuguese public debt adjustment programme, wage policy, imposed on the entire corporate perimeter of the Portuguese State, was subject to successive amendments which have significantly affected the labour costs of companies. Therefore, in 2013, personnel costs increased by over 10% in relation to the previous year, in view of the restoration of holiday and Christmas allowances. The weight of personnel costs in total income currently represents about one fifth of the total amount.

Since fuel costs and personnel costs presently account for half the total costs of the Group, the remaining market exposure resides in the different costs of the operation (an operation which hardly varied in terms of volume during 2013), dependent on the prices applied by airport entities, costs related to navigation rates, catering, handling, consumption in maintenance activity and commercial costs, among others. Exposure also resides in the cost inherent to equipment, amortisation, operating leases, respective financial costs, and lastly, miscellaneous provisions and taxes.

Exchange rate risk

Exchange rate exposure, arising from the Group's activity, is a complex reality in view of its operation at a global scale and the fact that three quarters of sales are obtained outside Portugal.

On the revenue side, ticket sales carried out in Portugal, plus sales carried out in Europe (and, to a much lesser extent, in Africa) in countries whose currency is the euro or is indexed to the euro represent half the total ticket revenue. Of the other half, the remaining 40% of revenue from ticket sales are denominated in currencies with higher volatility and greater risk, while the remaining 10% comprise of sales in currencies with low volatility in relation to the euro (such as the Swiss franc) and other in Europe with average volatility (pound, eastern or northern European currencies).

The majority of the sales outside Europe are reflected in exposure to the dollar, not directly, in most cases, but rather through sales in currencies such as the Brazilian real or Angolan kwanza, since in these countries the fares are established based on the dollar. This exposure applies to approximately one third of total ticket revenue (covering Brazil, Angola and United States). However, in the case of Brazil, the movement of the real could enhance the effects of exchange rate devaluation on revenue, since a devaluation of the real in relation to the dollar could lead to a decline of sales in the Brazilian market, due to increased fares through the exchange rate effect.

The rest of the exposure is dispersed over various currencies which, in specific cases, can have significant impact on accounts and results. The situation of Venezuela is an example of this, with considerable losses having occurred in the recent past, as a result of the strong devaluation of the bolivar and negative impacts of the restrictions to the transfer of revenue generated locally. However, based on the contacts maintained between IATA, the Venezuelan Government and "TAP S.A.", the Executive Board of Directors believes that the devaluation which occurred in 2014 will not have an impact on the Group's treasury with respect to the turnover gained up to December 2013.

While, on the revenue side, sensitivity to the dollar (by one third of total ticket revenue and part of maintenance revenue) and, to a certain extent, the Brazilian real, is relevant, the fact that fuel, at current prices, also represents exposure to the dollar of an equivalent magnitude, leads to unfavourable net exposure to the dollar, since many other operating costs of the Group are denominated in this currency. Hence, the exchange rate balance to the dollar continues at a deficit as a result of the costs related to maintenance, navigation and airport rates, catering, handling and insurance, where the dollar is present, the operating leases and a part, albeit not negligible, of financial costs (since around 11% of the total debt is in dollars), although it is not easy to quantify this overall net exposure.

To summarise, in the current economic circumstances, the Group shows a surplus net exposure, in its revenue, to the Brazilian real and to a lesser extent, to the Venezuelan bolivar, supporting the risk of depreciation and devaluation of these currencies. However, in an opposite position, the Group shows a negative exposure in its costs and liabilities to the dollar, and may benefit from any depreciation of this currency, as occurred in 2013.

The Group's exposure to exchange rate risk as at 31 December 2013 and 2012, based on the values of the Group's statement of the financial position, financial assets and liabilities converted into Euros at the exchange rates in force on the reporting date, is presented below:

	2013			
	USD	BRL	Other	Total
ASSETS				
Cash and cash equivalents	14,490	2,626	121,478	138,594
Accounts receivable - customers	23,523	98,865	25,584	147,972
Accounts receivable - other	32,561	26,133	1,044	59,738
	70,574	**127,624**	**148,106**	**346,304**
LIABILITIES				
Loans received (Note 27)	114,626	13	–	114,639
Accounts payable - suppliers	21,932	13,428	4,563	39,923
Accounts payable - other	3,224	12,315	3,167	18,706
	139,782	**25,756**	**7,730**	**173,268**

	2012			
	USD	BRL	Other	Total
ASSETS				
Cash and cash equivalents	13,960	3,423	43,870	61,253
Accounts receivable - customers	34,732	94,875	19,177	148,784
Accounts receivable - other	29,533	22,108	2,556	54,197
	78,225	**120,406**	**65,603**	**264,234**
LIABILITIES				
Loans received (Note 27)	124,301	21	–	124,322
Accounts payable - suppliers	15,638	13,022	5,491	34,151
Accounts payable - other	5,215	10,731	1,773	17,719
	145,154	**23,774**	**7,264**	**176,192**

In 2013, the heading "Other" includes the value of 98.7 million euros, which are denominated in Venezuelan bolivar (VEF), distributed as follows: 93.7 million euros under "Cash and cash equivalents" and 5 million euros under the heading of "Other accounts receivable".

As at 31 December 2013, a 10% variation (positive or negative) of all the exchange rates relative to the euro would result in an impact on the net income for the year of approximately 17,000 thousand euros (2012: 9,000 thousand euros).

Interest rate risk

The "Group" continues to hold remunerated liabilities corresponding to around half of its total liabilities. This debt has maturities up to 2020, with its average maturity period being approximately 3 years, which may increase in the event of a successive renewal of existing short term lines.

Under normal conditions of market stability, close to one fifth of the value of the loans is renewed each year. In recent years, the restriction to credit in the markets has made the accomplishment of financing operations more difficult and more expensive. On the other hand, in 2012, during the privatisation process, the negotiation and restoration of capital were interrupted, with the consequent need for adjustment in 2013 being even more important.

In 2013, the contracting of financing operations was resumed and by the end of the year, the Group' debt stock was close to the opening balance for the year, offsetting the entire volume of programmed amortisation.

The main change observed in the characteristics of the debt was an increase of the proportion in total debt of the current debt component (which includes the short term liabilities of the medium and long term financing) from around 25% in 2012 to approximately 37% of the total in 2013. In addition to the contracting of credit lines, new long term financial lease operations were also contracted during the year from national and international banks, involving five aircraft which were thus refinanced after the end of their previous leases. Although the overall debt has remained at the same levels as the previous years, net debt decreased significantly by around 18%, in relation to 2012.

The margins applied in the new operations were lower than those observed in the last operations that were carried out or renewed, namely in 2011, although clearly above the average prices for the total financing and leasing in force. The average cost of the debt remained, as a whole, at moderate levels, which is evident in the financing cost headings of the consolidated income statement. The fixed interest rate component of debt stood at slightly above 50% of the total at the end of 2013, compared with close to 60% at the end of 2012.

The table of remunerated liabilities presented below, which includes principal and interest, is based on the following assumptions relative to market interest rates and the euro/dollar exchange rate: 3% for the Euribor, 1.75% for the Dollar Libor, and 1.3791 for the Eurodollar (2012: 1.3194 for the Eurodollar). The liability values express the values payable within the respective periods of time, including the estimate of all contracted cash flow with amortisation and interest, not discounted, until the maturity of the loans. A simplifying assumption of a linear intra-annual amortisation rate to calculate future interest rates was considered:

	2013				
	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	Total
Loans	311,537	138,087	135,671	–	585,295
Financial leases	116,763	130,303	272,767	34,959	554,792
Total	**428,300**	**268,390**	**408,438**	**34,959**	**1,140,087**
Loans - fixed rate	51,676	102,380	98,134	–	252,190
Financial leases - fixed rate	68,530	82,894	162,418	34,959	348,801
Total - fixed rate	**120,206**	**185,274**	**260,552**	**34,959**	**600,991**

	2012				
	< 1 ano	1 – 2 anos	3 – 5 anos	6– 10 anos	Total
Loans	166,160	86,701	273,367	391	526,619
Financial leases	128,720	105,179	318,824	67,327	620,050
Total	**294,880**	**191,880**	**592,191**	**67,718**	**1,146,669**
Loans - fixed rate	51,648	51,676	200,514	–	303,838
Financial leases - fixed rate	66,856	65,723	212,838	50,451	395,868
Total - fixed rate	**118,504**	**117,399**	**413,352**	**50,451**	**699,706**

The "Group" uses a sensitivity analysis technique which measures the estimated changes to net income of an immediate increase or decrease in market interest rates, keeping all other variables constant. This analysis is for illustrative purposes only, since, in practice, market interest rates rarely change in isolation.

The sensitivity analysis is based on the following assumptions:

// Changes in market interest rates affect the yields or interest costs of variable financial instruments;

// Changes in market interest rates affect only the yields and interest costs of financial instruments with fixed interest if the instruments are recognised at fair value.

Under these assumptions, a 0.5% increase or decrease in market interest rates, for all currencies in which the Group has loans, as at 31 December 2013, would result in a decrease or increase in the amount of interest due of approximately 3,500 thousand euros. (2012: 4,100 thousand euros).

Note 27 presents details of the remunerated bank debt with indication of the financing entity and respective reference rate.

Credit and liquidity risk

At the end of 2013, the "Group" has surplus liquidity invested in the national market, in an optimised manner, in terms of availability, risk and remuneration, as well as significant values of deposits at the Representations, expressing a positive treasury position. This position reflects the combination of different factors although it was especially due to the favourable evolution of operating cash flow throughout the year, as a consequence of the good performance of the passenger air transport activity. It should be noted in particular that a substantial part of the values at the Representations refers to values deposited in Venezuela with inherent difficulty of repatriation.

In general, and excluding political factors, the overall credit quality of customers and debtors continues favourable, as well as the average collection period of receivables.

In relation to financial prospects, the significant improvement recorded in capital markets throughout this last year enable foreseeing greater facility of financing and better price conditions in the near future. Although a considerable part of the outstanding refinancing operations were carried out at the end of 2013, there appears to be growing interest by financers and lessors in participating in future operations that the "Group" may place on the market.

At the end of 2013 and 2012, and after the changes in debt which took place over the year, the current remunerated liabilities, including the estimate of all contractual cash flow related to amortisation and interest, not discounted, stood at the values presented in the table below:

	2013		2012	
	1st Semester	2nd Semester	1st Semester	2nd Semester
Amortisation				
Loans	36,781	252,911	35,035	112,252
Financial leases	47,657	48,365	64,076	42,824
Total	**84,438**	**301,276**	**99,111**	**155,076**
Interest				
Loans	11,264	10,581	9,768	9,105
Financial leases	10,893	9,848	11,561	10,259
Total	**22,157**	**20,429**	**21,329**	**19,364**

In addition to short and long term financial management and cash management, also in the area of current asset management, there has been rigorous monitoring of customers' positions and the repercussions of the effects of the economic crisis on their credit quality, and it was possible to limit the aggravation, for example, of the adjustments to a negligible value in terms of the scale of the activity.

The following table presents elements relative to the Group's liquidity position as at 31 December 2013 and 2012, as well as balances of accounts receivable, which reflect the credit risk on these same dates:

	2013	2012
Non-current assets		
Judicial deposits - Brazil (Note 18)	17,648	20,429
Other non-current assets	25,253	30,010
Current assets		
Cash and cash equivalents	270,611	85,353
Accounts receivable - customers	205,690	231,574
Other current assets	75,246	61,950
	594,448	**429,316**
Exposure to off-balance sheet credit risk		
Guarantees provided (Note 60)	66,904	64,762
Other commitments (Note 27)	252,462	245,068
	319,366	**309,830**

The Group's quality of credit risk and liquidity, as at 31 December 2013 and 2012, relative to financial assets (cash and cash equivalents and derivative financial instruments), whose counterparts are financial institutions, are detailed as follows:

Rating	2013	2012
AA-	–	264
A+	108	2,033
A	18,219	20,678
A-	769	–
BBB	–	3,029
BBB-	–	230
BB	5,346	5,401
BB-	3,522	5,949
B+	–	2,720
B	61,446	–
Other	188,984	45,615
	278,394	**85,919**
Derivative financial instruments (Notes 24 and 58)	7,988	700
Bank deposits (Note 22)	270,406	85,219
	278,394	**85,919**

The heading "Other" refers to values related to various international institutions, for which it was not possible to obtain their rating.

As at 31 December 2013 and 2012, the balances receivable from customers showed the following age structure, considering the maturity date as reference:

	2013	2012
Outstanding values	136,754	136,171
1 to 90 days	10,090	37,491
91 to 180 days	20,375	21,774
181 to 270 days	17,504	18,339
271 to 365 days	17,662	17,224
over 366 days	63,165	63,261
	265,550	**294,260**
Impairments (Note 21)	(59,860)	(62,686)
Net balance (Note 21)	**205,690**	**231,574**

The values correspond to the amounts owed, after the contracted maturity periods. Although there are delays in the settlement of some values in relation to these maturity periods, this does not result in the identification of situations of impairment apart from those considered through the corresponding losses. The recognised impairment essentially refers to debts of more than 366 days.

Of the total value of accounts receivable from customers, the balances of airline companies and travel agencies, as identified in Note 21, are settled, principally, through the IATA Clearing House system, which substantially minimises the credit risk of the "Group".

Capital management

The overall evolution of the Group's equity in 2013 was the result of the combination of two main factors: the maintenance of the aggregate funding level, achieved through the contracting of new operations to offset the programmed repayments of the financing in force, contributing to a slight increase of liabilities; the increased level of the Group's overall treasury offset the reduction of fixed assets, arising from the normal effect of the amortisation and depreciation of aircraft and other equipment, which was reflected in a moderate increase of assets, which was, even so, higher than that of the liabilities.

The change arising from the differentiated increase between the assets and liabilities was counteracted by an improvement in equity which, although maintaining its negative values, recorded a slight recovery. The determinant factors underlying this recovery were the significant improvement in the Group's net income, as a result of the good performance of air transport, the Group's core business, and the reduction of the losses in TAP M&E Brazil. The Group's net income thus reached close to break-even, significantly better than the previous year.

The restructuring and re-balancing of the Group's statement of financial position, which the privatisation process concerns, will continue dependent on decisions of the shareholder and on the actual conditions of the financial markets and markets of the air transport industry. Up until then, the Group's financial structure will continue dependent on bank financing and operating leases, as well as its treasury generating capacity. This restriction constitutes a constraining factor relative to new investments, for large-scale expansion of a structural nature, although it does not consist of an obstruction to the pursuit of the normal financing of the activity and its development.

4 – Employees

During 2013 and 2012, the average number of employees working for the company and all its subsidiaries was 10,561 and 10,923, respectively.

	2013					
	Air Transport	Maintenance	Duty Free Shop	Catering	Other	Total
Portugal	4,582	1,870	417	506	710	8,085
Brazil	125	1,951	–	–	–	2,076
Other	388	12	–	–	–	400
	5,095	**3,833**	**417**	**506**	**710**	**10,561**

	2012					
	Air Transport	Maintenance	Duty Free Shop	Catering	Other	Total
Portugal	4,545	1,891	397	792	729	8,354
Brazil	124	2,040	–	–	–	2,164
Other	393	12	–	–	–	405
	5,062	**3,943**	**397**	**792**	**729**	**10,923**

5 – Tangible fixed assets

During the years ended on 31 December 2013 and 2012, the movement in the value of tangible fixed assets and their respective accumulated depreciation was as follows:

	2013									
	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Tools and utensils	Administrative equipment	Other tangible fixed assets	Other assets in progress	Down--payments on fixed tangible assets	Total
Gross Assets										
Opening balance	42,057	349,182	2,100,543	5,433	30,992	67,208	23,233	7,259	7,042	2,632,949
Additions	–	361	10,750	165	1,444	1,147	749	3,044	205	17,865
Divestments	(4)	(6)	(2,196)	(31)	(19)	(1)	–	–	–	(2,257)
Other transfers / write-offs	–	9	(946)	(11)	1,101	(1,139)	(358)	(3,914)	(349)	(5,607)
Currency conversion differences	(137)	(860)	(2,842)	(17)	(1,758)	(728)	–	(473)	–	(6,815)
Closing balance	**41,916**	**348,686**	**2,105,309**	**5,539**	**31,760**	**66,487**	**23,624**	**5,916**	**6,898**	**2,636,135**
Accumulated Depreciation										
Opening balance	–	236,680	1,451,676	5,178	19,240	63,029	18,896	–	–	1,794,699
Allocations (Note 50)	–	5,810	103,687	147	1,863	1,923	1,743	–	–	115,173
Divestments	–	(5)	(640)	(31)	(15)	(1)	–	–	–	(692)
Other transfers/write-offs	–	(1)	(2,386)	(11)	(19)	(1,128)	(237)	–	–	(3,782)
Currency conversion differences	–	(263)	(2,477)	(16)	(949)	(668)	–	–	–	(4,373)
Closing balance	**–**	**242,221**	**1,549,860**	**5,267**	**20,120**	**63,155**	**20,402**	**–**	**–**	**1,901,025**
Net value	**41,916**	**106,465**	**555,449**	**272**	**11,640**	**3,332**	**3,222**	**5,916**	**6,898**	**735,110**

	2012									
	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Tools and utensils	Administrative equipment	Other tangible fixed assets	Other assets in progress	Down--payments on fixed tangible assets	Total
Gross Assets										
Opening balance	42,179	349,831	2,127,791	5,172	32,683	66,680	22,688	8,753	7,140	2,662,917
Additions	–	63	30,419	301	1,030	1,856	1,528	4,688	40	39,925
Divestments	–	–	(50,337)	(12)	(1,714)	(11)	(4)	–	–	(52,078)
Other transfers / write-offs	(27)	(110)	(5,364)	(16)	162	(811)	(979)	(5,896)	(138)	(13,179)
Currency conversion differences	(95)	(602)	(1,966)	(12)	(1,169)	(506)	–	(286)	–	(4,636)
Closing balance	**42,057**	**349,182**	**2,100,543**	**5,433**	**30,992**	**67,208**	**23,233**	**7,259**	**7,042**	**2,632,949**
Accumulated Depreciation										
Opening balance	–	230,913	1,375,163	4,960	19,268	62,311	17,970	–	–	1,710,585
Allocations (Note 50)	–	5,981	107,128	255	2,006	2,148	1,614	–	–	119,132
Divestments	–	–	(21,627)	(12)	(1,508)	–	(4)	–	–	(23,151)
Other transfers/write-offs	–	(58)	(7,376)	(16)	(13)	(979)	(684)	–	–	(9,126)
Currency conversion differences	–	(156)	(1,612)	(9)	(513)	(451)	–	–	–	(2,741)
Closing balance	**–**	**236,680**	**1,451,676**	**5,178**	**19,240**	**63,029**	**18,896**	**–**	**–**	**1,794,699**
Net value	**42,057**	**112,502**	**648,867**	**255**	**11,752**	**4,179**	**4,337**	**7,259**	**7,042**	**838,250**

The land, buildings and other constructions of the head office of "TAP S.A." were transferred to this subsidiary's ownership under Decree-Law number 351/89 of 13 October.

The following contributed to the movement of the heading "Basic equipment":

// Additions, of the total amount of 10,750 thousand euros, essentially due to the acquisition of engines, spare parts and modifications of the amount of 2,075 thousand euros, 4,228 thousand euros and 1,022 thousand euros, respectively;

// Divestments, reaching a total of 2,196 thousand euros, particularly the divestment of an engine, whose net book value stood at 1,483 thousand euros, generating a capital loss of 17 thousand euros;

// Transfers and write-offs of spare parts as scrap and other miscellaneous maintenance equipment.

As at 31 December 2013 and 2012, the heading "Basic equipment" is broken down as follows:

	2013			2012		
	Gross value	Accumulated amortisation	Net value	Gross value	Accumulated amortisation	Net value
Flight equipment						
Aircraft fleet	375,196	(329,998)	45,198	413,932	(357,708)	56,224
Spare engines	24,058	(20,287)	3,771	23,480	(19,401)	4,079
Spare parts	133,944	(98,842)	35,102	132,786	(96,841)	35,945
	533,198	**(449,127)**	**84,071**	**570,198**	**(473,950)**	**96,248**
Flight equipment under financial leasing						
Aircraft fleet	1,444,614	(998,547)	446,067	1,401,653	(877,232)	524,421
Spare engines	6,867	(2,897)	3,970	6,867	(2,511)	4,356
	1,451,481	(1,001,444)	450,037	1,408,520	(879,743)	528,777
Machines and misc. equipment	120,630	(99,289)	21,341	121,825	(97,983)	23,842
	2,105,309	**(1,549,860)**	**555,449**	**2,100,543**	**(1,451,676)**	**648,867**

As at 31 December 2013 and 2012, the Group's aircraft fleet is broken down as follows:

	2013				2012			
	Owned by TAP Group	Financial leasing	Operating leasing	Total	Owned by TAP Group	Financial leasing	Operating leasing	Total
Airbus A340	4	–	–	4	4	–	–	4
Airbus A330	–	11	1	12	–	11	1	12
Airbus A319	–	15	4	19	–	15	4	19
Airbus A320	–	5	12	17	–	5	12	17
Airbus A321	–	2	1	3	1	1	1	3
Fokker 100	–	6	–	6	–	6	–	6
Embraer 145	–	8	–	8	–	8	–	8
	4	**47**	**18**	**69**	**5**	**46**	**18**	**69**

Moreover, the "Group" uses two OMNI aircraft (Beechcraft 1900 D), which are being operated by "TAP S.A." under an ACMI (Aircraft, Crew, Maintenance and Insurance) regime.

The increase recorded in the heading "Other assets under construction", of the value of 3,044 thousand euros, primarily refers to modifications in the fleet.

The heading "Down-payments on tangible fixed assets" includes down-payments for future acquisition of aircraft.

6 – Investment Properties

As at 31 December 2013, the heading "Investment properties" refers to the value assigned to: i) a property in Maputo (Mozambique), ii) a building in Rio de Janeiro (Brazil) which was transferred in 2012 from the heading of tangible fixed assets due to its undetermined use, and iii) two apartments in Sacavém.

The movement occurred in this heading was as follows:

	2013	2012
Opening balance	4,274	2,862
Fair value adjustments - net gains and losses (Note 47)	(410)	2,210
Divestments	–	(834)
Transfers	–	36
Closing balance	**3,864**	**4,274**

The fair value of the investment properties was determined by an independent expert with recognised professional qualification, where the methods and significant assumptions applied in the determination of the fair value of the properties were supported by market evidence.

The amounts recognised through profit or loss for the year, related to income from rents and direct operating costs, are immaterial in the Group's financial statements as a whole.

7 – Goodwill

During 2013 and 2012, the movement in the heading "Goodwill" was as follows:

	2013		
	Opening balance	Exchange rate variation	Closing balance
Air Transport	63,099	–	63,099
Maintenance and Engineering Brazil	137,796	(7,856)	129,940
	200,895	**(7,856)**	**193,039**

	2012		
	Opening balance	Exchange rate variation	Closing balance
Air Transport	63,099	–	63,099
Maintenance and Engineering Brazil	143,296	(5,500)	137,796
	206,395	**(5,500)**	**200,895**

The amount of 7,856 thousand euros refers to the currency conversion variation of part of the goodwill of Maintenance and Engineering Brazil, which is denominated in reais (124,880,960 reais).

As stipulated in IAS 36, goodwill is subject to impairment tests carried out on an annual basis, pursuant to the accounting policy described in Note 2.9.

Goodwill is attributed to the Group's cash generating units (CGUs), identified in accordance with the business segment and country of the operation, as follows:

	2013		
	Air Transport	Maintenance	Total
Portugal	63,099	–	63,099
Brazil	–	129,940	129,940
	63,099	**129,940**	**193,039**

	2012		
	Air Transport	Maintenance	Total
Portugal	63,099	–	63,099
Brazil	–	137,796	137,796
	63,099	**137,796**	**200,895**

For the purposes of impairment tests, the recoverable value of the CGUs is determined based on the value in use, in accordance with the discounted cash flow method. The calculations are based on historical performance and expectations of business development with the current productive structure, where the budget for the following year and estimated cash flow for the next 4 years are usually used.

For the Maintenance and Engineering Brazil business unit, a budget for the following year was used and an estimate for the subsequent period of 8 years which incorporated, namely, the recovery of the existing tax losses in the cash flow estimate.

As a result of the impairment tests conducted to the different CGUs, no impairment losses in goodwill were identified.

The main assumptions used for the purposes of impairment tests were the following:

31 December 2013	Portugal	Brazil
Discount rate*	10.0%	14.5%
CAGR of revenue**	6.5%	13.1%
Perpetuity growth	0.0%	4.0%
Tax rate	29.5%	34.0%

31 December de 2012	Portugal	Brazil
Discount rate*	10.0%	14.5%
CAGR of revenue**	5.8%	13.6%
Perpetuity growth	0.0%	4.0%
Tax rate	29.5%	34.0%

* Discount rate net of taxes
** Compound Annual Growth Rate of revenue: year-on-year growth rate of an investment over a given period of time

The impairment tests carried out in 2013 sustain the recoverability of the book value of the aforesaid cash generating units. As at 31 December 2013, the book value of the air transport unit stands at 185,924 thousand euros, and the book value of the maintenance unit in Brazil is negative by 168,042 thousand euros.

8 – Other intangible assets

During 2013 and 2012, the movement in the heading "Other intangible assets" was as follows:

	Development expenses	Industrial property and other rights	Computer programmes	Assets in progress	Total
Acquisition cost					
Balance as at 1 January 2012	**20,053**	**11,952**	**769**	**248**	**33,022**
Acquisitions	–	–	351	20	371
Adjustments, transfers and write-offs	(20,053)	–	1,228	(248)	(19,073)
Balance as at 31 December 2012	**–**	**11,952**	**2,348**	**20**	**14,320**
Acquisitions	–	–	32	5	37
Adjustments, transfers and write-offs	–	–	2	–	2
Balance as at 31 December 2013	**–**	**11,952**	**2,382**	**25**	**14,359**
Accumulated amort. and impairment losses					
Balance as at 1 January 2012	**(20,053)**	**(10,909)**	**(636)**	**–**	**(31,598)**
Amortisations and impairment losses (Note 50)	–	(404)	(240)	–	(644)
Adjustments, transfers and write-offs	20,053	–	(818)	–	19,235
Balance as at 31 December 2012	**–**	**(11,313)**	**(1,694)**	**–**	**(13,007)**
Amortisations and impairment losses (Note 50)	–	(403)	(175)	–	(578)
Balance as at 31 December 2013	**–**	**(11,716)**	**(1,869)**	**–**	**(13,585)**
Net value as at 1 January 2012	–	**1,043**	**133**	**248**	**1,424**
Net value as at 31 December 2012	–	**639**	**654**	**20**	**1,313**
Net value as at 31 December 2013	–	**236**	**513**	**25**	**774**

The heading "Industrial property and other rights", of the net value of 236 thousand euros, refers to a maintenance license granted by CFM International, S.A. (CFMI), of the amount of 5,000 thousand euros, for a period of 10 years. This license enables the Group to provide third parties with technical information and support related to engines that "TAP S.A." does not currently operate, and is depreciated through the straight line method over that period.

10 – Financial holdings – equity method

As at 31 December 2013 and 2012, the financial holding in SPdH is reduced to zero, and the liabilities imputable to the "Group" are recorded under provisions (see the heading "Provisions for financial investments" in Note 26).

13 – Other financial assets

As at 31 December 2013 and 2012, the details of the other financial assets are as follows:

	2013		2012	
	Current	Non-current	Current	Non-current
Loans granted and accounts receivable	–	2,220	–	2,848
	–	2,220	–	2,848

As at 31 December 2013 and 2012, the details of the other non-current financial assets are as follows:

	2013	2012
Salvor Hotéis Moçambique loan	849	1,454
SITA Group Foundation	666	666
Bank deposits in Mozambique	508	531
Other	197	197
	2,220	**2,848**

The loan to Salvor Hotéis Moçambique was the result of the provision, in 1997, of funds held by "TAP S.A." which could only be used for investment in Mozambique. As at 31 December 2008, the amounts referred to above were totally adjusted due to the restrictions regarding the transfer of funds abroad. In 2010, "TAP S.A." received 3,250 thousand dollars, with an agreement having been signed for the repayment of the remaining balance and a promissory note for the outstanding amount. The entire adjustment was thus reversed.

The value presented for the SITA Group Foundation refers essentially to 519,778 certificates (unlisted securities) of the same company, which was founded by Société International de Télécommunications Aéronautiques.

The movement which occurred in this heading during 2013 and 2012 was as follows:

	2013	2012
Opening balance	2,848	3,258
Reductions	(563)	(373)
Exchange rate variation	(65)	(37)
Closing balance	**2,220**	**2,848**

14 – Shareholders

As at 31 December 2013 and 2012, the balance of the "Shareholders" heading was as follows:

	2013	2012
Shareholders (Note 56)	–	50,000
	–	**50,000**

As at 31 December 2012, the Group held a balance payable to Parpública, of the amount of 50,000 euros corresponding to a short term loan, remunerated at a fixed rate, which was fully repaid in 2013.

15 – Deferred tax assets and liabilities

As mentioned in Note 2.13, the Group recorded deferred taxes related to temporary differences between the assets and liabilities for tax and accounting purposes, as well as existing tax losses carried forward as at the date of the consolidated statement of financial position.

The "Group" believes that the deferred tax assets and liabilities recognised in the consolidated statement of financial position are recoverable, both through their use in reducing future taxable profit, based on the net income of "TAP S.A." forecast in the business plan for 2014 and projections of net income for subsequent years, adjusted by differences between the accounting and tax profit or loss, and through the reversal of deferred tax liabilities.

As at 31 December 2013, the tax rate used to calculate the deferred tax assets relative to tax losses carried forward was 23%. In the case of temporary differences, the rate used was 24.5% increased to a maximum of 7% of state surcharge, when it was deemed that the taxation of temporary differences in the estimated period of application of the aforesaid rate would be probable. Tax benefits, due to being itemised deductions, are considered at 100%, where, in some cases, their full acceptance is still dependent on the approval of the authorities granting these tax benefits.

The measures which approve the Reform of Corporate Income Tax, published by Law number 2/2014, of 16 January, amended the corporate income tax rate to 23% and added a bracket to the state surcharge which is increased to 7% on the portion of the taxable profit of each company which is greater than 35 million euros.

The main temporary differences between accounting and taxable amounts as at 31 December 2013 and 2012, the corresponding deferred tax assets and liabilities and the respective effect on net income for 2013 and 2012 are as follows:

	2013			
	Opening balance	Variations affecting net income (Note 52)	Variations affecting comprehensive income	Closing balance
Deferred tax assets				
Tax losses carried forward	1,383	3,835	–	5,218
Liabilities related to retirement benefits	14,138	(1,612)	960	13,486
Impairment losses in inventories	7,419	1,070	–	8,489
Impairment losses of accounts receivable	–	3,112	–	3,112
Derivative financial instruments	–	–	456	456
Land	1,106	(1,106)	–	–
SIFIDE and CFEI	–	740	–	740
Other provisions and adjustments not accepted for tax purposes	63	444	–	507
	24,109	**6,483**	**1,416**	**32,008**
Deferred tax liabilities				
Derivative financial instruments	–	–	2,357	2,357
Revaluation carried out	24,239	(775)	–	23,464
	24,239	**(775)**	**2,357**	**25,821**
		7,258	**(941)**	

	2012			
	Opening balance	Variations affecting net income (Note 52)	Variations affecting comprehensive income	Closing balance
Deferred tax assets				
Tax losses carried forward	2,082	(699)	–	1,383
Liabilities related to retirement benefits	15,456	(2,329)	1,011	14,138
Impairment losses in inventories	6,220	1,199	–	7,419
Land	–	1,106	–	1,106
Other provisions and adjustments not accepted for tax purposes	–	63	–	63
	23,758	**(660)**	**1,011**	**24,109**
Deferred tax liabilities				
Revaluation carried out	23,933	(102)	408	24,239
	23,933	**(102)**	**408**	**24,239**
		(558)	**603**	

Tax losses carried forward

Under the terms of the current tax legislation in Portugal, tax losses generated up to 2009, of 2010 to 2011, and as of 2012 can be carried forward for a period of six, four and five years, respectively, after their occurrence and may thus be deducted from taxable profits generated over this period, up to the limit of 75% of the taxable profit in 2013 and 70% of the taxable profit in following years.

The "Group" considers that the tax losses carried forward of "TAP S.A." are partially recoverable, through their use in the reduction of future taxable profit.

In view of the existing tax losses in the past few years, the Group considers that as at 31 December 2013 it is possible that these losses may be deductible from future taxable profits, and therefore recorded the corresponding deferred tax assets for the subsidiary "TAP S.A." The tax losses carried forward as at 31 December 2013 and used in 2013 are detailed as follows:

1 January 2013	2007	2008	2009	2010	2011	2012	2013	Total
TAP SGPS	2,331	1,765	1,454	14,204	2,691	2,923	n/a	25,368
TAP S.A.	–	132,413	–	–	–	–	n/a	132,413
Portugália	27,979	156	–	3,238	1,855	–	n/a	33,228
UCS	–	–	–	195	–	18	n/a	213
TAP M&E Brazil	–	1,925	81,478	35,732	12,132	32,555	n/a	163,822
	30,310	**136,259**	**82,932**	**53,369**	**16,678**	**35,496**	**n/a**	**355,044**

Use of tax losses carried forward in 2013	2007	2008	2009	2010	2011	2012	2013	Total
TAP SGPS	–	–	–	–	–	–	n/a	–
TAP S.A.	–	(9,030)	–	–	–	–	n/a	(9,030)
Portugália	(3,745)	–	–	–	–	–	n/a	(3,745)
UCS	–	–	–	–	–	–	n/a	–
TAP M&E Brazil	–	–	–	–	–	–	n/a	–
	(3,745)	**(9,030)**	**–**	**–**	**–**	**–**	**n/a**	**(12,775)**

31 December 2013	2007	2008	2009	2010	2011	2012	2013 Forecast	Total
TAP SGPS	n/a	1,765	1,454	14,204	2,691	2,923	4,652	27,689
TAP S.A.	n/a	123,383	–	–	–	–	–	123,383
Portugália	n/a	156	–	3,238	1,855	–	–	5,249
UCS	n/a	–	–	195	–	18	96	309
TAP M&E Brazil	n/a	1,925	81,478	35,732	12,132	32,555	20,968	184,790
	n/a	**127,229**	**82,932**	**53,369**	**16,678**	**35,496**	**25,716**	**341,420**
Deduction Deadline	**2013**	**2014**	**2015**	**2014**	**2015**	**2017**	**2018**	

During 2006, the subsidiary "TAP S.A." carried out, under Decree-Law number 453/99, of 5 November, an operation of securitisation of future credit, where Deutsche Bank acted as the lead manager and the future loans were acquired by Tagus – Sociedade de Titularização de Créditos, S.A.

As a result of this operation, and pursuant to number 1 of article 2 of Decree-Law number 219/2001, of 4 August, the value of 230,000,000 euros was added for the purpose of determination of the taxable profit for 2006. It should be noted that the tax losses carried forward in 2000, 2001 and 2002 were deducted from the calculated taxable profit.

The liabilities recorded by "TAP S.A.", which correspond to the value received from the sale of the future credit, of the value of 230,000,000 euros, whose operation expenses reached 779 thousand euros, is being repaid up to December 2016, as the credit assigned to the credit securitisation company is handed over. The financial cost associated to the liability created with the divestment of these receivables is in line with market rates.

The report prepared by the Tax Authorities in 2009, presents a divergent interpretation from that of the Group, essentially based on the non-applicability of Decree-Law number 219/2001, of 4 August. The Tax Authorities consider that the aforesaid operation constitutes a financial liability which does not, in itself, give rise to the calculation of any taxable corporate income or profit, concluding that there is no justification for any tax adjustment for the year of the securitisation operation.

The Executive Board of Directors, supported in its decision by lawyers and tax consultants, believes that the procedure adopted was correct and as such, has been exercising its legitimate right to object.

It should be emphasised that the tax losses carried forward, presented previously, have been adjusted for the corrected referred to above.

Pursuant to the Brazilian legislation in force, namely Law 11.941 of 2009, it is possible to use tax losses carried forward through the consolidation of the special subdivision of various tax debits. Thus, for the financial year of 2011, TAP M&E Brazil decided to use its losses, through deduction of the interest of the debt by 34% (tax aliquot), which resulted in the elimination of tax losses carried forward of the amount of 149,527 thousand euros.

16 – Advances to suppliers

	2013	2012
Current account	8,895	5,378
	8,895	**5,378**

The value recorded under this heading as at 31 December 2013 and 2012 refers to the following entities:

	2013	2012
GE Engine Services, Inc.	2,417	–
Airbus	2,011	759
Messier-Dowty	1,167	–
SITA	485	507
Marshall Aerospace	483	617
Schenck Rotec	233	403
Zim Flugsitz Gmbh	175	–
Honeywell Intellectual Properties	108	130
FRB Serviços de Alimentação Ltda.	84	101
Vinhas e Pessôa Advogados Associados	24	180
Aero Systems Engineering	–	415
Taylor Hobson	–	240
Other	1,708	2,026
	8,895	**5,378**

17 – State and other public entities

The balances with the State and other public entities are broken down as follows:

	2013			2012		
	Current	Non-current	Total	Current	Non-current	Total
Assets						
Income tax receivable	137	–	137	382	–	382
Other	14,266	–	14,266	17,454	–	17,454
	14,403	**–**	**14,403**	**17,836**	**–**	**17,836**
Liabilities						
Income tax payable	2,395	–	2,395	3,358	–	3,358
Other	27,110	59,898	87,008	26,369	76,557	102,926
	29,505	**59,898**	**89,403**	**29,727**	**76,557**	**106,284**

The values relative to 2013 and 2012 are broken down as follows:

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
State - Grants receivable:				
Compensation	4,194	–	6,554	–
State and Other Public Entities:				
IRC (corporate income tax)	137	2,395	382	3,358
IRS (personal income tax)	–	8,253	–	5,823
VAT (value added tax)	5,621	572	6,846	608
Social Security	–	8,872	–	8,196
State - Brazil	3,459	69,109	3,046	88,163
Other	992	202	1,008	136
	14,403	**89,403**	**17,836**	**106,284**

As at 31 December 2013, the value recorded under the heading "Compensation" includes the portion of the fare subsidised by the State for the routes of the Autonomous Region of the Azores for the financial year of 2013, of the total amount of 2,090 thousand euros. These values correspond to tickets sold by "TAP S.A." which may be used on "TAP S.A." or other airline flights. This heading also includes the value receivable from the State of 2,104 thousand euros relative to flights between the islands of the Autonomous Region of the Azores. The figures for the second semester of 2012 and the year of 2013 have not yet been calculated and audited by the Inspectorate-General for Finance or approved by the Government. However, no significant corrections to the values recorded by the Group are expected.

As at 31 December 2013, the VAT debit balance refers to requests for reimbursement, which have not yet been received, relative to the months of October, November and December 2013.

As at 31 December 2013 and 2012, the "State – Brazil" heading was broken down as follows:

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Current:				
REFIS	–	6,987	–	7,956
Other	3,459	2,224	3,046	3,650
Non-current:				
REFIS	–	59,752	–	76,013
Other	–	146	–	544
	3,459	**69,109**	**3,046**	**88,163**

In 2009 the subsidiary TAP M&E Brazil joined the tax refinancing programme, called REFIS, through which it compensated part of the interest and contingency fines related to deferred rent tax and social security contributions, over the total tax losses and negative social security contribution base, having reduced its debt by 49,448 thousand euros.

Decree-Law number 258/98 of 17 August repealed the tax exemptions from which "TAP S.A." had benefited, and had been established based on XII attached to Decree-Law number 39.188 of 25 April 1953 and on Decree-Law number 39.673 of 22 May 1954, number 41.000 of 12 February 1957 and number 44.373 of 29 May 1962, which implied that "TAP S.A." is no longer exempt from the payment of tax and other contributions to the State.

Pursuant to the current legislation, tax returns of companies based in Portugal included in the consolidation are subject to review and corrections by the tax authorities for a period of four years (five years for Social Security), except when there have been tax losses, when tax benefits have been granted or when inspections, claims or objections are in course, whose deadlines may be extended or suspended, depending on the circumstances. The Group's Executive Board of Directors considers that any corrections arising from reviews/inspections by the tax authorities to these tax returns will not have a significant impact on the consolidated financial statements as at 31 December 2013.

18 – Other accounts receivable

As at 31 December 2013 and 2012, the "Other accounts receivable" heading is broken down as follows:

	2013		2012	
	Current	Non-current	Current	Non-current
Related entities (Note 56)	3,454	3,700	5,169	3,700
Personnel	11,534	–	8,606	–
Accrued gains	17,051	–	14,739	256
Other	38,743	38,902	32,189	45,556
Impairment losses of other debtors	(4,431)	(1,921)	(4,131)	(1,921)
	66,351	**40,681**	**56,572**	**47,591**

Related entities – non-current

The heading "Related entities – non-current", of the amount of 3,700 thousand euros, refers to the additional paid-in capital granted to SPdH (Notes 26 and 56).

Accrued gains

As at 31 December 2013 and 2012, the value recorded under the heading "Accrued gains" is broken down as follows:

	2013		2012	
	Current	Non-current	Current	Non-current
Fuel hedging	9,547	–	1,535	256
Work for aviation companies	1,653	–	2,838	–
Sale of miles to partners	1,458	–	1,778	–
Advertising	473	–	1,520	–
Interest receivable	272	–	33	–
Sale of scrap material	–	–	1,402	–
Terminal taxes	–	–	542	–
Other	3,648	–	5,091	–
	17,051	**–**	**14,739**	**256**

The value presented under the heading "Fuel hedging", as at 31 December 2013 and 2012, is detailed as follows:

	2013		2012	
	Current	Non-current	Current	Non-current
Accrual-based gain for the year	1,559	–	1,091	–
Fair value of jet fuel swaps (Note 24)	7,988	–	444	256
	9,547	**–**	**1,535**	**256**

Other – non-current

As at 31 December 2013 and 2012, the value recorded under the heading "Other – non-current" corresponds to:

	2013	2012
Judicial deposits - Brazil	17,648	20,429
Security deposits (Note 27)	8,150	8,043
Retained deposits	4,933	5,615
SITA - Société Internationale de Télécommunications Aéronautiques	321	352
Pasogal SGPS, S.A.	–	3,000
Other	7,850	8,117
	38,902	**45,556**

The security deposits are constituted by "TAP S.A." under the operating lease contracts for aircraft and engines, and will be returned, without interest, when the aircraft and engines are returned to their lessors.

The retained deposits refer to the guarantee of the future provision of maintenance services for the French Air Force Aircraft ("Ministère de la Défense").

Other – current

As at 31 December 2013 and 2012, the value recorded under the heading "Other – current" corresponds to:

	2013	2012
Interline and other invoicing	12,139	8,400
Debtors - Brazil	4,809	4,832
Debtors - Italy	3,047	2,027
Pasogal SGPS, S.A. (Note 37)	3,000	–
VAT of Representations	1,632	1,732
Receivables from suppliers	6,829	8,688
Other	7,287	6,510
	38,743	**32,189**

The heading "Other", of the amount of 7,287 thousand euros, includes 582 thousand euros relative to the surplus financing, recorded as at 31 December 2013, of the Horizonte Valorização Pension Fund of the subsidiary UCS. This surplus financing is reimbursable under the terms of the law and/or allows for exemption from future contributions (Note 28).

Impairment losses of other debtors

The movement which occurred in this heading during 2013 and 2012 is as follows:

Opening balance as 1 January 2012	**6,498**
Reinforcement (Note 44)	661
Reversals (Note 44)	(244)
Utilisation	(863)
Closing balance as at 31 December 2012	**6,052**
Reinforcement (Note 44)	474
Reversals (Note 44)	–
Utilisation	(174)
Closing balance as at 31 December 2013	**6,352**

19 – Deferrals

As at 31 December 2013 and 2012, the heading "Deferrals" is detailed as follows:

	2013	2012
Deferred assets	12,636	9,597
	12,636	**9,597**

	2013	2012
Deferred liabilities	57,081	53,360
	57,081	**53,360**

The value recorded under the heading "Deferred assets", as at 31 December 2013 and 2012, is detailed as follows:

	2013	2012
Commissions	3,812	2,229
Aircraft leasing	2,389	2,614
Hire and rental charges	2,092	1,909
Insurance	1,859	2,213
Equipment maintenance	1,353	345
Other deferred costs	1,131	287
	12,636	**9,597**

The fees refer to the values paid to agents for tickets sold but which have not yet been used or expired by 31 December 2013 and 2012.

The heading "Deferred liabilities", as at 31 December 2013 and 2012, is detailed as follows:

	2013	2012
Work for aviation companies	34,066	27,530
Customer loyalty programme	21,908	25,133
Advertising	348	335
Overhaul reserves	123	123
Other	636	239
	57,081	**53,360**

The value of 34,066 thousand euros (2012: 27,530 thousand euros), recorded under the heading "Maintenance work for airline companies", refers to provisional invoicing of maintenance work for third parties that was still underway as at 31 December 2013.

Under the application of IFRIC 13 – Customer loyalty programmes, the attribution of miles to customers who are members of the "TAP Victoria" customer loyalty programme is deferred based on the unit value of the mile, as perceived by the customer (Note 2.26).

20 – Inventories

The breakdown of the inventories as at 31 December 2013 and 2012 is as follows:

	2013	2012
Goods (Note 40)	14,788	14,400
Products and work in progress (Note 38)	5,288	10,046
Raw materials, inputs and consumables (Note 40)	138,021	147,934
Inventory impairment losses	(49,198)	(47,265)
	108,899	**125,115**

The heading "Products and work in progress" corresponds to the value of materials and hours spent on aircraft maintenance works for third parties which are still in progress at the reporting date.

Raw materials, subsidiary materials and consumables refer to technical material used in the repair of own aircraft and in work carried out to other companies.

The movement which occurred under the heading "Inventory impairment losses" in 2012 and 2013 is as follows:

Opening balance as at 1 January 2012	**57,743**
Reinforcement (Note 43)	2,278
Reversals (Note 43)	(314)
Utilisation	(14,524)
Currency conversion adjustment	2,082
Closing balance as at 31 December 2012	**47,265**
Reinforcement (Note 43)	5,931
Reversals (Note 43)	(23)
Utilisation	(124)
Currency conversion adjustment	(3,851)
Closing balance as at 31 December 2013	**49,198**

21 – Customers

As at 31 December 2013 and 2012, the heading "Customers" is detailed as follows:

	2013	2012
Customers - current account	228,830	257,501
Customers - bad debt	36,720	36,759
Customer impairment losses	(59,860)	(62,686)
	205,690	**231,574**

The breakdown of this heading by type of customer is as follows:

	2013	2012
Private entities	91,710	86,201
Travel agencies	74,009	80,632
Airline companies	29,697	55,148
Related entities (Note 56)	2,667	1,654
Other	7,607	7,939
	205,690	**231,574**

The balances receivable from travel agencies and airline companies are primarily settled through the IATA Clearing House system.

The variation which occurred in the balances receivable from aviation companies essentially arises from the reduction of the aircraft maintenance activity.

The movement which occurred under the heading "Customer impairment losses" in 2013 and 2012 is as follows:

Opening balance as at 1 January 2012	**68,737**
Reinforcement (Note 44)	3,526
Reversals (Note 44)	(7,266)
Utilisation	(167)
Currency conversion adjustment	(2,144)
Closing balance as at 31 December 2012	**62,686**
Reinforcement (Note 44)	3,592
Reversals (Note 44)	(3,700)
Utilisation	(146)
Other movements	571
Currency conversion adjustment	(3,143)
Closing balance as at 31 December 2013	**59,860**

22 – Cash and bank deposits

As at 31 December 2013 and 2012, the breakdown of cash and cash equivalents presents the following values:

	2013	2012
Term deposits	136,094	18,889
Bank deposits available on demand	134,312	66,330
Cash	205	134
Cash and bank deposits in the statement of financial position	**270,611**	**85,353**
Bank overdrafts (Note 27)	**7,393**	**42,331**
Cash and cash equivalents in the cash flow statement	**263,218**	**43,022**

The volume of cash on hand presented by the "Group" primarily arises from the cash on hand of "TAP S.A.", of the amount of 256,898 thousand euros (2012: 71,005 thousand euros).

Surplus liquidity is normally invested in short term financial investments, earning interest at normal market rates.

24 – Equity

The nominal share capital of the "Group", of the value of 15,000 thousand euros is represented by 1,500,000 nominal shares of the value of 10 euros each, 100% owned by Parpública – Participações Públicas, SGPS, S.A., and is fully underwritten and paid-up.

Legal reserves

The legal reserve was constituted in conformity with article 295 of the Companies Code, which establishes that the reserve should be allocated a minimum of 5% of the net income for the year until the value of the reserve corresponding to a fifth of the share capital. This reserve cannot be distributed, except in case of the company's liquidation, but can be incorporated into the share capital or used to absorb losses after all other reserves have been depleted.

As at 31 December 2013 and 2012, the legal reserve was fully constituted in accordance with the commercial legislation in force.

Currency conversion reserves

Currency conversion differences arising from the conversion of operating units denominated in foreign currency are recorded in equity, under this heading.

	2013			
	Opening balance	Increases	Reductions	Closing balance
TAP M&E Brazil and Aeropar:				
Conversion of the financial statements and goodwill	19,353	53,750	–	73,103
Extension of the net investment in TAP M&E Brazil	(32,932)	–	(60,316)	(93,248)
	(13,579)	**53,750**	**(60,316)**	**(20,145)**

	2012			
	Opening balance	Increases	Reductions	Closing balance
TAP M&E Brazil and Aeropar:				
Conversion of the financial statements and goodwill	(11,399)	30,752	–	19,353
Extension of the net investment in TAP M&E Brazil	4,532	–	(37,464)	(32,932)
	(6,867)	**30,752**	**(37,464)**	**(13,579)**

The increase of 53,750 thousand euros refers to the Group's appropriation of the currency conversion differences arising from the conversion of the financial statements of the companies operating in Brazil.

The reduction of 60,316 thousand euros, which occurred in 2013, refers to unfavourable currency conversion differences derived from the medium and long term loans granted to TAP M&E Brazil, whose settlement is unlikely to occur in the predictable future, and is thus, in substance, an extension of the Group's net investment in this foreign entity.

Fair value reserves

The amount of 4,541 thousand euros presented in the heading "Fair value reserves" corresponds to the fair value of the financial instruments classified as hedging of the subsidiary TAP, S.A. recorded in accordance with the policy described in Note 2.12, net of tax, of the amount of 1,901 thousand euros (Note 15).

As at 31 December 2013 and 2012, the fair value of the derivative financial instruments is broken down as follows:

	2013	2012
Interest rate swaps (Notes 31 and 58)	(1,546)	(2,380)
Jet fuel swaps (Notes 18 and 58)	7,988	700
	6,442	**(1,680)**

The interest rate and jet fuel derivative financial instruments in portfolio, classified as hedging instruments, during the financial years ended on 31 December 2013 and 2012, present the following evolution:

	Assets		Liabilities	
	Current	Non-current	Current	Non-current
Fair value as at 1 January 2012	**429**	**–**	**–**	**(1,665)**
Acquisitions during the year - payment/(revenue)	(8,902)	–	–	–
Payment/(revenue) of swaps during the year	(4,242)	–	–	626
Revenue/(payment) of swaps retained through profit or loss	13,144	–	–	(626)
Increase/(decrease) of fair value reflected in equity	15	256	–	(715)
Fair value as at 31 December 2012	**444**	**256**	**–**	**(2,380)**
Acquisitions during the year - payment/(revenue)	(300)	–	–	–
Payment/(revenue) of swaps during the year	(944)	–	–	734
Revenue/(payment) of swaps retained through profit or loss	1,244	–	–	(734)
Increase/(decrease) of fair value reflected in equity	7,544	(256)	–	834
Fair value as at 31 December 2013	**7,988**	**–**	**–**	**(1,546)**

Retained earnings

The heading "Retained earnings" corresponds to the net income of previous years, as deliberated at the General Meetings. Alterations arising from the first-time application of the International Financial Reporting Standards are also recorded under this heading, as well as gains or losses from the remeasurement of post-employment benefits, net of tax.

Earnings per share

There are no convertible financial instruments relative to "TAP SGPS" shares hence there is no dilution of earnings.

	2013	2012
Earnings attributable to TAP SGPS shareholders	(5,868)	(25,487)
Weighted average number of shares	1,500,000	1,500,000
Basic earnings per share (value in euros)	(4)	(17)
Diluted earnings per share (value in euros)	(4)	(17)

25 – Non-controlling interests – statement of financial position

The non-controlling interests recorded in the statement of financial position are broken down as follows:

	2013	2012
Non-controlling interests of net income		
Cateringpor	2,650	2,840
LFP	5,858	5,759
	8,508	**8,599**

26 – Provisions

During 2013 and 2012, the following movements took place under the headings of provisions:

	2013						
	Opening balance	Increases	Reductions due to use	Reversed unused amounts	Exchange rate variation	Other movements	Closing balance
Provisions							
Provision for current lawsuits (Note 45)	22,236	1,965	(41)	(6,299)	(1,937)	842	16,766
Provision for financial investments (Note 37)	6,296	–	–	(706)	–	(355)	5,235
Other provisions (Note 45)	2,306	1,095	(10)	(384)	(175)	454	3,286
	30,838	**3,060**	**(51)**	**(7,389)**	**(2,112)**	**941**	**25,287**

	2012						
	Opening balance	Increases	Reductions due to use	Reversed unused amounts	Exchange rate variation	Other movements	Closing balance
Provisions							
Provision for current lawsuits (Note 45)	25,824	2,019	(80)	(5,425)	(1,995)	1,893	22,236
Provision for financial investments (Note 37)	126,785	1,886	–	(2,996)	–	(119,379)	6,296
Other provisions (Note 45)	5,477	298	(2,681)	(579)	(278)	69	2,306
	158,086	**4,203**	**(2,761)**	**(9,000)**	**(2,273)**	**(117,417)**	**30,838**

These movements gave rise to gains of 3,623 thousand euros and 3,687 thousand euros, in 2013 and 2012, respectively, recorded under the heading "Provisions" (Note 45).

Provisions for current lawsuits

Provisions for current lawsuits are constituted in accordance with the risk assessments carried out by the Group and its legal advisors, based on historical success rates by type of legal action and probability of unfavourable outcomes for the Group. As at 31 December 2013, the existing provision, of the amount of 16,766 thousand euros, aims to cover the cost of various lawsuits filed against the Group, in Portugal and abroad.

The breakdown of the provision for current lawsuits is as follows:

	2013	2012
TAP Group (without the subsidiary TAP M&E Brazil)	8,632	8,015
Subsidiary TAP M&E Brazil	8,134	14,221
	16,766	**22,236**

As at 31 December 2013, the subsidiary TAP M&E Brazil faced close to 2,158 labour claims (2,182 claims as at 31 December 2012). The subsidiary is a joint debtor of the labour liabilities related to the migration of employees from VARIG to TAP M&E Brazil in 2001 and 2002. Labour claims have been filed by former employees of VARIG against the subsidiary and against "TAP S.A." due to the dismissal of VARIG employees following the judicial auction sale of the production unit of VARIG, held in July 2006.

Provisions for financial investments

In 2013, the Group appropriated gains from the associate SPdH of the amount of 706 thousand euros, which were recorded under the heading of "Gains and losses in associates" (Note 37). Moreover, the heading "Other movements", of the amount of 355 thousand euros, corresponds to the appropriation of the gains arising from the remeasurement of post-employment benefits of SPdH, which were recorded in the Group's retained earnings.

In 2012, the amount of 1,886 thousand euros, relative to the reinforcement of the provision for the negative equity of SPdH, as well as the amount of 2,966 thousand euros, relative to the reversal of 50.1% of this provision, following the divestment of its stake in SPdH, were recorded in the heading "Gain and losses in associates" (Note 37).

Also in 2012, the amount of 119,379 thousand euros, recorded in "Other movements" refers to the use of the provision for the conversion of loans into additional paid-in capital to cover losses, arising from the decision taken at the General Meeting of 31 January 2012, following the sale agreement of 50.1% of the share capital of SPdH.

In March 2009, a consortium of three banks (BIG, Banif and Banco Invest) transferred the stake in SPdH (50.1%) to "TAP S.A." for 31.6 million euros. On the same date and during the period which the concentration process at the Competition Authority was pending, "TAP S.A." transferred the exercise of its voting and supervision rights, as majority shareholder of SPdH, to an independent entity of the "Group".

On 19 November 2009, the Competition Authority following an in-depth investigation adopted a decision of prohibition relative to the concentration operation, which consisted in the acquisition, by "TAP S.A.", of the exclusive control of SPdH, through the acquisition of a 50.1% stake of the share capital of SPdH.

The Competition Authority thus imposed the forced separation of SPdH through the Group's sale of its shares representing at least 50.1% of the share capital of SPdH. Until the sale, the regulator imposed that SPdH should be administered by a trustee, acting on behalf of the Competition Authority, and managing SPdH independently from the "Group".

On 18 June 2012, a purchase and sale contract was concluded between, on the one hand, "TAP S.A.", "TAP SGPS", Portugália and SPdH and, on the other hand, Urbanos Grupo, SGPS, S.A. for the latter's acquisition of 50.1% of the capital of SPdH, to take effect as of 20 July 2012, the date of the Competition Authority's deliberation regarding the decision of non-opposition to the aforesaid operation. In the meantime, on 17 October 2012, Pasogal SGPS, S.A. succeeded Urbanos Grupo, SGPS, S.A. relative to all the rights and obligations arising to the latter from the agreement referred to above and shareholders' agreement.

SPdH business licenses for provision of handling services to third parties, at Lisbon and Porto, in categories 3 (baggage handling), 4 (cargo and mail handling) and 5 (runway operations handling) of reserved access expired on 31 December 2011.

While the National Civil Aviation Institute (INAC) has not yet completed the international public tenders for issue of new licenses, and consequent selection of the second service provider in these reserved access categories for Lisbon and Porto airports, where SPdH was an opponent, Decree-Law number 19/2012, of 27 January, has been published in the meantime.

This Decree-Law now enables INAC to extend, on an exceptional basis, the reserved access licenses to the ground handing service provider in the aforesaid reserved categories at Lisbon and Porto airports, held by SPdH as at 31 December 2011, until the time when the ground handling service providers, to be selected under the public tenders in progress, begin their activity.

However, INAC has already disclosed that, following and in compliance with the Order of the Secretary of State for Infrastructures, Transport and Communications, published on 15 November 2013 in the 2nd Series of Diário da República (which amended the rules of public tenders for handling service providers for third parties at Lisbon, Porto and Faro airports), it cancelled the public tenders underway and is preparing the launch of new international public tenders in accordance with the new rules.

It should be noted that if SPdH is not selected as the handling service providers for third parties in future international public tenders launched by INAC, Pasogal SGPS, S.A. will have the right to dissolve the aforesaid purchase and sale contract.

As at 31 December 2013 and 2012, the financial information relative to the associate SPdH is as follows:

	2013				
	Total assets	Total equity	Total liabilities	Sales and services rendered	Net income for the year
SPdH	22,444	(3,076)	25,520	105,062	2,126

	2012				
	Total assets	Total equity	Total liabilities	Sales and services rendered	Net income for the year
SPdH	23,675	(5,202)	28,877	103,011	(1,496)

Other provisions

This heading is broken down as follows:

	2013	2012
Subsidiary TAP M&E Brazil:		
Provision for tax contingencies	752	778
Provisions for civil contingencies	836	–
Remaining subsidiaries:		
Other provisions	1,698	1,528
	3,286	**2,306**

Provision for tax and civil contingencies

The subsidiary TAP M&E Brazil is currently involved in tax proceedings, both in the administrative and judicial sphere, which, when applicable, are guaranteed by judicial deposits and/or seizure of assets.

The subsidiary TAP M&E Brazil joined the REFIS tax refinancing programme in 2009, which subdivided the total federal contingencies, whose probability of success was classified as remote.

The movement which occurred in the provision for tax and civil contingencies was as follows:

Balance as at 1 January 2012	**4,053**
Reduction due to payments made	(4,574)
Exchange rate variation	(278)
Other movements	1,577
Balance as at 31 December 2012	**778**
Provision reinforcement	531
Exchange rate variation	(175)
Other movements	454
Balance as at 31 December 2013	**1,588**

27 – Loans received

The loans received are detailed as follows:

	2013		2012	
	Current	Non-current	Current	Non-current
Bank loans	285,834	260,554	107,937	334,014
Financial leasing liabilities	97,285	399,577	108,406	441,376
Bank overdrafts (Note 22)	7,393	–	42,331	–
	390,512	**660,131**	**258,674**	**775,390**

Remunerated net debt

As at 31 December 2013 and 2012, the remunerated net debt is detailed as follows:

	2013	2012
Loans received		
Non-current	660,131	775,390
Current	390,512	258,674
	1,050,643	**1,034,064**
Cash and cash equivalents (Note 22)		
Cash	205	134
Bank deposits available on demand	134,312	66,330
Term deposits	136,094	18,889
	270,611	**85,353**
Remunerated net debt	**780,032**	**948,711**

Remunerated bank debt

As at 31 December 2013 and 2012, the current and non-current remunerated bank debt is detailed as follows:

	2013	2012	Reference rate
Non-current			
TAP SGPS			
Deutsche Bank bank loan	51,898	51,339	Fixed rate
BCP bank loan	2,497	3,135	Euribor 3m
TAP S.A.			
Deutsche Bank bank loan	138,282	180,651	Fixed rate
Tagus – Sociedade de Titularização de Créditos, S.A.	67,877	98,889	Euribor 3m
	260,554	**334,014**	
Current			
TAP SGPS			
CGD mutual loan	33,021	–	Euribor 6m
BCP credit line	20,062	–	Euribor 3m
BES bank overdraft	7,393	7,493	Euribor 1m
BPI credit line	4,030	4,034	Euribor 1m
Deutsche Bank bank loan	1,458	1,449	Fixed rate
BCP bank loan	641	611	Euribor 3m
TAP S.A.			
BPI credit line - EUR	55,560	–	Euribor 3m
Deutsche Bank bank loan	43,537	42,045	Fixed rate
BES mutual loan	40,246	–	Euribor 3m
Tagus – Sociedade de Titularização de Créditos, S.A.	31,049	29,296	Euribor 3m
Commercial paper	20,088	–	Euribor 1a
BPP mutual loan	10,064	10,064	Euribor 3m
BCP credit line	10,062	10,253	Euribor 1m
Totta mutual loan	10,007	–	Euribor 3m
Banco Popular credit line	6,009	6,016	Euribor 3m
Bank overdrafts	–	34,838	Various
BIC credit line - USD	–	4,169	Libor 6m
	293,227	**150,268**	
Remunerated bank debt	**553,781**	**484,282**	

The amount of 67,877 thousand euros and 31,049 thousand euros, recorded as at 31 December 2013 under non-current and current bank debt, respectively, correspond to a liability generated as part of a securitisation operation of future loans, carried out by TAP in December 2006, under the terms of Decree-Law number 453/99, of 5 November, where Deutsche bank acted as lead manager and Tagus – Sociedade de Titularização de Créditos, S.A. acquired the future receivables.

The remunerated bank debt, by maturity and type of interest rate, as at 31 December 2013 and 2012, is broken down as follows:

By maturity	2013	2012
Up to 1 year	293,227	150,268
1 to 2 years	129,698	73,459
2 to 3 years	81,703	129,697
3 to 4 years	48,769	81,704
4 to 5 years	384	48,770
Over 5 years	–	384
	553,781	**484,282**

By type of interest rate	2013	2012
Variable rate		
Expires in 1 year	248,232	106,774
Expires in 1 to 2 years	33,612	31,650
Expires in 2 to 3 years	35,638	33,612
Over 3 years	1,124	36,762
	318,606	**208,798**
Fixed rate		
Expires in 1 year	44,995	43,494
Expires in 1 to 2 years	96,086	41,809
Expires in 2 to 3 years	46,065	96,085
Over 3 years	48,029	94,096
	235,175	**275,484**
	553,781	**484,282**

All the loans received present the euro as the functional currency.

The total amount of liabilities plus interest due is presented in the chapter on interest rate risk (Note 3).

Financial leasing

The Group records the assets acquired under financial leasing under its tangible fixed assets. As at 31 December 2013 and 2012, the Group had commitments arising from financial leasing liabilities as described in Note 5, with the corresponding principal being included in the statement of financial position under the heading "Loans received", as follows:

	2013	2012
Debts relative to financial leasing		
Basic equipment	496,692	549,649
Other tangible fixed assets	170	133
	496,862	**549,782**
Future payments of principal		
Up to 1 year	97,285	108,406
1 to 5 years	365,445	376,366
Over 5 years	34,132	65,010
	496,862	**549,782**

Financial leasing, by functional currency, is detailed as follows:

	2013	2012
Financial leasing in EUR	382,223	425,460
Financial leasing in USD (Note 3)	114,626	124,301
Financial leasing in BRL (Note 3)	13	21
	496,862	**549,782**

The financial leasing liabilities, by maturity and type of interest rate, as at 31 December 2013 and 2012, is broken down as follows:

By maturity	2013	2012
Up to 1 year	97,285	108,406
1 to 2 years	113,761	86,697
2 to 3 years	78,727	104,992
3 to 4 years	122,889	69,563
4 to 5 years	50,069	115,114
Over 5 years	34,131	65,010
	496,862	**549,782**

By type of interest rate		
Variable rate		
Expires in 1 year	40,353	54,663
Expires in 1 to 2 years	41,049	33,444
Expires in 2 to 3 years	36,826	34,440
Over 3 years	65,984	79,277
	184,212	**201,824**
Fixed rate		
Expires in 1 year	56,932	53,743
Expires in 1 to 2 years	72,712	53,253
Expires in 2 to 3 years	41,901	70,552
Over 3 years	141,105	170,410
	312,650	**347,958**
	496,862	**549,782**

The total value of liabilities plus interest due is presented in the chapter on interest rate risk (Note 3).

Operating leasing

As referred to in Note 2.24, these liabilities are not recorded in the Group's statement of financial position. The duration of the Group's operating lease contracts is of different periods which may reach up to 9 years, and the contracts may be extended through the explicit consent of the contracting parties.

As at 31 December 2013, eighteen aircraft (Note 5) and four engines were under operating lease contracts.

As at 31 December 2013 and 2012, the financial commitments assumed by the subsidiary "TAP S.A." relative to operating lease contracts for aircraft and engines reached the total of 252,462 thousand euros (328,200 thousand USD) and 245,068 thousand euros (318,588 thousand USD), respectively (Note 60).

The payment plans for the operating lease instalments are detailed as follows:

	2013	2012
Up to 1 year	49,556	50,799
1 to 2 years	48,656	44,424
2 to 3 years	47,254	39,030
3 to 4 years	40,517	37,385
Over 4 years	66,479	73,430
	252,462	**245,068**

These contracts require security deposits which reached a total of 8,150 thousand euros as at 31 December 2013, and 8,043 thousand euros as at 31 December 2012 (Note 18). These deposits shall be returned to the Group when each of these aircraft is handed back to its lessor.

Financial covenants

The financial covenants in the lease and loan contracts are the usual ones in operations of this nature, including compulsory provisions such as the maintenance of the airline operator activity, commitments to periodically disclose the available financial information, and, in the specific case of financial leasing, operating duties relative to registrations at official entities, information relative to leased aircraft, strict compliance with all the regulations, procedures defined by the authorities, amongst others.

28 – Liabilities related to post-employment benefits

The "Group" is liable for the payment of post-employment benefits to employees who have retired, due to their age, taken early retirement or are still active.

Retirement pension supplements and early retirement instalments – "TAP S.A."

Pursuant to the current rules at "TAP S.A.", employees who joined the company before 31 May 1993 are entitled to receive the difference between the state retirement pension paid by the Social Security System, due to the age limit or invalidity, plus a minimum amount assured by "TAP S.A." This amount corresponds to a fixed percentage of part of the pensionable salary (base remuneration + annuities) at the time of retirement, for each year of work at the company, up to a maximum of 20 years, as follows:

// Flight Deck Crew (pilots and flight technicians) – 3.2% per year of service

// Ground staff and cabin crew – 4% per year of service.

In addition, "TAP S.A." has undertaken to pay early retirement pensions, whose value is fixed so that the respective net value receivable in situations of early retirement ranges from 75% to 100% of the net value that the employees received when active on the date of early retirement.

In October 2008, the Labour Agreement with the Civil Aviation Pilots Union (SPAC) was amended, with the following main changes:

// Pilots recruited before 31 May 2007: the pension plan includes the seniority bonus guaranteed by the State (of 15% or 10%, according to the starting date of the contributory career) and the possibility of an additional bonus (up to 25% or 30%) as an option for the beneficiary upon retirement (this additional bonus of up to 25% will be paid by "TAP S.A.");

// Pilots recruited as of 1 June 2007: the pension plan consists of a defined contribution scheme of 7.5% of the base remuneration effectively earned (14 times a year), of which 80% is paid by "TAP S.A." This plan is guaranteed by contracts of participation in open pension funds managed by BPI. The participation contracts and their management are optional to SPAC, as established in the collective regulations.

"TAP S.A." has recorded all its liabilities related to past services for the payment of pension supplements and early retirement benefits relative to the defined benefit plan.

The quantification of the liabilities took into consideration that, under the terms of the collective regulations establishing the aforesaid pension plan, the total pension guaranteed by "TAP S.A.", i.e., the social security pension and pension supplement will never exceed the base monthly remuneration, net of personal income tax (IRS) and social security payments during employment. This premise is not applicable, since it is not established in the collective regulations relative to flight deck crew, for whom this limit does not apply and the pensionable salary is made up of the base salary set out in the pay scale, plus monthly earnings in the financial year and seniority bonuses.

In order to cover the liabilities related to the defined benefit plan, "TAP S.A." concluded a contract of participation in the VIVA open pension fund. As of 2011, the cost related to retirement pension supplements, constituted since 1998, is assumed by this participation. Annual expenditure on pensions is determined in accordance with the actuarial study, reviewed and adjusted annually according to the updating of salaries and the evolution of the participant group. Costs relative to retirement supplements constituted by December 1997, early retirement instalments and the portion of pilot retirement supplements, which exceeds the limit referred to in the preceding paragraph, are assumed directly by "TAP S.A." and covered by a specific provision.

Pensions – TAP M&E Brazil

From 1 January 2002 onwards, the subsidiary TAP M&E Brazil became one of the sponsors of the AERUS Social Security Institute (AERUS), by means of the supplementary retirement pension plan assured to its employees, in the form of defined contributions, named Benefit Scheme II – VEM.

In 2008, the subsidiary requested the transfer of the manager of the benefits fund of its employees from the entity AERUS. This process was initially refused by the holding company of the AERUS fund, which claimed that TAP M&E Brazil had debts that were not recognised in the transfer of liabilities related to post-employment benefits, since it was jointly liable for the pension fund deficits of other sponsors. TAP M&E Brazil questioned the legal validity of this debt and the competent entities declared there was no reason for opposing the transfer mentioned above, such that, on 15 June 2012, the transfer was successfully carried out to the Benefit Scheme of the Petrobrás Social Security Foundation (PETROS), and renamed the TAPMEPreve Plan.

In spite of being a "defined contribution" benefit plan, this scheme also offers invalidity and death benefits under the concept of "defined benefits", in addition to guaranteeing special benefits to a group of employees from VARIG who were integrated in the staff of the subsidiary when the operations of this company were demerged.

Therefore, only the defined benefit component referred to above is recorded under the heading "Liabilities related to post-employment benefits".

Pensions – Portugália

Portugália established a defined contribution scheme for flight deck crew on 1 January 2010. This scheme is managed by BPI, to which the subsidiary contributes 6% of the monthly wage effective earned by the pilots, 14 times a year. Employees make social security payments of 1.5%, and can also make supplementary payments of 1% to 5%.

Pensions – UCS

UCS is responsible, according to internal regulations, for granting, through a defined benefit scheme, retirement pension supplements for the part which exceeds those that are granted by Social Security. In order to cover this liability, the Company subscribed to the Horizonte Valorização Pension Fund. Annual expenditure on pensions, which includes contributions to the fund, is determined in accordance with the actuarial study, reviewed and adjusted annually according to the updating of salaries and the evolution of the participant group.

Seniority bonus – PNT – "TAP S.A."

The Company Agreement concluded between "TAP S.A." and SPAC establishes that "TAP S.A." undertakes to pay to pilots recruited before 31 May 2007, in addition to a pension scheme, a one-off retirement bonus to every pilot upon retirement due to old age, which is funded by the capital accumulated in a collective insurance policy constituted by "TAP S.A." on behalf of the pilots. The main conditions of the collective retirement policy agreed with the insurance company, that describe this Retirement Benefits Plan for Pilots, are as follows:

// Admission conditions: pilots who are still in active service;

// Normal retirement age: 65 years old;

// Guarantees: each participant is entitled, upon the retirement date, to an amount equal to 16 times the last declared monthly wage.

The Benefit Plan is funded through an insurance policy that is reinforced by contributions (premiums) paid by "TAP S.A." and by income obtained from investments made by the insurance company in an Autonomous Fund which supports this type of insurance.

In October 2008, the agreement between the Company and SPAC was amended, with the main changes being as follows:

// Pilots recruited before 31 May 2007: the one-off retirement bonus is maintained, but shall only be paid if, on the retirement date, the person is entitled to the full pension, with the possibility of increasing the capital for every additional year of service after the full pension age has been reached;

// Pilots recruited as of 1 June 2007: there is no entitlement to a one-off retirement bonus.

Health Care – "TAP S.A."

"TAP S.A." ensures that both pre-retired and early-retired employees, below the age of 65, are provided with a health care plan providing access to medical care at reduced prices. On the other hand, "TAP S.A." provides its retired employees with access to UCS medical services, as a freely granted benefit, for which they pay a portion of the cost of each clinical service with the remainder being paid by "TAP S.A."

"TAP S.A." considers that although it provides its former employees with access to the health care services of UCS, this is not a liability but a freely granted benefit at any given time. Therefore the company assumes no accounting liability regarding the provision of health care services to current employees after they cease working for the company. As such, at the present time, the existing provision covers the total responsibility for medical treatment with former employees. The total responsibility was calculated based on an independent actuarial evaluation.

Assumptions used in the evaluation of liabilities

The liabilities of the different companies of the "Group" were calculated through actuarial studies reported as at 31 de December de 2013 and 2012, prepared by independent entities, individually for each company, using the projected unit credit method and essentially based on the following financial and demographic assumptions:

	2013		2012	
	Portugal	Brazil	Portugal	Brazil
Mortality table	TV 88/90	AT2000	TV 88/90	AT2000
Invalidity table	EKV1980	IAPB-57	EKV1980	IAPB-57
Discount rate	3.75%	12.42%	4.25%	9.93%
Fund yield rate	3.75%	12.42%	4.25%	9.93%
Growth rate				
Wages	1.50%	6.56%	1.50%	7.61%
Pensions	1.00%	5.50%	1.00%	5.50%
Trend of medical costs	1.50%	– –	1.50%	– –

The evolution of the net liabilities for past services, as at 31 December 2013 and 2012 is detailed as follows:

	2013	2012
Liabilities for past services at the beginning of the year	**71,026**	**78,540**
Net interest	2,791	2,664
Cost of current services	2,989	2,868
Pensions fund contributions	(8,207)	(13,079)
Remeasurements	(12,473)	6,403
Exchange rate changes in the plans measured in a different currency	(2,998)	(913)
Benefits paid	(5,535)	(5,457)
Liabilities for past services at the end of the year	**47,593**	**71,026**

The liabilities for 2013 and 2012 are detailed as follows:

	2013								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Liabilities from past services									
Active employees	1,739	–	1,062	–	39,334	–	–	5	42,140
Early retirement	258	–	2,306	166	–	–	8,557	–	11,287
Retired	9,765	38,569	–	2,948	–	16,180	51,903	–	119,365
Market value of the funds	(16,443)	–	–	–	(35,218)	(14,948)	(58,585)	(587)	(125,781)
Deficit / (surplus)	**(4,681)**	**38,569**	**3,368**	**3,114**	**4,116**	**1,232**	**1,875**	**(582)**	**47,011**

The surplus financing recorded as at 31 December 2013 of the value of 5,263 thousand euros (VIVA and UCS pension funds), is reimbursable under the terms of the law and/or allows for exemption from future contributions.

	2012								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Liabilities from past services									
Active employees	2,214	–	419	–	35,747	–	–	7	38,387
Early retirement	2,197	–	2,970	254	–	–	90,056	–	95,477
Retired	9,442	39,994	–	2,739	–	13,958	153	–	66,286
Market value of the funds	(15,943)	–	–	–	(32,106)	(13,131)	(67,937)	(554)	(129,671)
Deficit / (surplus)	**(2,090)**	**39,994**	**3,389**	**2,993**	**3,641**	**827**	**22,272**	**(547)**	**70,479**

The surplus financing of the Horizonte Valorização Pension Fund of the subsidiary UCS, of the amount of 582 thousand euros, is recorded under the heading "Other accounts receivable" (2012: 547 thousand euros) (Note 18).

The liabilities for 2009 to 2011 are detailed as follows:

	2011							
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	Total
Liabilities from past services								
Active employees	2,579	–	–	–	39,340	–	–	41,919
Early retirement	–	–	2,321	299	–	–	84,995	87,615
Retired	8,899	40,985	–	2,682	–	12,440	–	65,006
Market value of the funds	(14,719)	–	–	–	(29,845)	(11,683)	(59,753)	(116,000)
Deficit / (surplus)	**(3,241)**	**40,985**	**2,321**	**2,981**	**9,495**	**757**	**25,242**	**78,540**

	2010							
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	Total
Liabilities from past services								
Active employees	4,854	–	–	–	37,398	8,956	–	51,208
Early retirement	–	–	820	197	–	–	83,569	84,586
Retired	6,562	45,000	–	2,942	–	3,424	–	57,928
Market value of the funds	(15,467)	–	–	–	(25,543)	(10,370)	(53,949)	(105,329)
Deficit / (surplus)	**(4,051)**	**45,000**	**820**	**3,139**	**11,855**	**2,010**	**29,620**	**88,393**

	2009							
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	Total
Liabilities from past services								
Active employees	3,389	–	–	–	37,214	14,418	–	55,021
Early retirement	–	–	1,247	115	–	–	60,419	61,781
Retired	6,723	44,606	–	3,356	–	1,220	–	55,905
Market value of the funds	(15,149)	–	–	–	(22,988)	(13,130)	(33,656)	(84,923)
Deficit / (surplus)	**(5,037)**	**44,606**	**1,247**	**3,471**	**14,226**	**2,508**	**26,763**	**87,784**

According to the actuarial study carried out by an independent entity, the best estimate of contributions to the pension benefit plans, in the following financial year, is 4,686 thousand euros for the subsidiary "TAP S.A." and 2,316 thousand euros for the subsidiary TAP M&E Brazil.

As at 31 December 2013 and 2012, the defined benefit plans of the "Group" in Portugal (excluding the Representation in England and Brazil) covered 2,398 and 2,499 active beneficiaries, respectively. Of the 115 beneficiary employees who stopped working during 2013, only 3 are entitled to a supplementary retirement pension. The total number of retired former employees entitled to a supplementary retirement pension, as at 31 December 2013 and 2012, was 763 and 798 beneficiaries, respectively.

As at 31 December 2013, the average maturity of the liabilities related to the defined benefit plan for the VIVA open pension fund is 14.1 years (2012: 14.6 years), for the Seniority Bonus plan is 13 years (2012: 12.7 year) and for the UCS Horizonte Valorização pension plan is 9.1 years (2012: 9.7 years).

Sensitivity analyses

Annual discount rate

An increase (decrease) of 0.25% in the annual discount rate of the defined benefit plans of the VIVA open pension fund and Seniority Bonus scheme, and an increase (decrease) of 1% in the annual discount rate of the TAPMEPrev – Brazil defined benefit plan, would correspond to the following impacts on the Group's liabilities as at 31 December 2013:

	Rate	VIVA Pensions	Seniority bonus
Annual discount rate of pensions	3.75%	11.762	39,334
0.25% increase in the discount rate	4.00%	11.454	37,742
0.25% decrease in the discount rate	3.50%	12.085	41,008

	Rate	Brazil
Annual discount rate of pensions	12.42%	60,460
1% increase in the discount rate	13.42%	55,370
1% decrease in the discount rate	11.42%	66,554

Wage growth rate

An increase (decrease) of 0.25% in the wage growth rate of the VIVA open pension fund defined benefit plan, and an increase of 1% in the annual discount rate of the TAPMEPrev – Brazil defined benefit plan, would correspond to the following impacts on the Group's liabilities as at 31 December 2013:

	Rate	VIVA Pensions
Wage growth rate	1.50%	11,762
0.25% increase in the wage growth rate	1.75%	11,817
0.25% decrease in the wage growth rate	1.25%	11,709

	Rate	Brazil
Wage growth rate	6.56%	60,460
1% increase in the wage growth rate	7.56%	60,620

Rate of change of medical costs

If the growth rate of medical care costs increases or decreases by one percentage point, the respective impact on the Group's liabilities as at 31 December 2013 and 2012 is as follows:

	Rate	2013	2012
Annual growth rate of medical costs	1.50%	3,114	2,993
1% increase in the growth rate of medical costs	2.50%	3,381	3,240
1% decrease in the growth rate of medical costs	0.50%	2,880	2,775

Evolution of liabilities from past services

During 2013 and 2012, the movement which occurred in the projected liabilities, reflected in the consolidated statement of financial position, as at 31 December 2013 and 2012, is as follows:

	2013								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Liabilities at the beginning of the year	13,853	39,994	3,389	2,993	35,747	13,958	90,209	7	200,150
Exchange rate variation	–	–	–	–	–	839	(16,835)	–	(15,996)
Values recorded through profit or loss for the year:									
Current services	255	–	(92)	–	2,465	–	361	6	2,995
Net interest	589	1,500	344	127	1,349	733	8,104	1	12,747
Remeasurements	(2,308)	2,386	(273)	(6)	2,279	2,690	(17,221)	(9)	(12,462)
Benefits paid	(627)	(5,311)	–	–	(2,506)	(2,040)	(4,158)	–	(14,642)
Liabilities at the end of the year	**11,762**	**38,569**	**3,368**	**3,114**	**39,334**	**16,180**	**60,460**	**5**	**172,792**

	2012								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Liabilities at the beginning of the year	11,478	40,985	2,321	2,981	39,340	12,440	84,995	–	194,540
Exchange rate variation	–	–	–	–	–	389	(5,936)	–	(5,547)
Values recorded through profit or loss for the year:									
Current services	350	–	(216)	–	2,246	–	488	79	2,947
Net interest	603	1,742	315	142	1,505	583	8,921	41	13,852
Remeasurements	2,828	2,634	969	(130)	(4,057)	806	6,626	(113)	9,563
Benefits paid	(1,406)	(5,367)	–	–	(3,287)	(260)	(4,885)		(15,205)
Liabilities at the end of the year	**13,853**	**39,994**	**3,389**	**2,993**	**35,747**	**13,958**	**90,209**	**7**	**200,150**

Evolution of funds allocated to benefit schemes with pensions

During 2013 and 2012, the evolution of fund assets was as follows:

	2013					
	VIVA Pensions	Seniority bonus	England Representation	Brazil	UCS	Total
Opening balance	15,943	32,106	13,131	67,937	554	129,671
Exchange rate variation	–	–	(277)	(12,721)	–	(12,998)
Allocation made in the year	–	4,656	861	2,690	–	8,207
Net interest	1,127	1,204	769	6,855	33	9,988
Remeasurements	–	(242)	1,757	(1,495)	–	20
Benefits paid	(627)	(2,506)	(1,293)	(4,681)	–	(9,107)
Closing balance	**16,443**	**35,218**	**14,948**	**58,585**	**587**	**125,781**

	2012					
	VIVA Pensions	Seniority bonus	England Representation	Brazil	UCS	Total
Opening balance	14,719	29,845	11,683	59,753	–	116,000
Exchange rate variation	–	–	276	(4,910)	–	(4,634)
Allocation made in the year	783	4,656	501	7,139	515	13,594
Net interest	1,848	1,268	931	7,100	67	11,214
Remeasurements	–	(376)	–	3,649	(28)	3,245
Benefits paid	(1,407)	(3,287)	(260)	(4,794)	–	(9,748)
Closing balance	**15,943**	**32,106**	**13,131**	**67,937**	**554**	**129,671**

The composition of the funds and respective category of the amounts included in the fair value of the plan's assets, as at 31 December 2013 and 2012, is as follows:

	2013						
	Fair Value Level	VIVA Pensions	Seniority bonus	England Representation	Brazil	UCS	Total
Shares	1	5,335	3	9,468	7,616	152	22,574
Derivative products	2	–	–	–	–	–	–
Bonds	1	4,929	32,683	4,057	50,969	394	93,032
Public debt	1	5,218	–	–	–	–	5,218
Real estate	1	961	247	–	–	18	1,226
Liquidity	1	–	2,285	–	–	23	2,308
Other current investments	1	–	–	1,423	–	–	1,423
		16,443	**35,218**	**14,948**	**58,585**	**587**	**125,781**

	2012						
	Fair Value Level	VIVA Pensions	Seniority bonus	England Representation	Brazil	UCS	Total
Shares	1	3,605	1,413	8,317	8,832	138	22,305
Derivative products	2	19	–	–	–	–	19
Bonds	1	3,591	30,051	3,564	59,105	340	96,651
Public debt	1	4,066	–	–	–	–	4,066
Real estate	1	918	225	–	–	18	1,161
Liquidity	1	3,744	417	–	–	58	4,219
Other current investments	1	–	–	1,250	–	–	1,250
		15,943	**32,106**	**13,131**	**67,937**	**554**	**129,671**

Costs related to pensions and other post-employment benefits

The costs paid relative to pensions and other post-employment benefits are detailed as follows:

	2013								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Current services	255	–	(92)	–	2,465	–	361	6	2,995
Net interest	(538)	1,500	344	127	145	(36)	1,249	(32)	2,759
	(283)	**1,500**	**252**	**127**	**2,610**	**(36)**	**1,610**	**(26)**	**5,754**

	2013								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Current services	350	–	(216)	–	2,246	–	488	79	2,947
Net interest	(1,245)	1,742	315	142	237	(348)	1,821	(26)	2,638
Other	–	–	–	–	–	–	–	(515)	(515)
	(895)	**1,742**	**99**	**142**	**2,483**	**(348)**	**2,309**	**(462)**	**5,070**

As mentioned, the pilots of "TAP S.A.", recruited after 1 June 2007, and the pilots of Portugália benefit from a defined contribution plan. During 2013, a cost was recognised in the heading "Personnel costs – expenses related to post-employment benefits" of the amount of 1,353 thousand euros (2012: 1,020 thousand euros), relative to the contributions made during the year in favour of its employees.

The costs relative to pensions and other post-employment benefits for 2013 and 2012 are recorded under the heading "Personnel costs" (Note 42).

Remeasurement gains / (losses)

The remeasurement gains / losses related to post-employment benefit plans are detailed as follows:

	2013								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Remeasurements									
Return of assets, excluding amounts included in net income	–	–	–	–	242	(1,757)	1,495	–	(20)
	–	**–**	**–**	**–**	**242**	**(1,757)**	**1,495**	**–**	**(20)**
(Gains)/losses due to changes in demographic assumptions	–	–	–	–	284	–	–	–	284
(Gains)/losses due to changes in financial assumptions	480	1,987	(227)	118	–	2,616	(17,901)	–	(12,927)
(Gains)/losses due to experience	(2,788)	399	(46)	(124)	1,995	74	680	(9)	181
	(2,308)	**2,386**	**(273)**	**(6)**	**2,279**	**2,690**	**(17,221)**	**(9)**	**(12,462)**
Total remeasurements	**(2,308)**	**2,386**	**(273)**	**(6)**	**2,521**	**933**	**(15,726)**	**(9)**	**(12,482)**

	2012								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Remeasurements									
Return of assets, excluding amounts included in net income	–	–	–	–	376	–	(3,649)	28	(3,245)
	–	**–**	**–**	**–**	**376**	**–**	**(3,649)**	**28**	**(3,245)**
(Gains)/losses due to changes in demographic assumptions	–	–	–	–	(3,872)	–	–	–	(3,872)
(Gains)/losses due to changes in financial assumptions	775	1,138	419	109	–	799	744	–	3,984
(Gains)/losses due to experience	2,053	1,496	550	(239)	(185)	7	5,882	(113)	9,451
	2,828	**2,634**	**969**	**(130)**	**(4,057)**	**806**	**6,626**	**(113)**	**9,563**
Total remeasurements	**2,828**	**2,634**	**969**	**(130)**	**(3,681)**	**806**	**2,977**	**(85)**	**6,318**

The remeasurement gains / losses were recognised directly in the Group's comprehensive income.

29 – Advances from customers

As at 31 December 2013 and 2012, the balance of the heading "Advances from customers" is broken down as follows:

	2013	2012
Ministère de la Défense	398	398
Linhas Aéreas de Angola - TAAG	181	189
Travel agencies	139	76
Misc. passengers	107	16
Other	533	368
	1,358	**1,047**

30 – Suppliers

As at 31 December 2013 and 2012, the balance of the heading "Suppliers" is broken down as follows:

	2013	2012
Suppliers - current account	107,135	107,882
Suppliers - invoices pending	11,151	8,147
	118,286	**116,029**

As at 31 December 2013 and 2012, this heading is detailed as follows:

	2013	2012
Petrogal	12,644	13,577
ANA - Aeroportos de Portugal	8,237	8,552
Petrobras Distribuidora	8,087	6,135
Related entities (Note 56)	7,981	15,435
Eurocontrol - EU	7,271	–
Suppliers of TAP M&E Brazil	3,646	2,818
ASECNA	2,069	4,278
INAC - Instituto Nacional de Aviação Civil	1,876	1,437
BP Portugal - Comércio de combustíveis e lubrificantes S.A.	1,617	1,280
OZ Energia Jet, Unipessoal Lda.	1,589	1,876
Suppliers of the Brazil Representation	1,453	2,396
IBM - Companhia IBM Portuguesa, S.A.	1,364	3
Siemens e TDGI, ACE	1,293	1,018
REPSOL Portuguesa, S.A.	1,264	1,180
Shell Brasil, Ltda.	1,245	1,158
Fidelidade Companhia de Seguros, S.A.	1,181	–
Other	55,469	54,886
	118,286	**116,029**

31 – Other accounts payable

As at 31 December 2013 and 2012, the heading "Other accounts payable" is broken down as follows:

	2013		2012	
	Current	Non-current	Current	Non-current
Accrued costs	206,383	–	198,190	–
Fixed asset suppliers	4,731	–	3,137	–
Personnel	2,252	–	2,715	–
Related entities (Note 56)	364	–	2,199	–
Unions	281	–	274	–
Other	72,957	1,546	57,070	2,380
	286,968	**1,546**	**263,585**	**2,380**

Accrued costs

As at 31 December 2013 and 2012, the heading "Accrued costs" is broken down as follows:

	2013	2012
Remunerations	61,232	37,832
Maintenance reserves	45,686	40,887
Navigation charges	12,442	17,123
Aircraft fuel	11,578	14,489
Special sales charges	11,449	10,644
Remuneration - air crew	9,294	9,707
Variable remunerations	5,368	5,103
Assistance by third parties	4,051	2,644
Passenger boarding taxes	3,666	3,959
Maintenance and repair of materials	3,328	3,427
Specialised work	3,300	2,513
Booking fees	2,963	2,419
Insurance payable	2,249	2,838
Landing charges	1,227	974
Other	28,550	43,631
	206,383	**198,190**

Under the terms of the State Budget for 2013, no estimate has been recorded for the cost, as at 31 December 2012, relative to the holiday bonus to be paid in 2013.

The special sales charges refer to commissions granted to agents according to the flight revenue for the year obtained through this channel.

Other – non-current

As at 31 December 2013 and 2012, this heading refers to the fair value of the derivative financial instruments (interest rate swaps), of the amount of 1,546 thousand euros and 2,380 thousand euros, respectively (Notes 24 and 58).

Other – current

As at 31 December 2013 and 2012, the heading "Other – current" was detailed down as follows:

	2013	2012
Rates and taxes	57,087	44,714
Customer balances payable	1,430	1,297
Work accident indemnities	842	805
Other	13,598	10,254
	72,957	**57,070**

The heading of rates and taxes essentially refers to amounts payable to various entities, related to rates charged to customers on the issued tickets.

32 – Advances from customers – tickets to be used

As at 31 December 2013 and 2012, the Group's liabilities relative to unused issued tickets, recorded under the heading "Advances from customers – tickets to be used", were as follows:

	2013	2012
Passengers	364,387	278,126
Cargo	120	532
	364,507	**278,658**

The growth observed under this heading is primarily explained by the increase of the operation and the fact that customers purchase their tickets in advance in an increasingly more significant manner.

During 2013 and 2012, based on the partial and periodic analyses of this heading (Note 2.26), adjustments were recorded to the revenue from passenger and cargo transport of the amount of 90,678 thousand euros (4.4% of flight revenue) and 85,871 thousand euros (4.4% of flight revenue), respectively, which were recognised under the heading "Sales and services rendered".

35 – Sales and services rendered

As at 31 December 2013 and 2012, the sales and services rendered, by external and internal market, are presented as follows:

	2013	2012
Sales		
Internal market		
Air transport and maintenance	580	341
Catering	5,804	3,402
Duty free shop	16,609	16,488
Health care	29	220
Other	1,598	1,624
External market		
Air transport and maintenance	27,091	7,810
Duty free shop	145,850	137,959
	197,561	**167,844**
Services rendered		
Internal market		
Air transport and maintenance	136,926	142,978
Catering	1,224	2,587
Health care	3,199	9,919
Information technologies	1,205	2,757
Other	2,677	4,570
External market		
Air transport and maintenance	2,326,235	2,287,394
	2,471,466	**2,450,205**
	2,669,027	**2,618,049**

Sales and services rendered by geographic market are defined based on the destination country of the goods and services sold by the Group, which, in the case of air transport and duty free shops, is considered the destination country of the flight.

The sales and services rendered by geographic market are as follows:

		Maintenance					
2013	Air Transport	Portugal	Brazil	Duty free shop	Catering	Holdings and other	Consolidated
Sales and services rendered:							
Portugal (Mainland and Islands)	121,080	16,426	–	16,609	7,028	8,708	169,851
Europe	850,010	37,818	–	97,295	–	–	985,123
South Atlantic	816,249	5,784	72,567	23,736	–	–	918,336
North Atlantic	106,480	4,144	–	2,738	–	–	113,362
Mid Atlantic	85,743	–	–	1,600	–	–	87,343
Africa	364,380	9,641	–	19,023	–	–	393,044
Other	114	396	–	1,458	–	–	1,968
	2,344,056	**74,209**	**72,567**	**162,459**	**7,028**	**8,708**	**2,669,027**

		Maintenance					
2012	Air Transport	Portugal	Brazil	Duty free shop	Catering	Holdings and other	Consolidated
Sales and services rendered:							
Portugal (Mainland and Islands)	126,966	16,353	–	16,488	5,989	19,090	184,886
Europe	829,947	69,668	–	91,800	–	–	991,415
South Atlantic	764,872	9,366	70,765	22,564	–	–	867,567
North Atlantic	103,009	2,590	–	2,603	–	–	108,202
Mid Atlantic	59,896	–	–	1,521	–	–	61,417
Africa	368,617	16,031	–	18,084	–	–	402,732
Other	–	443	–	1,387	–	–	1,830
	2,253,307	**114,451**	**70,765**	**154,447**	**5,989**	**19,090**	**2,618,049**

36 – Operating grants

As at 31 December 2013 and 2012, the value of this heading stood at 3,852 thousand euros and 4,312 thousand euros, respectively.

The Group recognises, on an annual basis, the grants receivable from the State relative to its contribution to the retail price of fares for flights coming from or going to the Azores Islands, provided that the passengers meet the applicable legal conditions. The amount recognised for each year corresponds to the Group's estimated receivable value for the tickets used in the actual year by passengers covered by this benefit scheme.

37 – Gains and losses in associates

As at 31 December 2013 and 2012, the heading of gains and losses in associates are detailed as follows:

	2013	2012
Gains		
SPdH	706	4,110
	706	**4,110**

On 18 June 2012, a purchase and sale contract was concluded between, on the one hand, "TAP S.A.", "TAP SGPS", Portugália and SPdH and, on the other hand, Urbanos Grupo, SGPS, S.A. for the latter's acquisition of 50.1% of the capital of SPdH, to take effect as of 20 July 2012, the date of the Competition Authority's deliberation regarding the decision of non-opposition to the aforesaid operation. In the meantime, on 17 October 2012, Pasogal SGPS, S.A. succeeded Urbanos Grupo, SGPS, S.A. relative to all the rights and obligations arising to the latter from the agreement referred to above and shareholders' agreement.

The value recorded in this heading of 706 thousand euros as at 31 December 2013, refers to the appropriation of the share in the net income of the associate company SPdH, adjusted pursuant to the adoption of IAS 19 (revised) (Note 26).

The values recorded in this heading, as at 31 December 2012, correspond to the net effect of: i) the reinforcement of the provision for financial investments of the amount of 1,886 thousand euros (Note 26); ii) the reversal of 50.1% of the existing provision of the amount of 2,996 thousand euros (Note 26), following the sale of 50.1% of the stake in SPdH and iii) the value of the sale of 50.1% of the stake in SPdH of the amount of 3,000 thousand euros (Note 18).

38 – Variation in production

The variation in production in 2013 and 2012 was as follows:

	2013	2012
Opening inventories (Note 20)	(10,046)	(23,431)
Adjustment of inventories	(314)	5,498
Closing inventories (Note 20)	5,288	10,046
	(5,072)	**(7,887)**

39 – Own work capitalised

The own work capitalised, in 2013 and 2012, of the amount of 1,593 thousand euros and 1,144 thousand euros, respectively, refers to staff and other costs included in inventory acquisition/production costs, with duration above one year.

40 – Cost of goods sold and materials consumed

The cost of goods sold and materials consumed in 2013 and 2012 was as follows:

	2013		2012	
	Goods	Raw materials, inputs and consumables	Goods	Raw materials, inputs and consumables
Opening inventories (Note 20)	14,400	147,934	12,982	163,759
Purchases	104,692	115,088	97,512	107,237
Adjustment of inventories	(912)	(13,582)	3,476	(17,604)
Closing inventories (Note 20)	(14,788)	(138,021)	(14,400)	(147,934)
	103,392	**111,419**	**99,570**	**105,458**
		214,811		**205,028**

41 – External supplies and services

External supplies and services are broken down as follows:

	2013	2012
Aircraft fuel	767,973	811,491
Handling services	161,799	160,218
Navigation charges	136,296	133,758
Specialised work	86,233	82,442
Maintenance and repair of flight equipment	79,622	93,031
Landing charges	58,231	57,063
Hire and rental charges	53,281	54,425
Operating leasing of aircraft and spare parts	51,984	54,247
In-flight expenses	45,353	45,821
Commissions	41,009	46,688
Special sales charges - air transport	38,238	36,955
Accommodation and meals during stopovers	21,373	22,790
Subcontracts	14,121	14,441
Maintenance and repair of other assets	13,435	14,211
Insurance	5,427	7,139
Fees	4,049	6,316
Surveillance and security	3,688	3,482
Other costs related to external supplies and services	123,216	123,545
	1,705,328	**1,768,063**

The reduction of the costs related to external supplies and services is essentially due to the lower average market price of jet fuel, combined with a moderate increase in the exchange rate of the euro relative to the dollar (see Note 3).

Furthermore, the "Group" managed to reduce its operating costs, in particular with regard to engine repair and commissions paid to IATA agents, in the market where the Group operates.

The heading "Other costs related to external supplies and services" presents the following details:

	2013	2012
Air traffic control charges	23,116	18,694
Baggage, cargo and mail charges	16,928	16,707
Other costs related to passengers	17,117	15,480
Advertising and publicity	11,770	11,536
Chartering of aircraft	10,382	12,641
Communication	7,226	9,228
Transport of goods	5,129	5,287
Ground costs related to executive class passengers	4,725	4,509
Electricity	4,553	4,879
Cleaning, hygiene and comfort	4,003	4,069
Facilities at airports	3,704	3,554
Travel costs	3,436	3,073
Legal and notary costs	512	3,727
Other	10,615	10,161
	123,216	**123,545**

42 – Personnel costs

Personnel costs are broken down as follows:

	2013	2012
Personnel remuneration	436,663	381,793
Social charges	85,993	77,258
Other personnel costs	42,092	41,742
Expenses related to post-employment benefits (Note 28)	7,107	6,090
	571,855	**506,883**

The remunerations attributed to the members of the governing bodies of the "Group", in 2013 and 2012, were:

	2013	2012
Board of Directors / General and Supervisory Board (Note 56)	3,218	2,926
General Meeting	3	3
Supervisory Board / Statutory Auditor	105	111
	3,326	**3,040**

The heading "Other personnel costs" is detailed as follows:

	2013	2012
Insurance	16,801	12,492
Social action costs	11,127	11,547
Subsidies of meals	4,851	4,746
Indemnities	2,948	3,471
Work accident insurance	135	4,148
Other	6,230	5,338
	42,092	**41,742**

43 – Inventory adjustments (losses/reversals)

As at 31 December 2013 and 2012, this heading is detailed as follows:

	2013		2012	
	Inventory losses	Reversal of inventory adjustments	Inventory losses	Reversal of inventory adjustments
Raw materials, inputs and consumables (Note 20)	5,931	(23)	2,278	(314)
	5,931	**(23)**	**2,278**	**(314)**
		5,908		**1,964**

44 – Impairment of debts receivable (losses/reversals)

As at 31 December 2013 and 2012, this heading is detailed as follows:

	2013		2012	
	Inventory losses	Reversal of inventory adjustments	Inventory losses	Reversal of inventory adjustments
Customers (Note 21)	3,592	(3,700)	3,526	(7,266)
Other accounts receivable - current (Note 18)	474	–	661	(244)
	4,066	**(3,700)**	**4,187**	**(7,510)**
		366		**(3,323)**

45 – Provisions (increases/decreases)

The details of the value recorded under the heading of provisions, net of allocations and reversals, for the years ended on 31 December 2013 and 2012, are as follows:

	2013	2012
Provision for current lawsuits (Note 26)	(4,334)	(3,406)
Other provisions (Note 26)	711	(281)
	(3,623)	**(3,687)**

46 – Impairment of assets

In 2013 and 2012, no impairment of depreciable and non-depreciable fixed assets was recognised.

47 – Fair value increases/reductions

A loss of 410 thousand euros was recognised for the year ended on 31 December 2013 (2012: a gain of 2,210 thousand euros) arising from the variation of the fair value of investment properties (Note 6).

48 – Other revenue and gains

As at 31 December 2013 and 2012, the heading of other revenue and gains is detailed as follows:

	2013	2012
Supplementary income	45,156	50,475
Inventory gains	2,323	566
Gains from fixed assets	495	3,433
Cash discounts received	214	320
Other income and gains	1,171	1,178
	49,359	**55,972**

The heading "Supplementary income" presents the following composition as at 31 December 2013 and 2012:

	2013	2012
Sale of miles	19,239	20,159
Advertising	9,758	9,508
Recovered warehouse material	8,893	8,972
Rents and sub-leases	1,912	1,905
Other	5,354	9,931
	45,156	**50,475**

49 – Other costs and losses

As at 31 December 2013 and 2012, the heading "Other costs and losses" is detailed as follows:

	2013	2012
Unfavourable operating currency conversion differences	38,590	20,623
Taxes	10,577	6,976
Indemnities for lawsuits	6,931	–
Other costs and losses from financial services	4,306	4,200
Inventory losses	1,256	5,838
Losses from fixed assets	1,058	1,650
Fines and penalties	402	105
Other	1,478	3,051
	64,598	**42,443**

50 – Depreciation and amortisation costs/reversals

As at 31 December 2013 and 2012, this heading is broken down as follows:

	2013	2012
Tangible fixed assets (Note 5)		
Buildings and other constructions	5,810	5,981
Basic equipment	103,687	107,128
Transport equipment	147	255
Tools and utensils	1,863	2,006
Administrative equipment	1,923	2,148
Other tangible fixed assets	1,743	1,614
	115,173	**119,132**
Other intangible assets (Note 8)		
Other intangible assets	578	644
	578	**644**
	115,751	**119,776**

51 – Interest and similar revenue received/costs paid

The interest and similar revenue received and the interest and similar costs paid, as at 31 December 2013 and 2012, are detailed as follows:

	2013	2012
Income and gains		
Interest received from investments	2,908	3,333
Favourable currency conversion differences	3,247	2,363
	6,155	**5,696**
Costs and losses		
Interest paid on loans	46,993	55,271
Other financial costs and losses	3,663	2,100
	50,656	**57,371**

52 – Corporate income tax

The Group's companies with head office in Portugal are subject to Corporate Income Tax (IRC) based on their individual net income, at the rate of 25% plus a surcharge at the maximum rate of 1.5% on taxable profit, thus reaching an aggregate rate of 26.5%. The austerity measures established by Law number 66-B/2012, of 31 December, which approve the State Budget for 2013, increase this rate to 3% on the portion of taxable profit of each company which is greater than 1.5 million euros and less than 7.5 million euros, and increase the rate to 5% on the portion of taxable profit of each company which is greater than 7.5 million euros, giving rise to an aggregate maximum tax rate of 31.5%.

In the calculation of the taxable amount, to which the tax rates referred to above are applied, the amounts not accepted for tax purposes are added to and subtracted from the profit for accounting purposes. These differences between the profit for accounting and tax purposes may be of temporary or permanent nature.

Under the terms of article 88 of the Corporate Income Tax Code, the Group's companies based in Portugal are subject to autonomous taxation on a series of expenses, at the tax rates listed therein.

As at 31 December 2013 and 2012, the heading "Income tax for the year" is broken down as follows:

	2013	2012
Current tax	7,733	8,638
Deferred tax (Note 15)	(7,258)	558
	475	**9,196**

The current tax for 2013 essentially refers to the current tax of the subsidiaries "TAP S.A." and LFP of the value of 2,642 thousand euros (2012: 3,714 thousand euros) and 4,254 thousand euros (2012: 3,982 thousand euros, respectively).

The reconciliation of the effective tax rate for 2013 and 2012 is presented as follows:

	2013	2012
Pre-tax earnings	**(440)**	**(10,912)**
Nominal tax rate	29.5%	29.5%
	(130)	**(3,219)**
Permanent differences	(188)	1,453
Reversal/(reinforcement) of deferred tax assets relative to tax losses	(3,835)	699
Insufficient/(surplus) estimate of taxes for the previous year	(1,291)	(71)
Use of tax losses carried forward of previous years without IDA	(3,194)	(1,368)
Tax losses carried forward for the year without IDA	6,429	8,874
Autonomous tax and other forms of taxation	2,684	2,828
Income tax	**475**	**9,196**
Effective tax rate	(108%)	(84%)
Current tax	7,733	8,638
Deferred tax	(7,258)	558
	475	**9,196**

53 – Non-controlling interests – net income

The non-controlling interests, presented in the consolidated income statement, as at 31 December 2013 and 2012 are detailed as follows:

	2013	2012
Non-controlling interests of net income		
Cateringpor	233	758
LFP	4,720	4,621
	4,953	**5,379**

55 – Segmental reporting

The following business segments have been identified: air transport, maintenance, duty free shop, catering and others. The net income, assets and liabilities of each segment correspond to those directly attributable to each segment, as well as those that can be attributable to them based on a reasonable basis.

The financial information by business segment for 2013 is analysed as follows:

	Air Transport	Maintenance		Duty free shop	Catering	Holdings and other	Inter-segment Annulments	Consolidate
		Portugal	Brazil					
REVENUE								
Revenue	2,413,957	75,628	74,589	162,464	41,059	51,130	(149,800)	2,669,027
Net operating income	59,289	7,747	(28,671)	13,846	719	(8,976)	107	44,061
External net financial results	(274)	–	(11,680)	22	37	(32,499)	(107)	(44,501)
Net gains in associates	–	–	–	–	–	706	–	706
Income tax	(1,780)	–	–	(4,235)	(280)	5,820	–	(475)
Minority interests	–	–	–	4,720	233	–	–	4,953
Net income for the year	**57,235**	**7,747**	**(40,351)**	**9,633**	**476**	**(35,655)**	**–**	**(915)**
OTHER INFORMATION								
Total segmental assets	119,976	–	114,541	26,785	13,693	2,344,305	(924,119)	1,695,181
Total segmental liabilities	111,549	–	412,397	14,830	8,284	2,445,552	(924,119)	2,068,493
Amortisations and impairment losses	(99,712)	(7,981)	(5,926)	(1,882)	(617)	(5,907)	–	(122,025)
CAPEX	6,336	7,678	1,822	657	129	1,004	–	17,626
Remunerated net debt	87,218	–	(2,276)	(4,860)	(5,039)	704,989	–	780,032

The financial information by business segment for 2012 is analysed as follows:

	Air Transport	Maintenance		Duty free shop	Catering	Holdings and other	Inter-segment Annulments	Consolidate
		Portugal	Brazil					
REVENUE								
Revenue	2,327,679	115,151	70,972	154,447	38,242	60,866	(149,308)	2,618,049
Net operating income	27,437	27,595	(37,038)	13,352	2,051	7,366	–	40,763
External net financial results	(914)	–	(17,033)	24	56	(33,808)	–	(51,675)
Net gains in associates	–	–	–	–	–	4,110	–	4,110
Income tax	(3,017)	–	–	(3,945)	(561)	(1,673)	–	(9,196)
Minority interests	–	–	–	4,621	758	–	–	5,379
Net income for the year	**23,506**	**27,595**	**(54,071)**	**9,431**	**1,546**	**(28,115)**	**–**	**(20,108)**
OTHER INFORMATION								
Total segmental assets	132,283	–	132,437	27,789	13,695	2,225,925	(881,424)	1,650,705
Total segmental liabilities	129,010	–	467,833	16,035	7,899	2,292,157	(881,424)	2,031,510
Amortisations and impairment losses	(100,167)	(2,516)	(4,748)	(1,780)	(698)	(8,508)	–	(118,417)
CAPEX	23,699	11,039	1,129	1,801	149	1,188	–	39,005
Remunerated net debt	103,956	–	(660)	(6,356)	(4,612)	856,383	–	948,711

The Maintenance – Portugal segment is included in the structure of the subsidiary "TAP S.A.", which is why its assets and liabilities are not presented separately.

56 – Related entities

Balances and transactions between companies of the Group which are included in the consolidation perimeter are eliminated in the consolidation process, and, therefore, are not disclosed in the present Note. The balances and transactions between the Group and the associated companies (consolidated through the equity method) are presented in the tables below. The terms and conditions enforced between the Group and the related parties are similar in substance to the terms which would normally be contracted between independent entities in comparable operations.

The members of the Executive Board of Directors of the Group were considered, according to IAS 24, as the only "key" management staff of the Group.

During the financial years ended on 31 December 2013 and 2012, the remunerations earned by the Board of Directors and by the General and Supervisory Board reached 3,218 thousand euros (2012: 2,926 thousand euros), as described in Note 42.

As at 31 December 2013 and 2012, the **balances** with related entities are broken down as follows:

	2013 - Assets			
	Other non-current accounts receivable (Note 18)	Customers (Note 21)	Other current accounts receivable (Note 18)	Deferrals
Shareholder				
Parpública - Participações Públicas, SGPS, S.A.	–	–	–	–
Associates				
SPdH - Serviços Portugueses de Handling, S.A.	3,700	2,667	3,454	–
	3,700	**2,667**	**3,454**	**–**

	2013 - Liabilities			
	Shareholders (Note 14)	Suppliers (Note 30)	Other current accounts payable (Note 31)	Deferrals
Shareholder				
Parpública - Participações Públicas, SGPS, S.A.	–	–	–	–
Associates				
SPdH - Serviços Portugueses de Handling, S.A.	–	(7,981)	(364)	(99)
	–	**(7,981)**	**(364)**	**(99)**

	2012 – Assets			
	Other non-current accounts receivable (Note 18)	Customers (Note 21)	Other current accounts receivable (Note 18)	Deferrals
Shareholder				
Parpública - Participações Públicas, SGPS, S.A.	–	–	55	–
Associates				
SPdH - Serviços Portugueses de Handling, S.A.	3,700	1,455	5,012	–
Other related entities				
Grupo ANA - Aeroportos de Portugal	–	199	102	779
	3,700	**1,654**	**5,169**	**779**

	2012 – Liabilities			
	Shareholders (Note 14)	Suppliers (Note 30)	Other current accounts payable (Note 31)	Deferrals
Shareholder				
Parpública - Participações Públicas, SGPS, S.A.	(50,000)	–	–	–
Associates				
SPdH - Serviços Portugueses de Handling, S.A.	–	(6,883)	(50)	(98)
Other related entities				
Grupo ANA - Aeroportos de Portugal	–	(8,552)	(2,149)	–
	(50,000)	**(15,435)**	**(2,199)**	**(98)**

As at 31 December 2013 and 2012, the **transactions** which occurred between related entities are broken down as follows:

	2013				
	External supplies and services	Other costs and losses	Sales and services rendered	Other income and gains	Financial results
Shareholder					
Parpública - Participações Públicas, SGPS, S.A.	–	–	–	–	(3,998)
Associates					
SPdH - Serviços Portugueses de Handling, S.A.	(80,388)	(5)	7,585	1,151	302
	(80,388)	**(5)**	**7,585**	**1,151**	**(3,696)**

	2013				
	External supplies and services	Other costs and losses	Sales and services rendered	Other income and gains	Financial results
Shareholder					
Parpública - Participações Públicas, SGPS, S.A.	–	–	–	–	(221)
Associates					
SPdH - Serviços Portugueses de Handling, S.A.	(79,061)	1	10,384	–	13
Other related entities					
Grupo ANA - Aeroportos de Portugal	(76,970)	(145)	80	670	–
	(156,031)	**(144)**	**10,464**	**670**	**(208)**

The transactions, amounting to the total of 80,388 thousand euros (2012: 79,061 thousand euros) recorded under external supplies and services, refer to ground handling services provided by SPdH to support aircraft, passengers, baggage, cargo and mail. During the year ended on 31 December 2012, the amount of 76,970 thousand euros refers to services provided at the airport by the ANA Group, which in 2013, following the privatisation process, was divested by Parpública.

57 – Contingencies

Contingent assets

As at 31 December 2013 and 2012, the Group did not own any contingent assets.

Contingent liabilities

The Brazilian subsidiary TAP M&E Brazil is involved in tax, civil and labour claims, involving risks of loss classified by the Management as possible, based on the appraisal of its legal consultants, for which no provision has been constituted, as follows:

Labour claims

(i) Employees' Severance Indemnity Fund (FGTS) not deposited between 2002/2004 and Hazard/Unfitness (lawsuit filed by the union)
Amount:67,701 thousand euros

The main labour claim involves a legal action filed by the Union claiming the deposit of the FGTS between 2002 and 2004 for all the Porto Alegre employees.

The other legal action refers to the request for additional payment due to insalubrity and hazard, for all employees working as aircraft maintenance auxiliaries at Porto Alegre. Following analysis of the expert's report, it was concluded that the activities exercised are not characterised as hazardous or insalubrious. The Union has filed an appeal which is currently at the Superior Labour Court of Brasília pending judgement.

Based on information provided by its lawyers, TAP M&E Brazil believes that these legal actions will have no materially relevant impacts which might affect its financial statements as at 31 December 2013.

Tax claims

(ii) Tax foreclosure relative to accessory obligations of tax on circulation of goods and services (ICMS)
Amount: 8,927 thousand euros

In December 2007, the subsidiary was notified, in the context of tax foreclosure, proposed by the State Treasury Office of São Paulo (Guarulhos), relative to accessory obligations of ICMS. The subsidiary pledged 2% of turnover, and suspended the foreclosure, arguing for a review of the tax foreclosure. The subsidiary is currently awaiting the Judge's decision relative to the suspension of the foreclosure. The probability of loss for the subsidiary is considered possible.

(iii)Notice of infraction of import tax ("II"), tax on industrialised products ("IPI"), social integration programme ("PIS") and contribution to the financing of social security ("COFINS")
Amount: 34,677 thousand euros

The subsidiary was notified by the Federal Reserve Office, on 16 October 2007, which considered that the exemption of II and IPI and 0% rate of PIS and COFINS are not applicable to the import operations of the subsidiary. The subsidiary's defence has been filed and awaits trial. Based on information provided by its lawyers, TAP M&E Brazil believes that this legal action will have no materially relevant impacts which might affect its financial statements as at 31 December 2013. The probability of a successful outcome for the subsidiary is considered possible.

(iv)Notice of infraction of corporate income tax ("IRPJ"), social contribution on net income ("CSLL"), "PIS" and "COFINS" relative to 2007.
Amount: 1,449 thousand euros

The federal tax authorities considered that there was inconsistency in the statements presented by the subsidiary TAP M&E Brazil, thereby disregarding all of the accountancy for the period referred to above and arbitrating the value of taxes owed. During 2013, the proceeding, whose amount was more significant, related to IRPJ and CSLL was concluded successfully. Regarding to PIS and COFINS contributions, a protest letter has been submitted and trial is pending at first instance.

(v) Notice of infraction regarding failure to comply with the temporary import regime.
Amount: 5,090 thousand euros

In 2012, the subsidiary was notified by the Federal Revenue Office, due to failure to comply with the temporary import regime. The defence lawyers concluded that the probability of loss for the subsidiary is considered possible.

(vi) Notice of infraction of "IRPJ"/"CSLL"
Amount: 213 thousand euros

In 2012, various administrative proceedings were filed, arising from the failure to ratify the compensation, undertaken through the Declaration of Compensation of Taxes with reference to the negative balances of IRPJ and CSLL, for supposed use of undue loans. A protest letter has been submitted and trial is pending at first instance. The probability of loss for the subsidiary is considered possible.

(vii) Notice of infraction – Tax fine
Amount: 190 thousand euros

The subsidiary TAP M&E Brazil was fined for failure to comply with the temporary export regimes in 2009. All the ensuing administrative processes are being defended under the Taxpayers' Council, with the probability of loss by the subsidiary being considered possible.

(viii) Notice of infraction – Non-ratified offsetting of taxes
Amount: 77 thousand euros

The subsidiary was notified relative to the non-conformity in completing the Declaration of Offsetting of Taxes, not having been ratified. The defence lawyers concluded that the probability of loss for the subsidiary is considered possible.

Other

(ix) Pledged assets
Amount: 15,070 thousand euros

The subsidiary TAP M&E Brazil has pledged various assets to the value of 15,070 thousand euros (18,158 thousand euros in 2012), which refer to guarantees required in tax and labour proceedings. These assets include vehicles, computers, components, items of the hangars of Rio de Janeiro and Porto Alegre, among others.

58 – Breakdown of financial assets and liabilities

The reconciliation of the consolidated financial positions, as at 31 December 2013 and 2012, relative to the different categories of the financial assets and liabilities included therein, is broken down as follows:

	2013				
	Derivative financial instruments classified as hedge instruments (Note 24)	Credit and other receivables	Other financial liabilities	Non-financial assets and liabilities	Total
Assets					
Other non-current assets	–	42,901	–	–	42,901
Current receivables	7,988	272,948	–	27,039	307,975
Cash and cash equivalents	–	270,611	–	–	270,611
Total Assets	**7,988**	**586,460**	**–**	**27,039**	**621,487**
Liabilities					
Non-current loans received	–	–	(660,131)	–	(660,131)
Other non-current liabilities	(1,546)	–	–	(59,898)	(61,444)
Current loans received	–	–	(390,512)	–	(390,512)
Current payables	–	–	(406,612)	(451,093)	(857,705)
Total Liabilities	**(1,546)**	**–**	**(1,457,255)**	**(510,991)**	**(1,969,792)**

	2012				
	Derivative financial instruments classified as hedge instruments (Note 24)	Credit and other receivables	Other financial liabilities	Non-financial assets and liabilities	Total
Assets					
Other non-current assets	256	50,183	–	–	50,439
Current receivables	444	293,080	–	27,433	320,957
Cash and cash equivalents	–	85,353	–	–	85,353
Total Assets	**700**	**428,616**	**–**	**27,433**	**456,749**
Liabilities					
Non-current loans received	–	–	(775,390)	–	(775,390)
Other non-current liabilities	(2,380)	–	–	(76,557)	(78,937)
Current loans received	–	–	(258,674)	–	(258,674)
Current payables	–	–	(430,661)	(361,745)	(792,406)
Total Liabilities	**(2,380)**	**–**	**(1,464,725)**	**(438,302)**	**(1,905,407)**

The tables below presents the assets and liabilities measured at fair value as at 31 December 2013 and 2012, according to the following hierarchical levels of fair value established in IFRS 13:

Level 1: fair value of financial instruments based on active net market prices on the reference reporting date;

Level 2: the fair value of financial instruments is not determined based on active market prices, but rather through evaluation models. The main inputs of these models are observable on the market; and

Level 3: the fair value of financial instruments is not determined based on active market prices, but rather through evaluation models, whose main inputs are not observable on the market.

Assets measured at fair value

	2013			
	Total	Level 1	Level 2	Level 3
Financial liabilities at fair value recognised in reserves - hedge derivatives	7,988	–	7,988	–

	2012			
	Total	Level 1	Level 2	Level 3
Financial liabilities at fair value recognised in reserves - hedge derivatives	700	–	700	–

Liabilities measured at fair value

	2013			
	Total	Level 1	Level 2	Level 3
Financial liabilities at fair value recognised in reserves - hedge derivatives	1,546	–	1,546	–

	2012			
	Total	Level 1	Level 2	Level 3
Financial liabilities at fair value recognised in reserves - hedge derivatives	2,380	–	2,380	–

Derivative financial instruments

The fair value of the derivative financial instruments is recorded under the heading of payables when negative, and under the heading of receivables when positive.

During 2013 and 2012, the variation in the fair value of the derivative financial instruments was recorded under equity.

The breakdown of the fair value of the derivative financial instruments is detailed in Note 24.

Credit and other receivables

These values are initially recognised at their fair value, corresponding to their nominal value, minus any impairment identified during credit risk analysis.

Other financial liabilities

These values are recognised at their amortised cost, corresponding to the amount of the respective cash flow, discounted by the effective interest rate associated to each liability.

60 – Commitments

Guarantees provided

As at 31 December 2013 and 2012, the guarantees provided by the Group are broken down as follows:

	2013	2012
Bank guarantees provided by TAP S.A.		
Aircraft	25,848	21,167
BIC Angola credit line (unused)	14,502	15,158
Fuel	2,956	2,995
Natwest - Acquiring relative to credit cards	2,519	2,573
Labour Court	2,243	3,633
Portuguese State - Operation of the Azores routes	1,654	4,234
Other	9,932	7,970
Bank guarantees provided by LFP		
Operating license concession contracts for the Duty Free Shops	6,500	6,336
Bank guarantees provided by other Group companies	663	534
Securities provided to insurers	87	162
	66,904	**64,762**

The reinforcement undertaken during the current financial year, to bank guarantees provided by "TAP S.A." relative to aircraft, is essentially related to new operating lease contracts.

Purchase commitments

As at 31 December 2013, the financial commitments assumed by the subsidiary "TAP S.A." relative to operating lease contracts for aircraft and engines reached a total of 252,462 thousand euros (245,068 thousand euros as at 31 December 2012) (Note 27).

Moreover, a contract has been signed with Airbus for the future acquisition of twelve Airbus A350, with the option of a further three aircraft, to be received between 2017 and 2019.

61 – Subsequent events

The Executive Board of Directors has no knowledge whatsoever of any subsequent events on the reporting date which might have significant impact on the financial statements for the year ended on 31 December 2013.

Chartered Accountant

Sandra Candeias Matos da Luz

Executive Board of Directors

Chairman	Fernando Abs da Cruz Souza Pinto
Member	Luís Manuel da Silva Rodrigues
Member	Luiz da Gama Mór
Member	Manoel José Fontes Torres
Member	Michael Anthony Conolly

LEGAL CERTIFICATION OF THE CONSOLIDATED ACCOUNTS

Introduction

1. We have examined the consolidated financial statements of TAP — Transportes Aéreos Portugueses, SGPS. S.A., which include the Statement of consolidated financial position as at 31 December 2013 (showing a total of 1,695,181 thousand euros and negative total equity of 373,312 thousand euros, including total minority interests of 8,508 thousand euros and negative consolidated net income of 5,868 thousand euros), the Consolidated income statement, the Consolidated comprehensive income statement, the Consolidated statement of changes in equity and the Consolidated cash flow statement for the year ended on that date, and the corresponding Notes.

Responsibilities

2. It is the responsibility of the Executive Board of Directors to prepare consolidated financial statements that present a true and appropriate view of the financial position of the group of companies included in the consolidation, the consolidated net income and the consolidated comprehensive net income of their operations, the changes in consolidated equity and consolidated cash flow, the adoption of suitable accounting policies and criteria and the maintenance of appropriate internal control systems, as well as the disclosure of any relevant facts that have influenced the activity, financial position or net income of the companies included in the consolidation perimeter.

3. Our responsibility consists of expressing a professional and independent opinion based on our examination of these financial statements.

Scope

4. Our examination was conducted in accordance with the Standards and Technical Directives of Review/Auditing issued by the Portuguese Institute of Statutory Auditors (OROC), which require that the review be planned and performed with the objective of obtaining an acceptable level of assurance that the consolidated financial statements are free of materially relevant distortions. For this purpose, our examination included:

   // verification that the financial statements of the companies included in the consolidation have been examined appropriately and, for significant cases where this is not so, verification, based on sampling, of the documentation supporting the amounts and disclosures in the financial statements, and assessment of the estimates based on judgements and criteria defined by the Executive Board of Directors used in their preparation;

   // verification of the consolidation operations and application of the equity method;

   // appraisal as to whether the adopted accounting policies are adequate, their application is uniform and their disclosure suitable, in view of the circumstances;

   // verification of the applicability of the going concern principle; and

   // appraisal of the adequacy, in overall terms, of the presentation of the consolidated financial statements.

5. Our examination also covered verification of the concordance of the financial information presented in the consolidated management report with the consolidated financial statements.

6. We believe that our examination provides an acceptable basis for the expression of our opinion.

Opinion

7. In our opinion, the aforesaid consolidated financial statements present a fair and appropriate view, in all materially relevant aspects, of the consolidated financial position of TAP – Transportes Aéreos Portugueses, SGPS, S.A. as at 31 December 2013, the consolidated net income and comprehensive income of its operations, the changes in consolidated equity and consolidated cash flow for the financial year ended on that date, in conformity with the International Financial Reporting Standards as adopted in the European Union.

Reporting on other legal requirements

8. It is also our opinion that the financial information presented in the consolidated management report is concordant with the consolidated financial statements for the year.

Lisbon, 28 March 2014
Oliveira, Reis & Associados, SROC, Lda.
represented by

José Vieira dos Reis, ROC nº 359

AUDIT REPORT

Introduction

1. We have examined the consolidated financial statements of TAP – Transportes Aéreos Portugueses, SGPS, S.A., which include the Statement of consolidated financial position as at 31 December 2013 (showing a total of 1,695,181 thousand euros and negative total equity of 373,312 thousand euros, including non-controlling interests of 8,508 thousand euros and negative net income of 5,868 thousand euros), the Consolidated income statement, the Consolidated comprehensive income statement, the Statement of consolidated changes in equity, the Consolidated cash flow statement for the year ended on that date, and the corresponding Notes.

Responsibilities

2. The Board of Directors is responsible for the preparation of the Consolidated management report and consolidated financial statements that present a true and appropriate view of the financial position of the companies included in the consolidation, the consolidated net income and the consolidated comprehensive net income of their operations, the changes in their consolidated equity, and the consolidated cash flows, as well as the adoption of adequate accounting policies and criteria and the maintenance of appropriate internal control systems.
3. Our responsibility consists of expressing a professional and independent opinion, based on our examination of these financial statements.

Scope

4. Our examination was conducted in accordance with the Standards and Technical Directives of Revision/Auditing issued by the Portuguese Institute of Statutory Auditors (OROC), which require that it be planned and performed with the objective of obtaining an acceptable level of assurance that the financial statements are free from materially misstatement.

   For this purpose, the aforesaid examination included:

   (i) verification that the financial statements of the companies included in the consolidation have been examined appropriately and, for significant cases where this is not so, verification, based on sampling, of the documentation supporting the amounts and disclosures in the financial statements, and assessment of the estimates based on judgements and criteria defined by the Board of Directors used in their preparation;

   (ii) verification of the consolidation operations and application of the equity method;

   (iii) appraisal of the adequacy of the adopted accounting policies, their uniform application and disclosure, considering the circumstances;

   (iv) verification of the applicability of the going concern principle; and

   (v) appraisal of the adequacy, in overall terms, of the presentation of the consolidated financial statements.

5. Our examination also included verification as to whether the consolidated financial information presented in the consolidated management report is consistent with the consolidated financial statements.
6. We believe that the examination carried out provides an acceptable basis for the expression of our opinion.

Opinion

7. In our opinion, the aforesaid consolidated financial statements present a fair and appropriate view, in all materially relevant aspects, of the consolidated financial position of TAP – Transportes Aéreos Portugueses, SGPS, S.A. as at 31 December 2013, the consolidated net income and the consolidated comprehensive income of its operations, its consolidated changes in equity and the consolidated cash flow for the year ended on that date, in conformity with the international financial reporting standards as adopted in the European Union.

Reporting on other legal requirements

8. It is also our opinion that the financial information included in the Consolidated management report is consistent with the consolidated financial statements for the year.

28 March 2014
PricewaterhouseCoopers & Associados
– Sociedade de Revisores Oficiais de Contas, Lda.
represented by

José Pereira Alves, R.O.C.

REPORT OF THE GENERAL AND SUPERVISORY BOARD 2013, TAP SGPS

1. The present report provides a summary of the activity developed by the General and Supervisory Board of the TAP Group (CGS) during 2013. In this period, the General and Supervisory Board held regular meetings, in the performance of its statutory duties, where the work conducted by the Board is documented in the minutes of the meetings.

2. The Chairman of the Executive Board of Directors participated in the meetings of the General and Supervisory Board, as well as the Directors responsible for the matters under analysis. There was broader participation of the Executive Board of Directors in the meetings of the General and Supervisory Board dedicated to the appraisal of the accounts for 2012, the budget and activity plan for 2014, and the review of the strategic plan. The Chairman of the General and Supervisory Board regularly monitored the management of the Company, and attended the formal meetings of the Executive Board of Directors.

3. The General and Supervisory Board acquainted itself in due time with the deliberations of the Executive Board of Directors which, under the statutory terms, were submitted for its appraisal and deliberation, as well as the respective substantiation and clarifications.

4. During 2013, the General and Supervisory Board held ten meetings. The supervision carried out by the General and Supervisory Board covered all the companies of the TAP Group, in particular TAP, S.A., as well as the associates in which TAP holds a significant stake. In this duty, the General and Supervisory Board was assisted by the Specialised Auditing Commission (CEA) and Specialised Sustainability and Corporate Governance Commission (CESGS), as well as the ad-hoc working party with competence on matters of application of remuneration policy and assessment of the performance of the management. These commissions and working party provided the Board with the necessary support on matters within their attributions, namely with respect to verification of compliance with the articles of association and applicable legal precepts.

5. The Specialised Auditing Commission held eight meetings with ordinary sessions. The meetings of the Specialised Auditing Commission also involved the active participation of the Director responsible for financial matters as well as the regular collaboration of the Official Accountant, the External Auditor and Internal Audit. The Specialised Auditing Commission primarily dealt with the financial supervision of TAP, monitoring the treasury situation, the evolution of debt and especially the development of bank funding transactions carried out with a view to assuring adequate liquidity levels. The Specialised Auditing Commission verified that treasury balances were maintained, throughout the year, above those of 2012, which, although not reaching levels that could be considered fully comfortable, were sufficient to assure TAP's normal operation and simultaneously enable a reduction of 219 million euros in the Group's net debt. In view of the amplitude of TAP's operation network, dispersed over diverse geographic areas, the Specialised Auditing Commission carefully monitored the evolution of the geopolitical situation in various problematic areas with potential impact on the valuation of the assets of TAP, S.A., as well as the adoption by the Executive Board of Directors of precautionary measures which proved suitable in this context, with a view to mitigating the inherent risk to the functioning of the operation and treasury management.

6. The Specialised Sustainability and Corporate Governance Commission held seven meetings during the year. During these meetings, an analysis was made of the performance of TAP's associates and business units, from the perspective of their contribution to the sustained development of the Group, in the economic, environmental and social areas. Hence, in sessions dedicated to each of these companies, the Specialised Sustainability and Corporate Governance Commission analysed and debated with the directors the evolution of business, the problems and challenges faced, the most relevant aspects of their respective business plans, and initiatives that have or will be taken in the sphere of social responsibility. Concerning corporate governance, the Specialised Sustainability and Corporate Governance Commission took note of the provisions of Decree--Law number 133/2013, which establish new rules for the corporate public sector, having analysed the consequences of this new legal constraint in the management practice of TAP and in the Company's functioning, namely through possible impact on the operationality of decision-making processes.

7. In the supervision of the activity of the TAP Group conducted by the General and Supervisory Board during 2013, both directly and through the action of its specialised commissions, the Board continued to dedicate special attention to the evolution of TAP, S.A., in view of the preponderance of this associate on the Group's activity. The expansion of the air transport activity consolidated during 2013, reflected in a significant increase of both the number of passengers transported (5%) and ticket income (4.9%). This gain was achieved through improved use of the installed capacity, since the offer remained constant, and did not show a stronger impact on the growth of income due to the pronounced decline in the activity of maintenance for third parties in Portugal. On the other hand, there was notable moderation in the growth of operating costs (1.6%), reflecting the reduction of 40 million euros in the cost of fuel and the continued implementation of the cost--cutting programme. In fact, countering the trend of these past few years, the total cost of fuel fell by 5% in 2013, as a result of the decline in price in dollars (2.3%) and favourable exchange rate effect (3.1%). It should also be noted that, excluding the occasional effect of the payment of allowances in personnel costs, the operating costs of TAP, S.A. in 2013 decreased by 1.2% relative to 2012. Hence, this considerable improvement in the performance of the profit and loss account of TAP, S.A. in 2013 was evident not only in the achievement, for the fifth year consecutively, of positive net income, but also in a significant increase of the profit of the associate, which amounted to 34 million euros (24 million euros in 2012), a fact which merits being highlighted in the context of European air transport.

8. It should also be noted in particular that, following the general improvement of external economic circumstances, reflected in the aforesaid robust growth of TAP's air transport activity, especially as of the 2nd semester of the year, the Executive Board of Directors deemed that it was opportune to expedite and reinforce the plans to open new routes and increase flight frequencies for existing destinations. This network expansion, reprogrammed to start in 2014, represents a commitment of the Executive Board of Directors to the improvement of the company's economic performance in the medium and long term, through an acceleration of the investments foreseen in the company's strategic plan.

9. The General and Supervisory Board continued to carefully monitor the evolution of the associates SPdH and TAP M&E Brazil which were still in weak situations. The Specialised Sustainability and Corporate Governance Commission verified that the recovery processes in course were consolidated in both these associates in 2013, which was reflected favourably in their net operating income. Indeed, the continued improvement in SPdH's performance enabled this associate to reach break-even point during the year, having closed the annual accounts, for the first time since 2006, with profit. TAP M&E Brazil also continued its recovery process during 2013, where particular note should be made of the efforts developed by the Executive Board of Directors aimed at shortening the period, established in the restructuring plan, for the restoration of the operating and financial balance of the associate. The improved performance of TAP M&E Brazil in 2013, while insufficient to eliminate the deficit in the profit and loss account for this year, was reflected in significant improvement of the net income for the year.

10. In its appraisal of the management report and accounts of 2013 of TAP SGPS, the General and Supervisory Board decided to highlight the improvement (19 million euros), relative to 2012, recorded in consolidated net income (-6 million euros), which practically placed the Group in a materially balanced situation. This positive evolution was particularly due to the improved performance, noted above, of TAP, S.A., SPdH and TAP M&E Brazil, which offset the effects of the unfavourable evolution observed in the net income of the other subsidiaries as a whole (10 million euros, compared to 16 million euros in 2012), as well as a reduction in consolidated financial costs. Also taking into account the recommendation of the Specialised Auditing Commission and the reports of the Official Accountant and External Auditor, the General and Supervisory Board deliberated, under the legal and statutory provisions, to issue a favourable opinion on the aforesaid management report and accounts, recommending their approval by the General Meeting of TAP, SGPS.

11. In this overview, as a whole very positive, made by the General and Supervisory Board of TAP's activity in 2013, the Board wishes to express its gratitude to all – administration, workers and employees of TAP – who, through their dedication, and not rarely with personal sacrifice, have so greatly contributed to this performance, thus enhancing the Company's prestige.

Lisbon, 27 March 2014

General and Supervisory Board

Manuel Soares Pinto Barbosa
Carlos Alberto Veiga Anjos
João Luís Traça Borges de Assunção
Luís Manuel dos Santos Silva Patrão
Rui Manuel Azevedo Pereira da Silva
Vítor Cabrita Neto

ABBREVIATIONS AND GLOSSARY

Abbreviations

AEA Association of European Airlines

APCER Portuguese Certification Association

EASA European Aviation Safety Agency

FAA Federal Aviation Administration

IATA International Air Transport Association

INAC National Civil Aviation Institute

IPAC Portuguese Accreditation Institute

IOSA IATA Operational Safety Audit

ISO International Standards Organization

LCC Low Cost Carrier

MRO Maintenance Repair and Overhaul

OEM Original Equipment Manufacturer

QTC Quick Transfer Centre

Glossary

ASK	Total number of seats available for sale multiplied by the number of kilometres flown.
Block Hours	Number of hours between the departure and arrival of a flight, with time measured between when chocks are placed and removed.
Cargo and Mail RTK	Total number of tons of cargo and mail multiplied by the number of kilometres flown.
CO_2	Gas that is naturally-occurring in the atmosphere and which is also a waste product of combustion of fossil fuels (coal, oil). Increased levels of carbon dioxide in the atmosphere could lead to global warming and subsequent climate changes.
Code-Share	Agreement between two companies operating as partners that agree to provide services on the same aircraft, whilst maintaining the respective IATA codes, flight numbers and brands.
Global RTK	Total number of tons of passengers, cargo and mail multiplied by the number of kilometres flown.
Hub	Term used to describe an airline's operating base, where arrivals and departures are coordinated in order to keep transit time to a minimum. TAP's hub in Lisbon is structured in three daily waves of arrivals and departures in order to increase the number of connection opportunities for TAP Customers.
Hub-and-Spoke	A model of operating that allows for connections between destinations with less traffic flow, through an airport hub whenever a direct flight is not feasible.
Multi-hub	Systems of operation by connection through several hubs which makes it possible to offer a greater variety of destinations through access to the networks based at each hub.
Passenger Load Factor	Total number of revenue passenger-kilometres (RPK) divided by the total number of available seat-kilometres (ASK).
Passenger Yield	Revenue from passenger traffic divided by the number of passenger-kilometres (RPK).
Punctuality	Industry standard measured by the percentage of the number of flights departing up to 15 minutes after their scheduled departure time.
Regularity	Percentage of flights actually carried out, of the total flights planned.
Revenue Management	Technique used for optimisation of revenue from each flight by seeking systematic balance between the flight's level of occupation and tariff's offered.
RPK	Total number of passengers multiplied by the number of kilometres flown.

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TAP PORTUGAL
de braços abertos *with arms wide open*

A STAR ALLIANCE MEMBER

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