TAP – Transportes Aéreos Portugueses, SGPS, S.A.
(Consolidation)

2015

MANAGEMENT REPORT
(MAIN FACTS)
AND
ACCOUNTS

MANAGEMENT REPORT

(Main Facts)

2015

Economic Environment

International Environment

Throughout 2015, global economic activity continued to pick up gradually and unevenly, with world GDP expected to grow at around 3.1%, slightly lower than the 3.4% seen in 2014. This reflects the persistent slowdown in emerging markets for the fifth consecutive year, partially offset by a modest recovery in advanced economies, in particular in the euro area.

The recovery in advanced economies is expected to be around 1.9%, backed by low oil prices, the still favourable financing conditions, improved labour markets, the growth in confidence and the unwinding of the adverse factors of private sector deleveraging and fiscal consolidation. In this context, the buoyancy of household spending in the US continued to drive economic recovery, which should be around 2.5%, despite the negative impact on net exports due to the appreciation of the US dollar.

In contrast, emerging market economies (EME), where a growth of 4.0% is expected (0.6 p.p. lower than in 2014), remain constrained by structural impediments, with divergences remaining partly related to the different impact of the correction in raw material prices in exporting and importing countries. While in emerging countries in Asia – including China and India – and in Central and Eastern Europe economic activity remained robust, the Commonwealth of Independent States (CIS) experienced a deep recession, with its epicentre in Russia under the impact of low oil prices, external financing constraints and weak business confidence. In China, annual growth dropped slightly to 6.9% (versus 7.3% in 2014), with the lower investment level not completely offset by higher consumer spending in the face of the reorientation of the economic policy in China to a model based more on the internal market, following the rebalancing of this economy. In Latin America, growth also turned negative, reflecting the deterioration of terms of trade, as a result of falling prices of raw materials as well as internal imbalances and political uncertainty, particularly in Brazil where the economic slowdown intensified significantly (expected to reach -3.8%). In sub-Saharan African, economic activity is expected to slow down to 3.5% (down from 5.0% in 2014) as a result of the fall in raw material prices. Worthy of note is the behaviour of the Angolan economy, which is also in economic contraction since the sharp and sustained decline in oil prices.

In the euro area, the improvement seen in 2014 in the pace of economic development (0.8%) continued in 2015, with growth expecting to reach 1.5%. In line with other advanced economies, the sharp drop in energy prices increased real disposable income and helped to strengthen the growth of private consumption, resulting in the highest rate since the crisis began. Increasing consumer confidence in a context of the gradual pick-up in the labour market provided an additional boost to consumption. In addition, the greater monetary accommodation of the ECB through unconventional measures further boosted economic activity. Equally significant was the announcement in January 2015 by the Governing Council of an expansion of the existing programme of asset purchases to include bonds issued by euro area governments and EU agencies and institutions. In this context, there was a reduction in the credit cost and the dispersion of loan interest rates. These developments, together with a more neutral budgetary orientation in most countries, contributed to a more wide-reaching recovery of the euro area. Nonetheless, economic differences among the various countries of the euro zone remain.

In particular, Portugal's two major trading partners experienced economic growth, recovering from the stagnation seen at the end of 2014. Spain, representing roughly 27% of the external demand for Portuguese goods and services – which in 2014 grew by 1.4% – saw its economy accelerate sharply, ending 2015 with a growth of 3.2%, backed in particular by the pick-up in domestic demand, reflecting better financial conditions and greater confidence of economic agents. After growing 1.6% in 2014, the German economy, which represents around 14% of the external demand for Portuguese goods and services, is expected to end 2015 with a similar growth rate (1.5%), driven by the increase in domestic consumption, as a result of the drop in unemployment, the increase in salaries and low inflation as well as the recovery of the euro area. Household consumption and public spending, with the reception of refugees, replaced the slowdown in exports on which the economy is heavily dependent, contributing to a 0.3% growth in the third quarter of 2015. Other large markets of the European economy which import Portuguese products, particularly France and Italy, are expected to show a slight recovery, with a growth of 1.1% and 0.8%, respectively, after developments which stood at 0.2% and -0.4% in 2014. Furthermore, there has been a continuous reduction of the budget deficit and it is hoped that the government deficit ratio for the euro area will reach 2.0% of GDP in 2015.

Contrary to developments in the non-energy component of prices, the price of energy goods declined throughout the year against a background of a sharp drop in oil prices. Crude oil prices fell the most (from an average value of USD 99/barrel in 2014 to USD 52/barrel in 2015, which translates into a drop of 48%) as a result of the maintenance of high levels of world production by the Organisation of Petroleum Exporting Countries (OPEC), creating oversupply in the oil market, despite historic highs on the demand side.

National Environment

After growing 0.9% in 2014, economic activity in Portugal is expected to post a moderate growth of around 1.5% in 2015, characterised by greater buoyancy in both domestic demand and exports. Private consumption is estimated to have increased by about 2.7%, benefiting from favourable developments in real disposable household income and improved expectations with regard to permanent income against a backdrop of historically high consumer confidence levels. After the 0.2% reduction in 2014, inflation is expected to grow by 0.6%, reflecting developments in the non-energy component as energy prices are estimated to drop. Labour market conditions improved, with an increase in employment and a reduction in the unemployment rate, which stood at 11.9% in the second quarter of 2015 (13.5% in the fourth quarter of 2014).

In addition, after the 2.8% increase in 2014, Gross Fixed Capital Formation should grow 4.8% in 2015, reflecting the recovery of business investment as a percentage of GDP to levels close to those observed before the global financial crisis. The outlook for exports points to acceleration, with an expected growth of 5.3% (3.9% in 2014), reflecting additional gains in market share in view of the strong depreciation of the euro on the one hand and temporary factors associated with the export of fuel on the other, evidence of the base effect from the temporary closure of a major refining unit in the first half of 2014.

Corporate Governance

The information on the Company's Governing Bodies is available for consultation at the TAP Group's website www.flytap.com.

Governing Bodies

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

Composition of the bodies of governance and administration, in duties until November 12, 2015

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

Executive Board of Directors

Chairman Fernando Abs da Cruz Souza Pinto
Member Luiz da Gama Mór
Member Manoel José Fontes Torres
Member Maria Teresa Silva Lopes

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 de 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

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

Specialised Sustainability and Corporate Governance Commission

Member 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 de Azevedo Pereira da Silva
Member Vítor José Cabrita Neto

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

Supervision of the Company

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

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

Composition of the Board of Directors, in duties after November 12, 2015

Not having been elected members of the General Meeting, the meeting of this body held on 12th November, 2015 had the following composition:

General Meeting Committee

Chairman David Humberto Canas Pedrosa (representative of Atlantic Gateway shareholder)
Secretary Cláudia Cruz Almeida (representative of Parpública shareholder)

Through deliberation at the General Meeting Committee of 12th November, 2015, for the three-year period 2015–2017.

Board of Directors
Chairman Humberto Manuel dos Santos Pedrosa
Member Fernando Abs da Cruz Souza Pinto
Member David Humberto Canas Pedrosa
Member Maximilian Otto Urbahn
Member David Gary Neeleman
Member Francisco Maria Freitas de Moraes Sarmento Ramalho
Member Henri Courpron
Member Philippe Calixte Albert Delmas
Member Robert Aaron Milton
Member Sydney John Isaacs
Member Tiago Gonçalves de Aires Mateus

At the meeting of the Board of Directors of TAP, SGPS, SA of 13th December, 2015, the Executive Committee of that company now has the following composition:

Executive Committee
Chairman Fernando Abs da Cruz Souza Pinto
Member David Humberto Canas Pedrosa
Member Maximilian Otto Urbahn

Company Secretary

By appointment subject to notification of the Board of Directors of the Company pursuant to article 21 of the Company's by-laws, for the period 2015-2017, effective 16th December, 2015.

Company Secretary Ana Maria Sirgado Malheiro
Alternate Company Secretary Not appointed

Supervision of the Company

Supervisory Board

The Supervisory Board of TAP, SGPS, S.A. was elected at the General Meeting of 12th November, 2015, for the period 2015-2017 with the following composition:

TAP, SGPS, S.A.

Mandate (Start - End)	Position	Name	Appointment Doc.	Mandates held in the company	
				Number	Date of 1st appointment
2015-2017	Supervisory Board	Sérgio Sambade Nunes Rodrigues	General Meeting Committee on 12th November 2015	1	12.nov.2015
		Baker Tilly, PG & Associados, SROC, S.A.	General Meeting Committee on 12th November 2015	1	12.nov.2015
		Maria Susana da Mota Furtado e Almeida Rodrigues	General Meeting Committee on 12th November 2015	1	12.nov.2015
	Alternate	António Pires dos Reis	General Meeting Committee on 12th November 2015	1	12.nov.2015

Official Accountant

Through deliberation at the General Meeting Committee of 12th November, 2015, for the three-year period 2015–2017.

Permanent Oliveira, Reis & Associados represented by José Vieira dos Reis
Alternate Joaquim Oliveira de Jesus

Comment on Compliance with Legal Guidelines

Decree-Law No. 133/2013 of 3 October, which entered into force on 3 December 2013 and approved the new legal regime of the public business sector, established, for companies incorporated in the State-owned company sector on which the State exercised, or came to exercise, directly or indirectly, dominant influence (the so-called public companies), a series of special information duties as well as duties for obtaining prior authorisation for certain types of financing and investment operations, to be observed before various entities, namely, the Direção Geral do Tesouro e Finanças (Directorate-General of the Treasury and Finance) (DGTF).

This was the case of TAP SGPS – parent company of the TAP Group (the air carrier TAP, S.A. being the one that stands out), 100% owned by the Portuguese State, through Parpública–Participações Públicas, SGPS, S.A. –, which, as from 30 September 2014 (but with effect from the beginning of 2015), by appearing in the list published at the time by the Instituto Nacional de Estatística (National Institute of Statistics) under the European System of National and Regional Accounts, came to be regarded as a Reclassified Public Entity.

On 12 November 2015, with the conclusion of the privatisation of TAP SGPS, through the acquisition from Parpública of shares representing 61% of its share capital by the private consortium Atlantic Gateway, SGPS, S.A., TAP SGPS became integrated in the private business sector. On this date, the reporting obligations to which it was bound as a public company under said Decree-Law No 133/2013 of 3 October also ceased.

Risk Management

Risk management and internal control

The model created by the European Community specifically separates areas, functions and professionals so that they can be efficiently and effectively coordinated, and clearly defines responsibilities and establishes the respective limits. This allows a clear view of the framework of the different positions in the organisation's general risk and control structure.

This model – the Three Lines of Defence Model – takes into account the following aspects:

Three Lines of Defence Model

1st Line of Defence – The person responsible for the business area, the direct manager, responsible for identifying, measuring, evaluating and mitigating the risks of the respective business. Each business unit has inherent operational risks and is responsible for keeping efficient, appropriate and effective internal controls and for implementing corrective actions to resolve deficiencies in processes and controls;

2nd Line of Defence – It includes the duties of risk management and compliance and should work together with the business area to ensure that the situations identified in the 1st Line of Defence have been properly evaluated and the business risks correctly reported;

3rd Line of Defence – It is represented by the Internal Audit, which should systematically and efficiently review, monitor and evaluate the activities of the first Lines of Defence and contribute to its improvement, enhancing its effectiveness.

This model decisively reinforces that the process owner is the owner of the risk and its controls. In this sense, frauds only happen when the process owners are not imbued with commitment and do not have the maturity to put into practice the controls and respective methodologies suggested and supervised by the second Line of Defence. As one of the three lines of defence in the TAP Group's risk management, Internal Audit seeks to evaluate and monitor the efficiency and effectiveness of operations, the preservation of assets, the confidence and integrity of reporting processes and the conformity with the law, regulations, policies, procedures and contracts established.

In the 2nd half of 2015, the Corporate Risk Management (CRM) implementation process was initiated, applicable to all companies of the TAP Group directly involved in the operation and maintenance of the air transport activity. The Internal Audit Management was made responsible for the monitoring, control and centralised reporting of the CRM, which will process and monitor the Company's Corporate Risk Management in a coordinated and structured manner, according to the stipulations of the Corporate Risk Management Manual, using the COSO model and the FERMA analytical tools as an evaluation base.

With the aim of strengthening the management, monitoring and evaluation of the compliance risk, the Company drew up the Compliance Manual, preferably reinforcing the areas to be monitored in the different Audits carried out over the year that form part of the Annual Audit Plan. In order to prevent and avoid the violation of rules and the sidetracking of behaviours that entail negative consequences for the organisation and for society, in 2015 TAP Portugal created a Compliance area integrated in the TAP Group's Auditing area.

Following the disclosure of the Manual on Good Business Conduct, the Company made a compilation of national and international legislation applicable to Compliance, which culminated with the internal publication of the Global Compliance Manual. This document clarifies and is designed to align all of the organisation's processes in order to ensure compliance with standards and procedures, integrating anticorruption and ethical practices in TAP's culture. It is based on a responsible and conscious attitude of all of the Company's stakeholders. In this context and under the monitoring duty, the Audit enhanced the Compliance aspect, implementing best practices of Corporate Governance in its routines in all analyses carried out.

As a complement and due to its importance and cross-cutting nature, an internal communication channel was made available, aimed at a general involvement in the Compliance culture, clearing up doubts and reporting cases that are known to the various stakeholders of the TAP Group's organisation.

Risk factors and their management

Type of Risk

External Risks – Event that occurs due to external factors; the Company does not have any type of control and has to adapt to the new realities.

Internal Risks – Risk that is based on internal factors with which the company can interact in order to define a mitigation, acceptance, transfer or refusal strategy.

INTERNAL RISKS						EXTERNAL RISKS	
ORGANISATIONAL	SUBSIDIARY PROCESSES	ISOLATED	CONTRACTUAL	FINANCIAL	OPERATIONAL	EXTERNAL	MARKET
▪ Human Resources ▪ Suppliers ▪ Customers ▪ Organisation Commercial ▪ Own brands ▪ Products ▪ Security ▪ Marketing ▪ Facilities	▪ IT ▪ Infrastructures ▪ Certifications ▪ Technical Factors ▪ Security ▪ Indemnities ▪ Mergers/ acquisitions	▪ Projects ▪ Subsidiaries ▪ Institutional Commitments ▪ Internal Control ▪ Social Responsibilities ▪ Fraud ▪ Corruption	▪ Buying Commitments ▪ Payment Guarantees ▪ Fraud ▪ Corruption	▪ Financial Assets ▪ Liquidity ▪ Interest Rates ▪ Exchange Rates ▪ Fuel Price ▪ Mergers/ acquisitions ▪ Indemnities ▪ Treasury	▪ Operational Risk ▪ Maintenance and Engineering Risk ▪ IT risk ▪ Fires and Prevention ▪ Health and Safety at Work	▪ Economic Environment ▪ Social Environment ▪ Interest Rates ▪ Exchange Rates ▪ Taxes ▪ Catastrophes ▪ Political ▪ Partnerships ▪ Epidemics	▪ Attractiveness of the Market ▪ Developments in the Sector ▪ Competition ▪ Distribution ▪ Commercial Organisation ▪ New Products ▪ New Technologies ▪ Legal Requirements
Risks in the Company's organisation (people and services) and in the interactions between the Company and suppliers/customers	Risks found in the processes/ activities supporting the Company's activity	Events that do not have a frequent routine in the Company's activity	Existing risks with the commitment between the Company and suppliers/ customers and existing mitigations	Systems and actions to monitor and control economic and financial risks; monitoring of economic and geopolitical developments, namely in countries with high social and political instability, and internal auditing procedures, contracting and transactions	Risk of financial losses or negative impacts on the business and/or on the organisation's image/reputation, caused by faults or failures in governance and business processes, in people, in the systems or resulting from external events that may be triggered by countless events	Risks related to the economic, environmental and social environments that are not directly related to the Company's activity	All events that may be translated as a risk to the Company's activity and that are directly related to its activity

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.

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.

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 system includes the Internal Safety Plans, the Training of Employees, the Manuals for Protection against Explosive Atmospheres (ATEX Manuals), the Emergency Drill Exercises (fire, spillage of chemical products and earthquake) for the training of Employees and Emergency Support Teams (Safety, Surveillance and Fire Brigade Station), 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 [EASA Parte 145 (Maintenance Organisations); EASA Part M (Continued Aeronavigability); NP EN ISO 9001:2008 (Quality Management Systems), among others] which are compulsory to guarantee the continuity of its activity.

Occupational health and safety risk

Risk management system supported by the identification, assessment and control of professional risks, with repercussions on health and safety, aimed at improving health and the quality of life of individuals and of society, fostering productivity, through the involvement of the entire Company in a Risk Prevention Culture.

Summary of Performance of TAP–Transportes Aéreos Portugueses, SGPS, S.A. (Consolidation)

In 2015, the air transport business continued to make a strong contribution to the development of the global economy, providing connectivity and helping to boost economic development. Demand for passengers in terms of total passenger-kilometres increased globally by approximately 6.5% in comparison to 2014, exceeding the annual average of 5.5% of the last 10 years, while capacity grew by 5.6%. The load factor, which rose 0.6 percentage points to a record high, stood at around 80.3%, demonstrating the efforts of airlines to maximise the demand uptake. In contrast, the Industry showed an average overall yield loss which, after the adjustment related to the impact of the appreciation of the US dollar, stood at -5% in 2015, resulting in a loss of profitability. Under the effect of the slow growth in Europe and the Asia-Pacific region, the year 2015 ended with an overall increase of 2.2% in the air cargo market, a slower pace than the 4.5% recorded in 2014.

Jet fuel prices continued to show a downward trend, representing an overall charge for TAP, S.A. in the order of 28% of the company's total expenses and operating losses. In comparison to 2014, this figure declined by 17.2%, equivalent to EUR 137.5 million. The sharp drop in oil prices, felt since the last quarter of 2014, was reflected in the company's fuel burden (estimated at EUR 149.5 million).

Fuel Costs TAP, S.A.

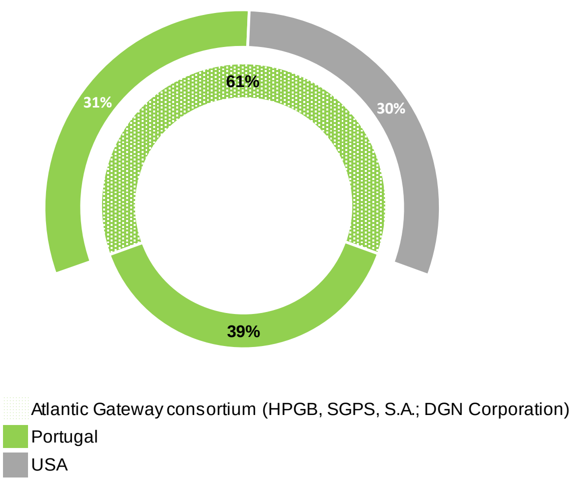
EUR million	2015	2014	var. (abs.)
Total (*)	**660.3**	**797.8**	**-137.5**
Price Effect			-149.5
Quantity Effect			10.6
Aquisition of the CO_2 emission Allowances	5.9	4.7	1.2

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

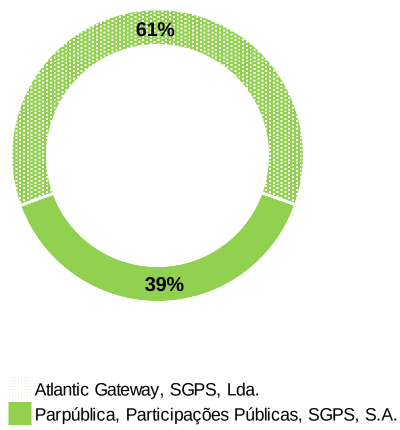
Shareholder structure of the TAP Group on 31 December 2015

Geographical distribution and by type of investor of the shareholder structure of TAP−Transportes Aéreos Portugueses, SGPS, S.A., on 31 December 2015

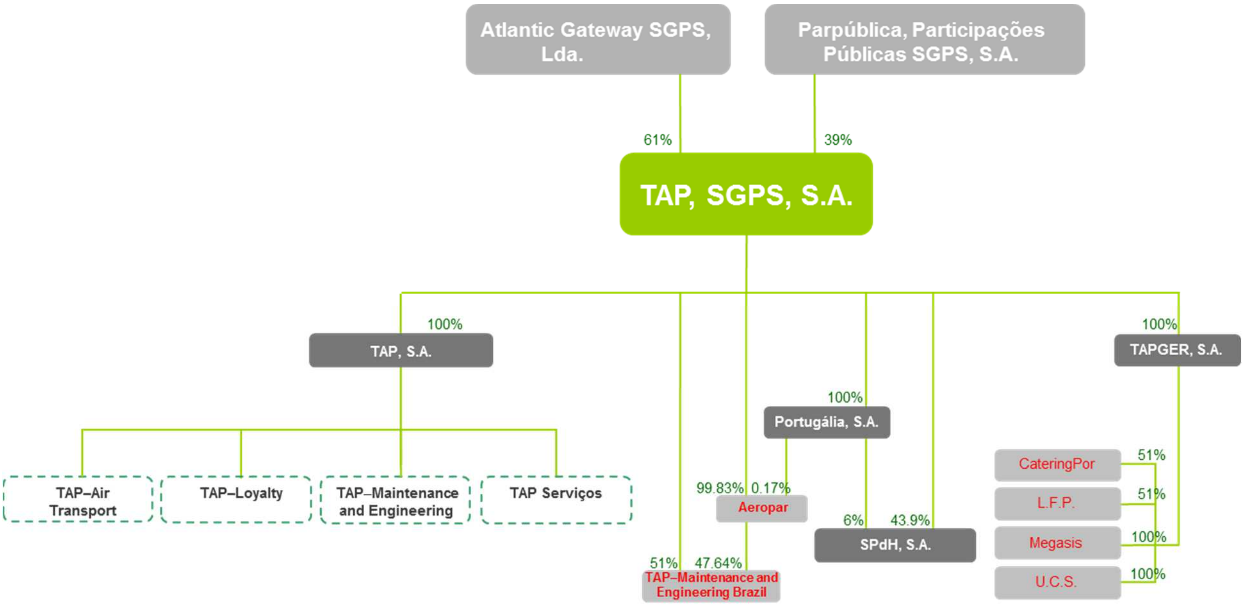
Geographical distribution of the shareholder structure



Breakdown of the shareholder structure by type of investor



At the end of 2015, 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.



Consolidation methodology

As at 31 December 2015, the following companies were included in the consolidated financial statements by the full integration method:

- TAP–Transportes Aéreos Portugueses, SGPS, S.A.
  - Transportes Aéreos Portugueses S.A. (TAP, S.A.).
  - TAPGER–Sociedade de Gestão e Serviços, S.A. e empresas subsidiárias:
    - CATERINGPOR–Catering de Portugal, S.A.
    - L.F.P.–Lojas Franca s 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) e empresa subsidiária:
    - TAP–Manutenção e Engenharia Brasil, S.A. (ex-VEM)

Subsidiaries are all the entities over which the Group considers there is control.

The following entity was classified as an associate:
// SPdH–Serviços Portugueses de Handling, S.A. (SPdH)

Aggregate performance of the companies of the TAP holding (Consolidation)

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.

Presented below are the most important aspects of the overall performance of the TAP holding in 2015 and of each of the companies that constitute the core business in which the Company holds investments.

As no new aircraft were included in the fleet in 2015, the policy to make adjustments in supply was pursued, especially during periods of lower demand, and some operations were suspended indefinitely.

However, the results presented by the Group were significantly lower than expected, largely influenced by a markedly unfavourable situation in the Company's main long-haul markets, traditionally more profitable. Particularly relevant events were the impact of the strong economic slowdown in Brazil, the contraction of the Angolan economy since the sustained decline in oil prices and the deterioration of the economy in Venezuela.

TAP SGPS therefore ended 2015 with a net profit of EUR -156.0 million, a deterioration of EUR 70.9 million compared to the EUR -85.1 million recorded in 2014. In operational terms (before taxes and financing expenses), the Company recorded a negative result of EUR -105.7 million, reflecting an increase of EUR 108.2 million, in comparison to the amount recorded in the previous year. The profit before taxes totalled EUR -168.9 million, which represents an increase of EUR 90.1 million, versus the EUR -78.8 million recorded in 2014.

Although the air transport activity improved somewhat in terms of capacity and supply (around 0.8%), revenues in sales and services provided contracted (with a decrease of 4.2% in 2015, compared with 2014). This result was largely affected by the erosion seen in the yield and in the demand for some long-haul markets, traditionally more cost effective, as a result of the markedly unfavourable economic climate.

It should also be noted that the activity of TAP–Maintenance and Engineering Portugal showed a total income generated in sales and provision of maintenance services to third parties of EUR 101.3 million, 10.4% more than in 2014, but still less than in 2012. This was largely a result of a greater presence of OEMs and large organisations in the engines and components activities, businesses with a high financial component.

With regard to TAP S.A., the company recorded a net profit of EUR -99.0 million, which is EUR 52.6 million less than the EUR -46.4 million recorded in 2014. The operating result amounted to EUR -108.8 million, EUR 102.3 million less than in 2014, with a net financial result of EUR -11.1 million, corresponding to an improvement in the order of EUR 28.5 million versus the previous year. It should be noted that TAP, S.A. had to reflect in its financial statements the additional cost relative to the representation of Venezuela, with an important impact on the negative results of 2015. This was due to the deterioration of the Venezuelan economy, the successive devaluations of the local currency and the current limitation on capital repatriation imposed by local government authorities.

With regard to Maintenance and Engineering, TAP−Maintenance and Engineering Brazil continued along its path to improve results, having completed the final year of the five-year Restructuring Plan in 2015. In this year, the company recorded a net result of EUR -40.2 million, EUR 17.6 million less than the result obtained in 2014. This result reflected the postponement of some inspections, pursuant to a lower activity of the Brazilian airlines customers, with particular emphasis during the first half of the year. However, the company continued aimed at improving their economic and operational performance, and to highlight the continuity of work for disposal of contingencies that have weighed on the company.

Contribution of associated companies

In terms of SPDH−Serviços Portugueses de Handling, S.A. (Groundforce Portugal), established in 2003 with the demerger of the Ground Handling Business Unit of TAP S.A., TAP, SGPS, S.A. holds a number of shares representing 49.9% of the respective share capital, a figure that includes a 6% stake held by PORTUGÁLIA−Companhia Portuguesa de Transportes Aéreos S.A.. In 2015, the company reached a positive net result of EUR 4.9 million, higher than the result of EUR 2.4 million reached in 2014.

Main Indicators

TAP, SGPS, S.A.
(Consolidation)

	2015 EUR million	2014 EUR million	var.
Net Operating Income (before interest and taxes)	(105.7)	2.6	-4208.4%
Pre-tax Earnings	(168.9)	(78.8)	-114.3%
Net Income attributable to the shareholders of TAP SGPS	(156.0)	(85.1)	-83.4%
Net Income of TAP, S.A.	(99.0)	(46.4)	-113.6%
Net Income of SPdH–Serviços Portugueses de Handling, S.A.	4.9	2.4	108.2%
Net Income of Aeropar Participações, S.A. (Brazil)	(19.1)	(11.0)	-73.4%
Net Income of TAP–Maintenance and Engineering Brazil, S.A.	(40.2)	(22.6)	-77.7%
Total Assets	1,374.0	1,560.4	-11.9%
Total Equity (after non-controling interests)	(530.3)	(511.9)	-3.6%
Active Staff of the Group (31 December)	13,102	13,193	-91
TAP, S.A.*	7,284	7,323	-39
Air Transport	4,914	4,984	-70
Loyalty	19		
Maintenance and Engineering	1,911	1,882	29
TAP Serviços	409	427	-18
Other	31	30	1
SPdH - Serviços Portugueses de Handling, S.A.**	2,172	2,255	-83
Remaining Companies ***	3,646	3,615	31

(*) Not including staff who are not placed and not active
(**) Associated Company
(***) TAP –Maintenance and Engineering Brazil does not include trainees

Highlights

Structuring Events

Throughout 2015, the Company continued its efforts to maintain a competitive position in the global market with certain structuring event**s.**

Chronology of key events

Reprivatisation of TAP SGPS, S.A.

The reopening of the privatisation process of TAP–Transportes Aéreos Portugueses, S.A. through the privatisation of the share capital of TAP–Transportes Aéreos Portugueses, SGPS, S.A., by the sale of shares representing up to 66% of the share capital of TAP SGPS, S.A., was approved at a meeting of the Council of Ministers on 13 November 2014, through Decree-Law No. 181-A/2014 of 24 December, published in the *Diário da República* (Government Gazette).

The specific conditions of the operation, according to the specifications, approved in annex to Resolution of the Council of Ministers No. 4/2015 of 15 January, published in the *Diário da República*, establish that the reprivatisation process will be carried out through a direct sale of reference of up to 61% of the shares representing the share capital of TAP SGPS, S.A. and a sale offer to the employees of this company and to others with which it is in a control or group relationship, of up to 5% of the share capital of said company. In addition, an option to sell to the State was also established. The State may sell the remaining capital of TAP SGPS, S.A. to the purchaser in a direct sale of reference. A call option may also be agreed, pursuant to the specifications of the operation.

The next key steps of the process are:

11 February ─ Establishment of the start date of the period for carrying out the informational steps provided for in Article 6 of the specifications as well as the deadline for the submission of binding offers for the acquisition of shares (Order No. 1469-A/2015 of 11 February).

19 May ─ Parpública, Participações Públicas (SGPS), S.A. announced that, in the context of the indirect reprivatisation of the share capital of TAP, Parpública received three offers from investors interested in acquiring shares representing the share capital of TAP SGPS, S.A.

It further informed that the offers received would be analysed within a period of five working days – provided for in the specifications – at the end of which the report with the respective conclusions would be delivered to the Government. The report on the offers submitted by Parpública was preceded by a hearing of TAP SGPS, S.A. regarding the adequacy of the binding offers for strategic projects to the interests of the company, to take place within three working days after the reception of the binding offers for purchase.

12 June ─ In a briefing, the Council of Ministers informed (Resolution 38-A/2015 of 12 June) that it had approved the selection of the group that would buy the shares representing 61% of the share capital of TAP–Transportes Aéreos Portugueses, SGPS, S.A., which constituted the object of the direct sale of reference in the context of the company's reprivatisation process.

The choice fell on the Gateway group, made up of HPGB, SGPS S.A. and DGN Corporation, given the greater merit of its offer, especially as regards the contribution to strengthen the economic and financial capacity of the TAP Group, to the strategic project presented and to the total amount presented for the acquisition of the shares representing the share capital of TAP SGPS, S.A., and the respective sell and purchase options.

24 June ─ The agreement for the sale of 61% of TAP between the Government, through the Minister of Finance and the Minister of Economy, and the Atlantic Gateway consortium, comprised of businessmen Humberto Pedrosa (owner of the Barraqueiro Group) and David Neeleman (shareholder of Azul Linhas Aéreas Brasileiras), was signed at the Ministry of Finance. In a press conference, Atlantic Gateway presented the strategic commitments for TAP.

6 July ─ The single shareholder of TAP, Parpública issued a resolution that defines the Strategic Guidelines for the management of TAP SGPS and of the TAP Group (wholly owned and controlled subsidiaries), until the conclusion of the reprivatisation of the share capital of TAP SGPS, with the TAP Group keeping the status of public company with all the legal and statutory obligations. The Strategic Guidelines defined in the Parpública Resolution will remain until the conclusion of the reprivatisation process and/or until expressly revoked by the General Meeting.

15 July ─ The National Civil Aviation Authority (ANAC) was notified by TAP–Transportes Aéreos Portugueses, SGPS, S.A. (parent company of the TAP, S.A. and PGA, S.A. airlines) of the acquisition of shares representing 61% of its share capital and respective voting rights by the Atlantic Gateway group pursuant to and for the purposes of the provisions of Article 8 of (EC) Regulation No. 1008/2008 of the European Parliament and Council of 24 September 2008.

The assessment made by ANAC was aimed at checking the compliance of each of the carriers with the legal requirements regarding the ownership and effective control, referred to in Article 4 f), as well as the financial capacity, referred to in Article 8 paragraph 6, both of (EC) Regulation No. 1008/2008 of 24 September 2008.

13 October – In a press release (05/2015), the National Civil Aviation Authority (ANAC) announced the decision of the respective Board of Directors of 12 October 2015 regarding the approval of recommendations for shaping the change of the shareholder structure of airlines TAP, S.A. and Portugália, S.A. with the provisions of (EC) Regulation No. 1008/2008, of the European Parliament and Council of 24 September 2008. The press release states that the conclusions presented, consolidating a previous opinion issued under Article 5 b) of (EC) Regulation No. 1008/2008 of the European Parliament and Council of 24 September 2008, do not represent a final assessment of the compliance with the said Regulation. Such assessment shall be made by the ANAC, based on the notification of the exact terms under which the operation to change the shareholder structure of the airlines is carried out, pursuant to Article 8 paragraph 5 c) of the same Regulation.

12 November – In a press release, the Council of Ministers announced that it had approved (Resolution 91-A/2015 of 12 November) the final draft of the Agreement on the conclusion of the reprivatisation of TAP–Transportes Aéreos Portugueses, S.A., whose signature, and consequent immediate inflow of funds in the company, had been urgent and imperative to safeguard the public interests pursued by the company.

13 November – In a press release, the Atlantic Gateway consortium announced that it now owned, as of that moment, 61% of the capital of TAP, after the conclusion of the process initiated on 11 June, date on which the respective offer was chosen by the Portuguese State, having been reaffirmed the commitments made in the privatisation context.

Main Events

February

Within the framework of the Company's 70th anniversary celebration, TAP and Startup Lisboa launch the *TAP Creative Launch*, aimed at promoting and supporting new ideas and companies in the fields of aviation and air transport.

March

Victoria – The TAP Loyalty Program – celebrates its 10th anniversary with initiatives dedicated to its customers.

As part of the celebrations marking its 70th anniversary, TAP launches a new video of safety instructions – safety video – which translates the force of the signing *with arms wide open* and honours Lisbon, a historic yet modern, trendy and cosmopolitan city. The video portrays the journey of a group of people aged between 7 and 70 invited to fulfil their dream of flying for the first time, in which they will remember the safety rules in a memorisation exercise.

TAP launches a new institutional video celebrating the Company's 70th anniversary.

April

The TAP Loyalty (*TAP Fidelização*) Business Unit is created in the company TAP, S.A., representing the separation of the current Victoria Program (TAP Loyalty Program) in view of the Air Transport Business Unit.

On the site www.flytap.com, TAP provides a Virtual Assistant – *Sofia* – seeking to transversely offer answers to a variety of questions related to the company and real-time assistance, consequently improving the close relationship with customers.

June

TAP offers all customers travelling from Brazil the possibility to receiving their boarding pass directly on their cell phone with an electronic seal, doing away with the need to pass through the check-in counters.

TAP launches the comfort version in Business Class on all medium-haul flights – Airbus A319, A320 and A321 – offering more personal space and more privacy, with suppression of the middle seat.

A new automatic notification system for passengers with baggage irregularities, allowing their online tracking, makes the communication with passengers even simpler and more convenient.

Passengers can now make online changes to their reservations, among other facilities, with the provision of the ATC Shopper application on the TAP website (www.flytap.com).

July

The TAP STEP brand has been born – the TAP frequent flyer program exclusive to young people aged between 12 and 25 – with the brand website available on step.flytap.com.

Inspired by the book *Tapetes de Pedra* (ed. 2010), the new TAP toiletry bags honour the iconic Portuguese pavement stones, which date back to Arab and Roman mosaics, in an unprecedented record of its history in the world.

UCS–Unidade de Cuidados de Saúde, a company of the TAP Group, positions itself as the first outpatient health facility outside the National Health Service, accredited in Health Quality by the General Direction of Health.

TAP inaugurates the exhibition commemorating its 70th anniversary in MUDE–Museu do Design e da Moda (Design and Fashion Museum), highlighting the image of the national airline, from 1945 to the present day, in a story that is intertwined with the history of Portugal.

August

TAP–Cargo installs and integrated system to manage the mail business – iCargo Airmail – a new generation system that provides real-time control of the air entire postal operation and resolution of the respective irregularities.

September

The onboard reading service is introduced, a digital kiosk available through the TAP mobile application (www.flytap.com) providing free of charge the reading of newspapers and magazines on personal mobile devices.

TAP opens a new sales counter at the John Paul II Airport in Ponta Delgada (São Miguel, Azores), strengthening its presence in São Miguel, one of its daily destinations.

Cateringpor, the TAP Group catering company that prepares the meals served on board aircraft of the Portuguese airline and other client companies was audited and certified in the environment (ISO 14001) and systems (ISO 22000) areas.

December

The medium-haul fleet modernisation program is started in TAP–Manutenção e Engenharia Portugal workshops, becoming the first company in Europe and the second worldwide to introduce Sharklet Technology.

Distinctions and Prizes awarded in 2015

Continued strengthening of prestige in the markets in which the Company operates:

- Impact on the economy, recognition in various regions of the world;
- The dissemination of the culture, values and products, in a partnership of national scope;
- Promotion of contributions witnessing concerns related to human rights.

Europe

Best Airline – Rating received under the Publituris Portugal Travel Awards 2015, important recognition by several criteria, namely, knowledge of the company's reality, consistent communication policy, innovation capacity and media visibility.

Leading In-flight Magazine in Europe – Prize awarded to UP under the WTA (World Travel Awards) – the Oscars of the World Tourism – considering the TAP magazine as a major vehicle in promoting Portugal and the Portuguese identity.

TAP Safety video positively distinguished – Award received under the 10th edition of FilmAT – Film Art & Tourism Festival, an event integrated in the International Tourfilm Festival which chooses the best tourist films produced worldwide.

TAP Safety video – 70th Anniversary awarded – Distinguished by the 8th edition of ART&TUR – International Tourism Film Festival, recognising the best audiovisual productions promoting tourism, with the award of the special prize in the **Branding & Business Award** category and 1st prize in the **Mobility & Transports** category.

UP Magazine Best External Publication – Recognition awarded by the jury of the *Grande Prémio APCE 2015*, an event that distinguishes excellence in organisational strategy.

Best Microsite – Distinguished made at the Digital Communication Awards Gala to TAP destinations – destinos.flytap.com, a space dedicated to the promotion of the more than 80 destinations to which TAP flies, emphasising the online communication strategy.

TAP Video – Portugal Coastline Surf Guide positively distinguished – Recognition prize awarded by the municipality of Peniche for the contribution to promoting the country and surf.

TAP–Manutenção e Engenharia wins the Clean Sky 2 (CS2) competition – Awarded the leadership of a project related to aircraft maintenance as part of the largest European research program in aeronautics, the Clean Sky 2 (CS2), under the European funding program for research and innovation – the Horizon 2020 program.

TAP Carga, Best Cargo Airline in three categories (Best Cargo Airline to Europe, America and Africa) – Trophies received under the Cargo Transport & Business 2015 Awards.

Manager of Excellence – Tribute made to the Chief Executive Officer of TAP, Fernando Pinto, during the 2015 edition of the SVN–Salão das Viagens de Negócio, in recognition of the importance of his leadership in the Portuguese airline.

Africa

European Airline Leader for Africa – Prize awarded to TAP under the World Travel Awards (WTA) – the Oscars of world tourism – in recognition of the persistently continued effort in the development of excellence, promoting the best product in connections between Europe and Africa.

Unites States of America

Best European Airline – Best European Airline – Position assigned by Global Traveler magazine, one of the most prestigious specialised publications from the US Tourism & Travel sector, reflecting the recognition of the quality of the TAP product in a highly demanding and competitive market.

South America

European Airline Leader for South America – Prize awarded to TAP under the World Travel Awards (WTA) – the Oscars of world tourism – in recognition of the persistently continued effort in the development of excellence, promoting the best product in connections between Europe and South America.

Personality of the Year – Tribute to the TAP Executive Director, Luiz Mór, by Skal São Paulo, an association of professionals in the travel and tourism industry, highlighting the active participation in the development of tourism in Brazil.

Corporate Strategy

Srategic Plan 2015-2020
Strategic Axes

1. Renewal and expansion of all the fleets;
2. Evolution of the commercial model;
3. Automation and improvement of the Customer experience;
4. Consolidation of the Company's growth and increased focus on the hub;
5. Operating efficiency improvement;
6. Repositioning of the maintenance and engineering business units in Portugal and in Brazil.

At the end of 2014, TAP initiated a strategic reflection for the 2015-20 period, having defined six strategic areas as guidance to establish itself in the world market as a growth reference and to consequently increase its representativeness in the markets in which it operates and will operate as well as in the general context of the aviation industry. A set of factors made evident the need to rethink the Company's long-term strategy: i) the large number of non-recurring events and the reduction of the yield experienced, with a direct effect on the Company's profitability; ii) the level of underinvestment felt and the impact on the fleet and quality of the product; iii) the need to keep up with peers in their efforts to cut costs, which could jeopardise the cost advantage that currently benefits TAP; and iv) the need to adapt TAP's commercial model to a new reality in the Industry.

Key developments in 2015 under the 2015-2020 Strategic Plan

Within the framework of the six strategic areas of the Strategic Plan for the 2015-20 period the following developments deserve special mention.

First priority area: renovation and expansion of all fleets – During 2015, and in line with the business plan at the time, no changes were planned or made to the composition of the fleet. At the end of 2015, the composition of the TAP Group's fleet – in a total of 77 aircraft, comprising both the TAP and PGA fleets – remained unchanged. TAP's fleet of 61 aircraft (43 medium-haul and 18 long-haul) and PGA's regional fleet comprising 16 aircraft (including 2 aircraft under an ACMI agreement with OMNI\White).

Second priority area: evolution of the business model – The Company's business model has evolved, providing customers with more options and creating new products and services, in addition to the trip. It can be considered as the beginning of a Customer Choice model, to be developed in 2016 and subsequent years, with customers defining the services and benefits associated with the respective commercial rate. An extensive Ancillary Services program was launched, available in both the company's direct and indirect distribution channels, offering customers a variety of products, such as: Additional Baggage Purchase; Fast Track Access Purchase – Priority access to X-ray security at airports; Lounge Access Purchase; Special Dining Purchase on flights up to 4 hours.

Also noteworthy is the launch of a new version, fully responsive and with a new design, of the online booking engine, providing a significantly simpler and complete access. This new booking engine is available in the Web version, Web mobile and TAP apps. The Plusgrade was also re-launched, making it possible to bid a value to access business class, providing customers with greater control and transparency in relation to TAP, by providing them with the experience of an executive product, in both medium- and long-haul flights.

The launch of a new campaign management multi-channel platform made it possible to increase the communication and segmentation capabilities of campaigns, significantly improving the communication time to market.

A fourth business unit – *TAP Fidelização* – was also created under TAP, S.A.. This unit is the separation, in Air Transport, from the Victoria Program – TAP's Loyalty Program. The carve-out of an airline loyalty program represents a unique opportunity for value creation, providing: 1) greater transparency of the Frequent Flyer Program (FFP) in terms of P&L; 2) establishing a commercial relationship that benefits the customer, the airline and the FFP in terms of revenues and benefits; 3) the focus of the FFP on the strategic objectives of Loyalty; 4) autonomous management of the FFP (team, objectives and priorities).

Third priority area: automation and improved customer experience – Under the development plan of the integrated *customer experience* program, based on the scanning and automation of *customer facing* processes, various activities have been developed, the most important being customer knowledge, scanning and the automation of processes. With regard to customer knowledge, the capacity to integrate information, with the project *Visão 360º*, made it possible to build a single, integrated view of the Company customer. In this way, customer files are now available in the Contact Center, *Fale Connosco* (Contact Us), Premium Store and Ticket Office. Within the same project, mention should be made of the implementation of the new Campaign Manager platform, allowing the optimisation of campaign management processes and communication with customers.

The launch of the Online Customer Support area on the Company's digital platforms provided customers with faster and more intuitive access to the tools, contacts and FAQ's which the Company provides in its direct and digital channels. TAP's position also improved under the Search Engine Optimization (SEO) and digital best practices, ensuring greater visibility and delivery of content, as well as the acceleration of sales in direct channels.

Fourth priority area: consolidation of the Company's growth and increased focus on the hub – In 2015, the Company remained strategically focused on improving the network by strengthening the Lisbon hub through the potential increase in traffic between Europe and TAP destinations in North and South America and Africa. The main goal was to develop existing markets or to conquer new opportunities in markets as yet unexplored, with operations in Funchal and Oporto remaining unchanged, in accordance with the performance registered.

Fifth priority area: improving operational efficiencies – Under the plan, TAP will strive to optimise its cost structure in order to ensure a basis for growth in a sustainable manner and as efficiently as possible, without ever compromising its resolution to maintain excellence in the safety of its operations and to offer its customers a world reference product and service. In 2015, while under the effect of a favourable context of fuel prices, there was a reduction in the unit operating cost.

Sixth priority area: repositioning the business of the maintenance and engineering units in Portugal and in Brazil – Although growth in 2015 was 10% higher than in 2014, the pressure on value propositions that remove risk from customers, at competitive prices, remained strong. This necessarily implies financial capacity on the part of service providers. The market trend is to set up large networks for the provision of MRO services, led either by large MRO groups or by OEMs. By controlling the product chain from cradle to grave, they not only protect their know-how but also constitute new and strong competitors to traditional MRO organisations, making it difficult for them to regenerate their product and service portfolios, forcing them to incorporate smaller MROs with less financial capacity, such as TAP–Maintenance and Engineering, that make sense to their market-conquering strategy, from a networking point of view, expanding the supply portfolio while simultaneously becoming more competitive in terms of prices through the synergies thus obtained. So as not to lose the opportunity of becoming part of these strategies, it is essential to maintain high levels of technical and management skills in order to ensure competitive rates in terms of flexibility, efficiency and compliance with customer expectations.

This context explains the great difficulty faced by TAP–Maintenance and Engineering to return to revenue values in the MRO engine business, like those seen not many years ago and, concomitantly, to deplete the capacity of the installed supply, despite the fact that 2015 was better than 2014, in terms of the engine business, with financial results exceeding budget expectations. In fact, the contribution margin of TAP–Maintenance and Engineering to TAP's results was 41% higher than that budgeted, albeit 20% lower in comparison to 2014, following a negative production change in the annual budget. In 2014, the production change was identical, but of an opposite sign. Besides the natural sales effort in the pursuit of the goals outlined, the focus on improving the invoicing, receipts and purchase processes, with the clear goal of making a greater contribution to the TAP treasury, deserves special mention.

TAP–Maintenance and Engineering Brazil continued its convergence to operational balance. The company's activity grew once again for the fifth consecutive year by around 11% in *reais*. Note should be made of the bad start, in terms of activity, as a result of the postponement of some inspections by virtue of the lower activity of Brazilian airlines that are clients of TAP–Maintenance and Engineering Brazil. Nevertheless, there was a remarkable recovery in the second half of the year, with 6 consecutive months of positive EBITDAR and a cumulative EBITDA at breakeven level in the same period. The outlook for 2016 remains positive, through the increase in the product portfolio and the continued interest shown by world-renowned OEMs and MROs in establishing long-term partnerships that will not only enable TAP–Maintenance and Engineering Brazil to sustainably increase its revenue but also to grant these organisations the desired footprint in Brazil, with a reference partner in the local MRO market.

The strategy remains focused on diversifying the portfolio in order to meet the product changes seen in the market, thereby expanding the customer range and increasing gains in efficiency and in the consolidation of production processes.

A new strategy for the Company as from early 2016

The year 2015 was marked by the TAP reprivatisation process and consequently by all the efforts undertaken internally in this sense. This process underwent several stages and started in late 2014. In January 2015, the specifications of the operation regarding the privatisation of the Company were published in the *Diário da República* (Government Gazette). In May 2015, three groups of interested investors submitted their final and binding offers to the Government and in June 2015, the final decision of the Portuguese Government was publicly announced. The process was effectively concluded on 12 November 2015 through the sale of shares representing 61% of the share capital of TAP SGPS to the Atlantic Gateway consortium in the form of a direct sales reference.

As a result, a new company strategy emerged, to be put in motion in early 2016, which includes changes to the Fleet, Network, Product and Capitalisation Plan.

Atlantic Gateway provided supplementary benefits to TAP SGPS, amounting to around EUR 154 million, immediately following the reprivatisation. This inflow of funds helped to increase liquidity and was used to recapitalise the TAP Group, in particular the company TAP, S.A..

At the time of privatisation, the Atlantic Gateway consortium reaffirmed the following commitments made during the process:

- Complying with public service obligations;
- Maintaining the integrity, corporate identity and autonomy of the TAP Group;
- Preserving the TAP brand and its association with Portugal, ensuring that its headquarters remain in the Country;
- Maintaining and reinforcing the hub in Lisbon;
- Contributing to the development of the national economy;
- Entering into commitments with regard to labour stability and developing and making the best use of human resources.

The economic crisis in Brazil and in Angola was the factor with the most significant negative impact in 2015 in TAP's main long-haul markets, traditionally more profitable. In parallel, the company TAP, S.A. had to reflect in its financial statements the additional cost relative to the representation of Venezuela, with an important impact on the negative results of 2015. This was due to the deterioration of the Venezuelan economy, the successive devaluations of the local currency and the current limitation on capital repatriation imposed by local government authorities.

The Strategic Plan announced in late 2014 (**Strategic Plan 2015-2020**) was therefore amended as follows:

Renovation and expansion of all fleets – The plan provided for the expansion of the long-haul fleet, based on the acquisition of A350s, and the renovation and expansion of the TAP medium-haul fleet and the regional fleet.

The renovation and expansion plan remains standing and now foresees 53 new aircraft, 14 Airbus 330-900 Neo for long-haul flights and 39 Airbus A320 Neo for medium-haul flights, in replacement of the A350 aircraft. TAP, S.A. also aims to increase its activity with two additional A330-200 aircraft under a wet lease agreement that will complement the existing wide-body fleet.

The old Portugália (PGA) fleet will be replaced with newer and more efficient aircraft, in terms of fuel consumption. The new aircraft operated under the **TAP express** brand will increase the competitiveness of the fleet, in particular:

- Nine E190 regional aircraft for Portugália;
- Eight ATR 72-600 turbo-prop aircraft for TAP, S.A., under an ACMI agreement with White Airways.

Consolidation of the Company's growth and increased focus on the hub – The growth of the network focused on hub and the consolidation of growth in Brazil continue to be the main objectives. The expansion of the long-haul network implies new strategic markets and the Lisbon-Oporto Air Shuttle brings with it some markets, with Oporto as the departure point. The priority is focused on rebuilding the company's profitability in order to secure its financial future, which justifies the need to adapt and optimise routes and capacity. The new Exploitation Plan, which will ensure the future of TAP, S.A., requires that changes be made to the network and capacity that will significantly improve the Company's economic and financial performance. The main long-term strategies of the network are to:

- **Build and reinforce the Lisbon hub**
  - ⇨ Improving the consistency of schedules;
  - ⇨ Improving connections;
  - ⇨ Increasing the offer of long-haul services so as to increase the value of the hub, simultaneously reducing the single-country risk;
  - ⇨ Improving reliability through the operation of a consistent schedule.
- **Launch the Lisbon-Oporto Air Shuttle with a high-frequency shuttle service**
  - ⇨ New flights every hour between Lisbon and Oporto at competitive prices;
  - ⇨ New aircraft and new products designed to improve customer experience, particularly at airports.
- **Actively manage the network capacity so as to optimise results**, with an initial bet in 2016 on increasing the number of flights to North America and the number of connections in Brazil.

Automation and improved customer experience – The focus remains on the intention to improve the on-board experience through the investment in state-of-the-art cabins in wide-body and narrow-body aircraft.

A strategic vision for the future

TAP SGPS has a strategic vision for the future and one of the key objectives is to create a financially sustainable airline.

Highlights of the TAP SGPS Strategy for 2016-2017

- In the context of the acquisition by Atlantic Gateway of 61% of the share capital of TAP SGPS, the consortium reaffirms its determination to urgently implement the recapitalisation process of TAP SGPS, of TAP, S.A. and of other subsidiaries, immediately resolving the most pressing problems by reinforcing the company's financial capacity. A total investment of around EUR 350 million (the Capitalisation Amount) is anticipated, broken down as follows:
  - ⇨ EUR 154.4 million on 12 November 2015 for supplementary benefits, already invested in TAP, S.A.;
  - ⇨ EUR 120 million before June 2016, in partially-guaranteed 10-year convertible bonds with no cash interest;
  - ⇨ EUR 67.1 million in 2016 of supplementary benefits.

  The last two amounts will be invested in subsidiaries of TAP SGPS, namely in TAP, S.A., as supplementary benefits made by TAP SGPS, or by reducing the financing provided by TAP, S.A. to TAP SGPS.

- Creating a new brand: TAP express – With this brand, the TAP Group will serve regional and domestic routes, using the new Embraer E190 fleet (operated by Portugália) and ATR72-600 aircraft (operated by White Airways) that will replace the commercial name Portugália (PGA Airlines);
- Continuing the commitment of the TAP Group to serve Portugal and Portuguese-speaking countries:
  - ⇨ Maintaining the market leadership for Brazil – European capacity;
  - ⇨ Despite the economic downturn, continuing with the service to Angola and Venezuela, considered important destinations for the Portuguese diaspora;
  - ⇨ Exploring new routes to Portuguese communities in the United States, aimed at growing in 2016 and 2017;
  - ⇨ Continuing to operate all domestic routes and increasing the capacity between Oporto and Lisbon.
- Changes in the fleet with the goal of positioning TAP among the best Airlines in the world and granting an increasingly decisive role in connections between Europe, Africa, Brazil and North America:

- New Fleet – The investment plan includes an order for 53 new aircraft (14 Airbus 330-900 Neo and 39 Airbus A320 Neo) to be delivered as from December 2017. The underlying objective is the reduction in cost per passenger as these new aircraft are cheaper and more efficient for long-haul flights, which involve a larger investment;
- Revamping the fleet – In addition to acquiring new Airbuses, TAP will revamp the medium- and long-haul fleet in an operation that will be carried out in TAP's Maintenance and Engineering workshops. Around EUR 60 million have already been allotted to the reconfiguration of 41 medium-haul aircraft with the aim of improving the comfort of passengers, increasing the quality and competitiveness of the product;
- Renewing the Portugália fleet in 2016 – This will provide a 47% increase in the number of seats available and 40% savings in fuel consumption, with the consequent advantages for the environment;
- Introducing Sharklet technology in the medium-haul fleet – The application of these devices will provide improved aerodynamics of the aircraft, resulting in lower fuel consumption, less emissions and extending the operational life of the aircraft.

Other TAP Group Companies

With regard to the remaining participations held by TAP, SGPS, S.A., reference should be made to the development of the activity in areas related to the Group's core businesses – Air Transport and Maintenance and Engineering. The criteria for the selection of these investments was based on the assumption that the development of the respective activities contributes to strengthen those businesses, both by the return on invested capital and the increase in competitive advantages promoted by the synergistic effect. TAP has a company that operates as a holding for some of its subsidiaries which develops activities that are complementary or collateral to its core businesses of air transport and maintenance – TAPGER–Sociedade de Gestão e Serviços, S.A. – whose main objective is to monitor the management of those companies in a direct and participatory way.

In keeping with the trend in the Industry, TAP holds its financial investments in the areas of catering, information systems, sales in airport stores and on board, health services and ground force services.

Performance Analysis

TAPGER–Sociedade de Gestão e Serviços, S.A.

TAPGER is a public limited liability company based in Lisbon, created by TAP in September 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, as well as 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 2015, 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 2014.

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 of members of the Governing Bodies in the following companies of this holding:

- LFP–Lojas Francas de Portugal, S.A.: Following the resignation of the Chief Executive Officer, Nuno Filipe Martins do Amaral, on 2 February 2015 TAPGER nominated José Carlos Rosa as Chief Executive Officer for the period 2013-2015.
- Cateringpor–Catering de Portugal, S.A.: At the General Meeting of 7 May 2015, the cooptation made by the Board of Directors on 12 February 2015 of Christopher Bohringer as administrator, in replacement of Silvio Canettoly, who resigned his mandate, was ratified. As Christopher Bohringer resigned from office, effective as from 5 August 2015, the Board of Directors co-opted Cornellius Frank for this position, as from 6 August 2015.
- UCS–Cuidados Integrados de Saúde, S.A.: At the General Meeting on 21 April 2015, all members of the governing bodies of the previous mandate were reappointed for the four-year period 2015-2018, the only exception being the Alternate Statutory Auditor, for which Aurelio Adriano Rangel Amado was nominated.

The net income for the tax year of 2015 decreased by 10.3% in comparison to 2014 (EUR 543 thousand less).

Other TAP Group share holdings, on 31 December 2015

EUR thousand

		Stake of TAP	Amount of TAP Share Capital	Net Income
Portugália, S.A.		100%	15,000.0	2,256
Aeropar Participações, Lda. (Brazil)		100%	0.2	(19,146)
	TAP–Maintenance and Engineering Brazil, S.A	98.64%	207,057.7	(40,163)
TAPGER–Sociedade de Gestão e Serviços, S.A.		100%	2,500.0	4,737
Catering	Cateringpor-Catering de Portugal, S.A.	51%	1,785.0	1,385
Airport Shops and In-flight Sales	LFP–Lojas Francas de Portugal, S.A.	51%	280.5	8,662
Information Systems	Megasis-Soc. de Serv. e Eng. Inf., S.A.	100%	500.0	46
Health-Care Services	UCS–Cuidados Integrados de Saúde, S.A.	100%	500.0	6

Outlook for 2016

Macro environment and market conditions in the sector

After an increase in global economic activity of around 3.1% in 2015, growth in 2016 is expected to be slightly higher, in the order of 3.4%. Underlying this behaviour of the global economy is the slowdown and rebalancing of the Chinese economy in an effort directed at consumption and services, lower prices of energy and other commodities, the gradual tightening of monetary policy in the US in the context of economic recovery, while other central banks of major advanced economies continue to ease monetary policy. In advanced economies, a gradual and uneven recovery is expected, while for emerging and developing markets – that still account for 70% of global growth – the outlook is diverse. Forecasts look to a gradual improvement of growth rates in countries currently experiencing economic difficulties, namely Brazil, Russia and some countries in the Middle East.

In the US, a growth of 2.6% is expected for 2016 (0.1 p.p. more than in 2015). These expectations are based on the still easy financial conditions and on the strengthening of the housing and labour markets, but under the effect of the appreciation of the dollar in manufacturing activity, and the lower oil prices constraining investment in mining structures and equipment. Following the improvement in economic conditions, particularly in terms of the recovery of the labour market, note should be made of the decision of the Federal Reserve in December 2015 to increase the interval of the federal funds rate to 0.25% and 0.5%, after seven consecutive years of levels close to zero. In China, the slowdown of economic growth is expected to continue to 6.3% (a decline of 0.6 percentage points versus 2015), strongly influenced by the slump in imports and exports, in part reflecting lower levels of investment and industrial activity. It is anticipated that these developments, together with market concerns regarding the future performance of the Chinese economy, will have repercussions on other economies, namely on world trade, with fears remaining about the impact of the downturn of this economy on world economy. However, and as in 2015, India is expected to be immune to this slowdown, with economic growth prevailing, which should be in the order of 7.5%. For all CIS countries, forecasts point to a certain stagnation, strongly influenced by the development of the Russian economy, where the pace of economic contraction is expected to slow down somewhat. In addition, negative growth is predicted for other countries that depend substantially on the exports of commodities, albeit at a slower pace than in 2015, particularly in Latin American economies, a sign of the recession in certain countries experiencing economic difficulties, as well as in Brazil, where an improvement of -3.5% is expected (0.3 p.p. better than in 2015).

In the euro area, economic activity is expected to grow 1.7% in 2016, drive once again by the reduction in oil prices and by the continued easing of monetary policy, the reduction of the tax burden and the depreciation of the Euro. In this scope, short-term interest rates are expected to continue their downward trend, following an expansionary monetary policy conducted by the European Central Bank (ECB), via the acquisition of financial assets (in a total of EUR 60 million per month) among other measures, which should occur until the end of March 2017. In this context, the economic upturn is expected to continue, backed by internal demand and, in particular, private consumption sustained by the favourable developments of real disposable income of households. Concomitantly, a gradual strengthening of business investment is anticipated, sustained by increased capacity utilisation and the need for modernisation, after several years of moderate levels of investment. The government deficit ratio is expected to remain at the same level as in 2015, standing at 2.0% of GDP.

With regard to the Portuguese economy, although momentum was relatively shy in the second half of 2015, forecasts point to the continuation of a gradual pick-up in economic activity, which should translate into a 1.7% growth in 2016, with momentum close to that predicted by the European Central Bank (ECB) for the euro area. Underlying this behaviour is the robust performance of exports and domestic demand with a growth rate compatible with the continued deleveraging of private economic agents (households and non-financial companies). This growth is also compatible with the progressive reduction of the unemployment rate, which remains high nonetheless, and with the gradual rise in inflation (from 0.6% in 2015 to 1.1% in 2016). Investment is expected to recover slightly (from 2.8% in 2014 to 4.1% in 2016), reflecting a pick-up in business investment levels, benefiting from a certain improvement in prospects for demand by companies in internal and external markets and financing conditions favoured by monetary policy measures of the ECB. Exports should show a robust growth, with a tendency to transfer productive resources to economic sectors more exposed to international competition. Also worth mentioning, particularly in services, is the behaviour of tourism, which maintains high nominal growth levels. In view of a certain slowdown in the growth of imports, the contribution of net exports (i.e. deduced from imported content) to GDP growth is expected to increase from 0.4 p.p. in 2015 to 0.8 p.p. in 2016.

The Air Transport Sector is expected to be marked once again by an improvement in profitability in the order of 10% (which corresponds to a profit increase of USD 3.3 billion for the Industry). Although driven by the slump in oil prices, this result is also due to the significant effort that has been made by the airlines – since the global crash and high oil prices of recent years – in structural improvements, in particular greater asset utilisation and higher load factors.

Part of the improvements in the cost structure is therefore expected to be transferred to consumers, prompting an increase in the number of passengers (RPK) of 6.9% (in contrast with the 5.5% average measured in previous years). These developments should also result in an increase in expenditure in the airline industry of 0.5%, to USD 658 billion. Capacity in the sector is also expected to increase slightly above the number of passengers (7.1%), resulting in an overall load factor of passengers lower than in 2015 (80.1% versus 80.3% in 2015).

This traffic behaviour will not, however, be extended to all regions, with lower developments being expected in more mature markets such as Europe and the North Atlantic as well as in the African region, dominated by regional conflicts, and in Latin America, in the presence of a hostile domestic environment. An improvement in financial performance is therefore anticipated in the presence of breaks in the breakeven load factor in all regions. With regard to the air transport of goods, a modest increase in the order of 3.0% is expected, marked by fiercer competition from other transport routes.

Outlook for TAP in 2016

Following the acquisition of 61% of the shares representing the share capital of TAP, SGPS, S.A. under the reprivatisation concluded on 12 November 2015, a number of changes – including a Capitalisation Plan targeting TAP SGPS, S.A., TAP, S.A. and other subsidiaries – are envisaged. The Capitalisation Plan will indirectly strengthen the shareholder structure of TAP, S.A. and position it positively for future growth. The details of this strategy, particularly as regards the Fleet, Network and Product, are given below.

Air Transport

Changes in the Fleet

With regard to the fleet, 2016 will be a year of transition in which several projects already underway will be implemented or will start to be implemented over the coming years. The changes to the TAP fleet will be carried out mostly inside the cabin with the aim of densifying the number of seats while maintaining or even increasing the level of comfort, in the case of the medium-haul fleet. The TAP long-haul fleet will receive two additional A330 (from Azul Linhas Aéreas Brasileiras). One will be used to strengthen the fleet while the other will replace an A330 aircraft whose phase-out is expected to occur in October 2016.

Significant structural changes are planned for the regional fleet that involve their complete replacement. The recently-created TAP Express brand will be applied to the entire operation in this area, granting the TAP aircraft cross-brand consistency. The old regional fleet will be gradually replaced over 2016 with 8 ATR72-600 aircraft (with 70 seats), to be operated by White (with the ATR42-600 being made redundant), and 9 E190 aircraft (with 106 seats), which are more recent and more efficient in terms of fuel consumption, in an operation to be carried out by Portugália. The ATR aircraft will be predominantly used in the Lisbon-Oporto air shuttle, beginning in late March.

Key changes to the Network

The Exploitation Plan that will ensure the future of TAP, S.A. requires changes to the network and capacity, which will significantly improve the Company's financial performance. Worthy of mention are the main long-term network strategies, which will be implemented in the 2016 summer schedule: Building and strengthening the Lisbon hub; Launching the Lisbon-Oporto Air Shuttle with a high frequency shuttle service; Growth to North America; More connections in Brazil. In addition, as part of an ongoing management of routes and flight portfolio, an ongoing performance evaluation will be carried out on a continuous basis. Over time, the frequency will be adjusted to existing markets in accordance with changing economic conditions and new markets will be launched as soon as possible. Priority will be focused on restoring the company's profitability in order to secure its financial future, which justifies the need to cancel some routes and to reduce operations in certain markets in Lisbon and Porto.

The commitment of TAP, S.A. to Portugal

TAP, S.A. recognises that the long-term value of serving Portugal and the global Portuguese community currently outweighs the potential benefits of concentrating on the present development of the Lisbon hub. For this reason, the Company will keep some routes in Oporto during the summer schedule of 2016 through additional strengthening in Lisbon, which includes keeping certain long-haul routes to New York, Rio de Janeiro and Sao Paulo from Oporto, as these are important routes for the Portuguese diaspora and the business of local communities. Similarly, the Company will continue to fly to all Portuguese islands currently in operation.

In turn, the expected growth of TAP, S.A. in North America is intended to capitalise on an important and growing market like the US and to diversify the strategy of the significant capacity invested in Brazil. With this in mind, the launch of daily flights to the airport JFK (New York) and the Logan Airport (Boston) is envisaged on July 1st and June 11th, 2016 respectively. The combination of the routes operated by TAP from New York (JFK), Boston and Newark will bring traffic from 20 US cities served by JetBlue Airways.

TAP, S.A. will continue with the long-term strategy of becoming the market leader in Europe in relation to the markets of Brazil, despite the fall in GDP and negative forecasts for the Brazilian economy. It will also continue to serve the Portuguese communities abroad, complying with service levels similar to those of the summer of 2015. The code-share service with the airline Azul Linhas Aéreas Brasileiras was authorised and started on 10th December 2015. It is hoped that this will bring revenue improvements as well as connections for passengers between cities in Brazil and Europe.

Additional changes to the type of service

In complying with its full-service company mission, an investment will be made in TAP, S.A. over 2016 and 2017 in terms of equipping both wide-body and narrow-body aircraft with state-of-the-art cabins, with the aim of improving customer satisfaction and attracting new customers. The relaunch of this product will start with the two new A330-200 aircraft to be added to the fleet in 2016. Cabins will be refurbished to include new fully-flat seats in business class and video-on-demand material and entertainment in both cabins, offering a superior experience on board. It is anticipated that the entire A330-200 fleet will be renewed until the end of 2017. In the medium-haul narrow-body airbus fleet (A319, A320 and A321) a strategy of segmented cabins, designed to improve the comfort of the existing products in both executive and economy classes, is being adopted.

Aircraft operated under the TAP Express brand will also have modern cabins and a full-service product in line with the European experience of TAP, S.A.. A new special quality of service will be introduced in the Air Shuttle, offering exceptional timing, recognising the importance of speed to passengers on domestic trips.

Maintenance and Engineering

In terms of Aircraft Maintenance, the commercial prospects for 2016 for TAP–Maintenance and Engineering Portugal are conditioned by the changes that will be made to the cabins of the TAP fleet, thus reducing the availability of labour supply for third parties. The tender launched by SIMMAD for the management of the A310 fleet (currently supported by Sogerma) of the French Air Force is a major challenge to the competitiveness of the Business Unit, which will necessarily have to be demonstrated in the face of competition and the natural political barriers. Engine Maintenance continues to approach the market in the various models of the CFM56 product and it is expected that contracts will be signed with some new customers from different geographic areas. The economic and financial analysis of the feasibility of introducing the CF680E1 engine in the portfolio, currently maintained by the OEM, is also anticipated. The participation of the different departments, with emphasis on engineering, will tend to increase given the activities resulting from the internal reconfiguration of the narrow-body and wide-body fleets and the phase-ins of the new A320 NEO and A330 NEO fleets. This will ensure that they run smoothly and provide the most appropriate equipment choices and the implementation of the capacity necessary for the maintenance of new aircraft, guaranteeing the usual standards of safety, quality and competitive costs.

From an operational perspective, the engine maintenance activity will be focused on the development of improvements in the planning and controlling of activities so as to increase efficiency, reduce TATs (Turn Around Time) and increase customer satisfaction. In parallel, as the repair of thrust reversers is progressively carried out in-house following the reduction of outsourcing, it is vital that this process be controlled through well-defined procedures that involve not only the TAT indicator but also quality control and documentation for such units. The need to stabilise this process is also aimed at the future marketing of the service. The Components area will continue to be analysed in order to assess the most appropriate industrial strategy to address not only the modernisation of the TAP fleet but also the challenges posed by the activity of selling services to third parties and possible future partnerships. The challenges surrounding aircraft maintenance involve the consolidation of new work processes based on the theory of constraints that point to reductions in TATs in the order of 15% as well as increasing efficiency by strengthening investments in the modernisation and adaptation of infrastructure and equipment.

Within the scope of the Organisation, a reconfiguration is foreseen, with emphasis, under the current structure, on the CAMO Organisation responsible for Continued Airworthiness. With regard to Logistics, special focus will be placed on stock management in order to promote a significant increase in its rotation and the removal of items considered obsolete. In the Continuous Improvement area, projects will be launched by each department to obtain efficiency gains through improved processes and procedures that contribute to the achievement of the management goals set for 2016. Priority will continue to be given to the participation of new employees in these projects so as to proceed with the development of an organisational culture that embraces change and is focused on results and commitments.

In 2016, the Maintenance and Engineering business in Brazil will continue, with tailored adjustments in the three key pillars: i) improvement of the production capacity and efficiency, which has been visible in the Customer Satisfaction reports, in the results of recent audits and in the obtaining of new certifications; ii) improved trade performance which, anchored in the previous item, has made it possible to continue to increase revenues significantly above the MRO market growth in Latin America; iii) economic/financial sanitation, resulting from the above items and from the success achieved in fiscal and labour processes.

It should be noted that TAP, SGPS, S.A. has a strategic vision for the future, with one of its key goals being the creation of a financially sustainable airline. One of the decisive strategic lines is to position its fleet among the best airlines worldwide, ensuring an ever more decisive role in the routes between Europe, Africa, Brazil and North America.

GRUPO TAP

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL YEAR OF 2015

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

INDEX

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015 AND 2014

Amounts stated in thousand euros	Notes	2015	2014
ASSETS			
Non-current assets			
Tangible fixed assets	5	641.001	673.718
Investment properties	6	2.216	2.139
Goodwill	7	149.791	193.479
Other intangible assets	8	534	738
Other financial assets	13	1.100	2.122
Deferred tax assets	15	69.485	53.410
Other receivables	18	49.852	48.569
		913.979	**974.175**
Current assets			
Inventories	20	86.034	97.172
Trade receivables	21	138.130	146.991
Advances to suppliers	16	4.544	6.745
State and other public entities	17	17.427	13.878
Other receivables	18	59.652	63.061
Deferred expenses	19	13.272	17.094
Restricted cash	22	4.177	100.917
Cash and cash equivalents	22	136.814	140.364
		460.050	**586.222**
		1.374.029	**1.560.397**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	15.000	15.000
Supplementary capital contributions	24	154.353	-
Legal reserves	24	3.000	3.000
Foreign currency translation reserves	24	(70.406)	(19.503)
Hedge reserves	24	(752)	(36.727)
Equity holdings adjustment		(2.260)	(2.260)
Retained earnings	24	(478.015)	(394.209)
Net income/(loss) for the year	24	(156.042)	(85.096)
Total equity of the Group		**(535.122)**	**(519.795)**
Non-controlling interests	25	4.807	7.935
Total equity		**(530.315)**	**(511.860)**
Non-current liabilities			
Provisions	26	26.126	29.723
Borrowings	27	743.370	427.969
Post-employment benefits obligations	28	54.268	56.626
Deferred tax liabilities	15	20.037	21.035
Other payables	31	84.019	1.492
		927.820	**536.845**
Current liabilities			
Suppliers	30	167.843	141.082
Advances from customers	29	1.259	820
State and other public entities	17	22.468	22.021
Borrowings	27	198.797	633.682
Other payables	31	250.960	366.201
Liabilities from unused flight documents	32	271.068	303.889
Deferred revenue	19	64.129	67.717
		976.524	**1.535.412**
Total liabilities		**1.904.344**	**2.072.257**
Total equity and liabilities		**1.374.029**	**1.560.397**

The accompanying notes form an integral part of the consolidated statement of financial position as at 31 December 2015.

CONSOLIDATED INCOME STATEMENT FOR 2015 AND 2014

Amounts stated in thousand euros	Notes	2015	2014
Sales and services rendered	35	2,597,936	2,698,321
Operating government grants	36	594	1,151
Gains and losses in associates	37	1,067	1,611
Variation in production	38	(8,589)	8,894
Internally generated assets	39	608	791
Cost of goods sold and materials consumed	40	(243,790)	(276,583)
External supplies and services	41	(1,718,345)	(1,816,262)
Employee costs	42	(566,405)	(578,880)
Impairment in inventory (losses/reversals)	43	148	(105)
Impairment in receivables (losses/reversals)	44	(5,672)	(14,044)
Provisions (increases/decreases)	45	178	(5,706)
Fair value increases/decreases	47	(174)	104
Other operational income	48	68,083	103,958
Other operational costs	49	(77,216)	(33,257)
Earnings before interests, taxes, depreciation and amortisation (before non-recurring items)		**48,423**	**89,993**
Non-recurring items	54	(91,394)	-
Earnings before interests, taxes, depreciation and amortisation		**(42,971)**	**89,993**
Depreciation and amortisation costs	50	(62,697)	(85,437)
Impairment of assets subject to depreciation/amortisation (losses/reversals)	46	-	(1,984)
Operating income/(loss) (earnings before interests and taxes)		**(105,668)**	**2,572**
Finance income	51	4,633	3,091
Finance costs	51	(67,909)	(84,509)
Net income/(loss) before income tax		**(168,944)**	**(78,846)**
Income tax for the year	52	17,167	(2,103)
Net income/(loss) for the year		**(151,777)**	**(80,949)**
Net income/(loss) attributable to owners of TAP SGPS		(156,042)	(85,096)
Net income/(loss) attributable to non-controlling interests	53	4,265	4,147
Basic and diluted results per share (euros)	24	(104)	(57)

The accompanying notes form an integral part of the consolidated income statement as at 31 December 2015.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 2015 AND 2014

Amounts stated in thousand euros	Notes	2015	2014
Net income/(loss) for the year		**(151,777)**	**(80,949)**
Items that may be reclassified to income statement:			
Gains and losses on translation of foreign operations	24	(50,903)	642
Gains and losses in derivate financial instruments - cash flow hedge	24	49,620	(57,100)
Deferred tax on derivative financial instruments - cash flow hedge	15	(13,645)	15,832
Items that will not be reclassified to income statement:			
Remeasurements of defined benefit plans	28	(2,761)	(14,686)
Deferred tax on remeasurements	15	812	2,433
Other comprehensive income/(loss) net of tax		**(16,877)**	**(52,879)**
Comprehensive income/(loss)		**(168,654)**	**(133,828)**
Attributable to:			
Owners of TAP SGPS		(172,922)	(137,975)
Non-controlling interests	53	4,268	4,147
Total comprehensive income/(loss) for the year		**(168,654)**	**(133,828)**

The accompanying notes form an integral part of the consolidated statement of comprehensive income as at 31 December 2015.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FROM 1 JANUARY 2014 TO 31 DECEMBER 2015

Amounts stated in thousand euros	Share capital	Supplementary capital contributions (Note 24)	Legal reserves	Foreign currency translation reserves (Note 24)	Hedge reserves (Note 24)	Equity holdings adjustment	Retained earnings	Net income/(loss) for the year	Subtotal	Non-controlling interests (Notes 25 and 53)	TOTAL
Equity as at 1 January 2014	**15,000**	**-**	**3,000**	**(20,145)**	**4,541**	**(2,260)**	**(376,088)**	**(5,868)**	**(381,820)**	**8,508**	**(373,312)**
Transactions with owners in 2014	**-**	**-**	**-**	**-**	**-**	**-**	**(5,868)**	**5,868**	**-**	**(4,720)**	**(4,720)**
Application of net income/(loss) and distribution of profit and reserves	-	-	-	-	-	-	(5,868)	5,868	-	-	-
Distribution of dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,720)	(4,720)
Comprehensive income/(loss) in 2014	**-**	**-**	**-**	**642**	**(41,268)**	**-**	**(12,253)**	**(85,096)**	**(137,975)**	**4,147**	**(133,828)**
Net income/(loss) for the year	-	-	-	-	-	-	-	(85,096)	(85,096)	4,147	(80,949)
Other comprehensive income/(loss)	-	-	-	642	(41,268)	-	(12,253)	-	(52,879)	-	(52,879)
Equity as at 31 December 2014	**15,000**	**-**	**3,000**	**(19,503)**	**(36,727)**	**(2,260)**	**(394,209)**	**(85,096)**	**(519,795)**	**7,935**	**(511,860)**
Transactions with owners in 2015	**-**	**154,353**	**-**	**-**	**-**	**-**	**(85,096)**	**85,096**	**154,353**	**(4,154)**	**150,199**
Application of net income/(loss) and distribution of profit and reserves	-	-	-	-	-	-	(85,096)	85,096	-	-	-
Supplementary capital contributions	-	154,353	-	-	-	-	-	-	154,353	-	154,353
Distribution of dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,154)	(4,154)
Comprehensive income/(loss) in 2015	**-**	**-**	**-**	**(50,903)**	**35,975**	**-**	**1,290**	**(156,042)**	**(169,680)**	**1,026**	**(168,654)**
Net income/(loss) for the year	-	-	-	-	-	-	-	(156,042)	(156,042)	4,265	(151,777)
Other comprehensive income/(loss)	-	-	-	(50,903)	35,975	-	1,290	-	(13,638)	(3,239)	(16,877)
Equity position as at 31 December 2015	**15,000**	**154,353**	**3,000**	**(70,406)**	**(752)**	**(2,260)**	**(478,015)**	**(156,042)**	**(535,122)**	**4,807**	**(530,315)**

The accompanying notes form an integral part of the consolidated statement of changes in equity as at 31 December 2015.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2015 AND 2014

Amounts stated in thousand euros	Notes	2015	2014
Operating activities:			
Receipts from customers		2,709,810	3,130,650
Payments to suppliers		(2,089,045)	(2,321,245)
Payments to employees		(449,865)	(461,470)
Income tax payment/receipt		(16,459)	(8,799)
Other receipts/payments relating to operating activities		(165,128)	(275,248)
Cash flow from operating activities		**(10,687)**	**63,888**
Investment activities:			
Receipts from:			
Tangible fixed assets		74,571	235
Investment properties	6	-	2,795
Financial investments		1,043	177
Interests and similar income		4,526	3,039
Loans granted		2,900	3,100
Payments relating to:			
Tangible fixed assets		(47,463)	(22,897)
Intangible assets		-	(45)
Supplementary capital contributions	18	-	(1,000)
Loans granted		-	(2,900)
Cash flow from investment activities		**35,577**	**(17,496)**
Financing activities:			
Receipts from:			
Borrowings		635,344	282,909
Supplementary capital contributions	24	154,353	-
Payments relating to:			
Borrowings		(643,647)	(191,300)
Financial leasing contracts		(116,011)	(96,505)
Interests and similar costs		(46,620)	(41,311)
Dividends (non-controlling interests)		(3,504)	(4,720)
Cash flow from financing activities		**(20,085)**	**(50,927)**
Net increase (decrease) in cash and cash equivalents		4,805	(4,535)
Effects of exchange rate changes		(97,812)	(24,685)
Cash and cash equivalents at the beginning of the year		**233,998**	**263,218**
Cash and cash equivalents at the end of the year	22	**140,991**	**233,998**

The accompanying notes form an integral part of the consolidated statement of cash flows as at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

1 - Economic activity of the Group

The Group, composed of TAP – Transportes Aéreos Portugueses, SGPS, S.A. ("TAP SGPS") and its subsidiaries ("TAP 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, providing handling services during air transport stopovers, exploration 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.").

As part of the TAP Group re-privatization process, on 24 June 2015 was signed the "Direct Sale Agreement" of TAP – Transportes Aéreos Portugueses, SGPS, S.A. ("TAP SGPS"), between Parpública (as seller), DGN Corporation ("DGN") and HPGB, SGPS, S.A. ("HPGB") (as proponents) and Atlantic Gateway, SGPS, S.A. ("Atlantic Gateway", currently adopting a limited corporation type) (as buyer), from which resulted the transmission of 915,000 nominal shares representative of 61% of the share capital of TAP SGPS to Atlantic Gateway on 12 November 2015, and Parpública remains with 39%.

Besides the "Direct Sale Agreement", it should be noted that, from among the various contractual instruments that have been formalized on 24 June 2015, the "Strategic Commitment Agreement", between the Portuguese State, Parpública, TAP SGPS, TAP S.A., DGN, HPGB and Atlantic Gateway, that establishes the terms and general conditions for the implementation of the "Strategic Plan", presented with the binding technical proposal, containing the measures that should contribute to the objectives of re-privatisation. Under this agreement, the parties assumed some strategic commitments, such as the promotion of the national hub e the maintenance of head office from TAP S.A. and Portugália – Companhia Portuguesa de Transportes Aéreos, S.A. ("Portugália") in Portugal. Failure by Atlantic Gateway, to comply with the recommendations issued by the Independent Monitoring Commission ("Comissão Independente de Acompanhamento"), may result in a daily penalty until the maximum amount of Euro 10 million. In a situation of serious and permanent default of the strategic commitments above mentioned, the Portuguese State and Parpública have the right to acquire 100% of the share capital of TAP SGPS, which exercise is optional.

After the conclusion of the referred agreements and contractual instruments, on 15 July 2015 TAP SGPS requested the opinion of Portuguese Civil Aviation Authority ("ANAC") concerning the indirect change of the shareholder structure of its air transport subsidiaries, TAP S.A. and Portugália.

On 12 October 2015, ANAC issued a preliminary opinion relating to the compliance with the European Union ("EU") Regulation nº 1008/2008, of the European Parliament and of the Council of 24 September 2008 ("Regulation"), for the purposes of maintenance of the operational licences of the subsidiaries TAP S.A. and Portugália, in the context of the acquisition process of a majority participation in TAP SGPS by Atlantic Gateway, in which ANAC refers that the notification presented by TAP SGPS was not properly completed, with lack of essential elements for the preliminary analysis of the compliance with the Regulation, and from the analysis of the submitted documents concluded that: (i) regarding the legal requirement about the majority participation in TAP SGPS share capital by a Member States and/or nationals of Member States, was concluded that paragraph f) of Article 4 of the Regulation was complied with; (ii) about the legal requirement relating to financial capability was concluded that, accordingly to the presented prospective financial statements and related assumptions, the acquisition process does not affect the economic and financial capability set out in paragraph 6 of Article 8 of the Regulation; and (iii) regarding the legal requirement of effective control by Member States and/or nationals of Member States, in order to ensure the compliance of the transaction with the paragraph f) of Article 4 of the Regulation, ANAC proposed the revision of the actual rules of nomination of governance members of TAP SGPS and its subsidiaries, the improvement of certain conditions in the government model, the elimination or revision of clauses relating to lockout and divergent situations and to ensure that Bonds conversion are in accordance with the Regulation.

With the transmission of 61% of the share capital of TAP SGPS to Atlantic Gateway on 12 November 2015, among other contractual instruments, it should be noted the "Agreement on Economic and Financial Stability of TAP" ("Acordo Relativo À Estabilidade Económica-Financeira"), between Parpública, Atlantic Gateway, TAP SGPS, TAP S.A. and Portugália, in which Atlantic Gateway, as buyer, and TAP S.A. and Portugália, as borrowers, assumed some obligations related to TAP Group financial debt and debt service.

The Group's core business consists of the air transport of passengers, cargo and mail, operating in Portugal, mainland and its Autonomous Regions, Europe, Africa, North Atlantic, Mid-Atlantic and South Atlantic. The Group has 22 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	Lisbon Airport, 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 TAP Group companies as listed in Note 2.3.1., were approved by the Board of Directors on 17 march 2016. However, these financial 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 Board of Directors that sign this report declare that, to the best of their knowledge, the information contained herein was prepared in conformity with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial position and results of the companies included in the Group's consolidation scope.

2 - Summary of the principal accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are described below.

2.1 Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS – formerly referred to as the International Accounting Standards - IAS) issued by the International Accounting Standards Board (IASB) and 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 mentioned financial statements.

The accompanying consolidated financial statements were prepared on a going concern basis from the accounting books and records of the companies included in the consolidation (Note 2.3.1.) and under the historic cost convention, except for derivative financial instruments, investment properties and customer loyalty programmes, which are recorded at fair value.

The preparation of the financial statements, accordingly IFRS, requires the use of important estimates and judgments in the application of the Group's accounting policies. Despite the estimates used are based on the best information available during the preparation of these financial statements and best knowledge of past and present events, we note that actual and future results may differ from these estimates. The principal statements which involve a greater degree of judgment or complexity and the most significant assumptions and estimates used in the preparation of the aforesaid financial statements are disclosed in Note 2.32.

The Group TAP and members of the Board of Directors that sign this report, declares that, to the best of their knowledge, the information contained herein was prepared in conformity with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial position and results of the companies included in the Group's consolidation scope.

✈ New standards, changes and interpretations of existing standards:

The application of the interpretations and amendments to the standards mentioned below, are mandatory by the IASB for the financial years beginning on or after 1 January 2015:

Description	Amendment	Effective date*
Improvements to 2011-2013 regulations	Clarification	1 January 2015
IFRIC 21 – Levies	New interpretation - Accounting of a levy liability	1 January 2015

* Accounting periods beginning on or after

The introduction of the revision to this standard did not have any significant impact on the consolidated financial statements of the Group.

✈ New standards and interpretations not mandatory:

There are new standards, interpretations and amendments of existing standards that, despite having already been published, are only mandatory for the periods starting after 1 February 2015, and which the Group decided not to early-adopt in the current period, as follows:

Standards and interpretations effective, on or after 1 February 2015:

Description	Amendment	Effective date*
Improvements to 2012-2014 regulations	Clarification	1 February 2015
IAS 19 - Emplyee benefits	Accounting of the contribution of employees or other entities	1 February 2015
IAS 16 and 38 - Amortization/Depreciation calculation methods	Depreciation/Amortization methods basead on revenue are not permitted	1 January 2016
IAS 16 and 41 - Agriculture: plants that produce consumable biological assets	Includes plants that only produce consumable biological assets, w ithin the scope of IAS 16, measured under the cost or revaluation models	1 January 2016
IFRS 11 - Joint Arrangements	Accounting for the acquisition of na interest in a joint operation w hich is a business	1 January 2016
IAS 1 - Presentation of Financial Statements	Disclosures review under the IASB's project "Disclosure Initiative"	1 January 2016
IAS 27 - Separated Financial Statements	Option of measuring the investment in subsidiaries, joint ventures and associates under the equity method	1 January 2016
Improvements to 2012-2014 regulations	Various clarifications	1 January 2016

*Financial years beginning on or after

Standards and interpretations effective, on or after 1 February 2015, not endorsed by EU:

Description	Amendment	Effective date*
Amendments IFRS 10,12 and IAS 28 - Investment entities - applying the consolidation exemption	Consoliation exemption applied to Investment entities, extended to a parent that does not qualify as na investment entity but is a subsidiary of na Investment entity	1 January 2016
IFRS 9 - Financial Instruments	New regulation for the accounting recognition of financial instruments	1 January 2018
IFRS 15 - Revenue from contracts with customers	Recognition of revenue related to the delivery of assets or services rendered, by applying the 5 step method	1 January 2018

*Financial years beginning on or after

Up to the date of issuing this report, the Group had not yet concluded the estimate of the effects of changes arising from the adoption of these standards, for which it decided not to early-adopt them. However, no material effect is expected in the financial statements as a result of their adoption.

2.2 Comparability of the financial statements

The figures presented in the consolidated financial statements for the year ended on 31 December 2015 are comparable in all significant aspects with the figures for the year ended on 31 December 2014.

Notwithstanding the provisions of the above paragraph, it should be noted that the accounting record of "Foreign currency translation reserves" regarding goodwill arising on the acquisition of a foreign entity, was not applied retrospectively, considering that is not relevant in the context of the consolidated statement of financial position of the period ended 31 December 2014 (Euro 14.5 millions on Consolidated statement of financial position), and that they were not restated (Note 7).

2.3 Basis of Consolidation

2.3.1. Subsidiaries

Subsidiaries are all entities over which the Group has the right to determine their financial and operating policies, generally where the Group's interest is represented, directly or indirectly, more than 50% of the existing voting rights.

The existence and the effect of potential voting rights which are currently exercisable or convertible are taken into account when the Group assesses whether it has control over another entity.

Equity and net profit for the period corresponding to third party participation in subsidiaries are reflected separately in the consolidated statement of financial position and in the income statement, respectively in caption "Non-controlling interests" (Note 25). The gain and loss attributable to non-controlling interests are allocated to them.

The companies included in the consolidated financial statements are below detailed:

Name	Head office	Core business	Shareholders	% share capital held 2015	2014
TAP - Transportes Aéreos Portugueses, SGPS, S.A.	Lisbon	Management and administration of holdings	Parpública Atlantic Gateway	39.00% 61.00%	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 de Engenharia e 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	TAP SGPS Portugália	99.00% 1.00%	99.00% 1.00%
TAP – Manutenção e Engenharia Brasil, S.A. (ex-VEM) ("TAP M&E Brasil")	Brazil	Maintenance and aeronautical engineering	TAP SGPS Aeropar	51.00% 47.64%	51.00% 47.64%

During the period ended at 31 December 2015 no changes occurred in the Group consolidation perimeter.

The purchase method is used in recording the acquisition of subsidiaries. The cost of an acquisition is measured by the fair value of the assets transferred, the equity instruments issued and liabilities incurred or assumed on acquisition date.

Transaction costs directly attributable to business combinations are immediately recognised in profit and loss.

The identifiable assets acquired and the liabilities and contingent liabilities assumed in a business combination are initially measured at fair value on the date of acquisition, irrespective of the existence of non-controlling interests. The excess of the acquisition cost relative to the fair value of the Group's share of the identifiable assets and liabilities acquired is recorded as Goodwill (Note 7).

Investments in subsidiaries where the TAP Group has control are fully consolidated from the date the Group assumes control over their financial and operating activities until the moment that control ceases to exist.

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 in the period when it takes place.

Intercompany transactions, balances, unrealized gains on transactions and dividends distributed between group companies are eliminated. Unrealized losses are also eliminated, except where the transaction displays evidence of impairment of a transferred asset.

When, at the date of the acquisition of control, Group TAP already holds a previously acquired interest in the subsidiary, its fair value is considered in determining the goodwill or negative goodwill.

When Group TAP acquires control over a subsidiary with less than 100%, the purchase method considers non-controlling interests either at their fair value or in the proportion of the fair value of the assets and liabilities acquired. This decision is made for each individual transaction.

Subsequent transactions with non-controlling interest that do not result in loss of control are accounted for as equity transactions. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gain or losses on disposals to non-controlling interests are also recorded in equity.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date.

The subsidiaries' accounting policies have been adjusted whenever necessary so as to ensure consistency with the policies adopted by the Group.

2.3.2. Associates

Associates are all the entities in which the Group exercises significant influence but does not have control, which is generally the case with investments representing between 20% and 50% of the voting rights. Investments in associates are accounted under the equity method.

In conformity with the equity method, financial investments are recorded at their acquisition cost, adjusted by the amount corresponding to the Group's share of changes in the associates' shareholders' equity (including net income/loss) with a corresponding gain or loss recognised for the period on earnings or on changes in capital, and by dividends received.

The difference between the acquisition cost and the fair value of the assets and liabilities attributable to the affiliated company on the acquisition date is, if positive, recognised as Goodwill and recorded as investments in affiliated companies. If negative, goodwill is recorded as income for the period under the caption "Group share of (loss) / gains of associated companies and joint ventures".
In the event that impairment loss indicators arise on investments in associates, an evaluation of the potential impairment is made, and if deemed necessary, a loss is recognised in the consolidated income statement.

Unrealized gains on transactions with associates are eliminated to the extent of the Group's investment in the associates. Unrealized losses are also eliminated, except where the transaction reveals evidence of impairments on the transferred assets.

The associates' accounting policies used in the preparation of the individual financial statements are adjusted, whenever necessary, so as to ensure consistency with the policies adopted by the Group.

The following entity qualifies as an associate:

Name	Head office	Core business	Shareholders	% share capital held	
				2015	2014
SPdH – Serviços Portugueses de Handling, S.A. ("SPdH")	Lisbon	*Handling*	TAP SGPS Portugália	43,90% 6,00%	43,90% 6,00%

The investments in associates are presented in detail in Notes 10 and 26.

2.4 Segment Reporting

The operating segments are presented on these financial statements in the same way as internally used for the Group's performance evaluation. Operating segment are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments. The Group does not disclose segmental assets and liabilities taking into consideration that this information is not presented to the chief operating decision-maker.

Five operating segments have been identified by the Group: air transport, maintenance and engineering, duty free shop, catering and others.

The accounting policies used in segment reporting are those consistently used in the Group. All inter-segmental sales and services rendered are made at market prices and eliminated on consolidation. Segmental information is disclosed in Note 55.

2.5 Foreign currency translation

2.5.1. Functional and presentantion currency

The items included in the financial statements of each one of the Group's entities are measured using the currency of the economic environment in which the entity operates (functional currency).

The consolidated financial statements are presented in thousands of Euros, which is the Group's functional and presentation currency.

2.5.2. Balances and transactions expressed in foreign currencies

All of the Group's assets and liabilities denominated in foreign currencies are translated into euro using the exchange rates prevailing at the date of the statement of financial position.

Currency adjustments, favourable and unfavourable, arising from differences between the exchange rates prevailing at the date of the transaction and those at the date of collection, payment or statement of financial position, are recorded as income and costs in the consolidated income statement for the year.

2.5.3. Group companies

The results and the financial position of the Group's entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

(i) The assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) If materially relevant, the income and costs are converted at the exchange rate prevailing at the dates of the transactions. Otherwise, income and expenses for each income statement are translated at the average exchange rate of the months of the reporting period.

Goodwill and fair value adjustments arising on the acquisition of foreign entities are treated as assets and liabilities of these entities and translated to Euros at the closing rate.

Shareholders' loans in a different functional currency from the parent company that do not have defined repayment terms are considered as net investments in the foreign entities. The translation differences arising in translating the balances of shareholders' loans to the company's reporting functional currency that are not cancelled out in the consolidation process are reclassified to the shareholders' equity caption "Foreign currency translation reserves" in the consolidated financial statements.

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	2015	2014
BRL	4,3117	3,2207
USD	1,0887	1,2141
VEF	216,3233	a)
AOA	147,8315	125,11

a) See additional comments in Note 22.

Regarding the subsidiaries located in Brazil, the monthly results were converted at the exchange rate of the last day of each month, as follows:

Month	2015	2014
January	3.0114	3.2829
February	3.2579	3.2120
March	3.4958	3.1276
April	3.3232	3.1248
May	3.4522	3.0315
June	3.4699	3.0002
July	3.6974	3.0156
August	4.0671	2.9600
September	4.4808	3.0821
October	4.2724	3.0714
November	4.0709	3.1831
December	4.3117	3.2207

2.6 Tangible fixed assets

Property, plant and equipment that were acquired prior to 1 January 2004 are recorded at their deemed cost, which is the book value under the accounting principles generally accepted in Portugal until 1 January 2004 (transition date to IFRS), including revaluations made in accordance with the prevailing legislation, deducted of depreciation and impairment losses.

Additionally, at transition date to IFRS, the subsidiary TAP S.A., under the exemptions of IFRS 1 - First-time Adoption of International Financial Reporting Standards – considered fair value as deemed cost for some tangible fixed assets categories, reported as at transition date (1 January 2004).

Thus, taking effect as at 1 January 2004, the assets belonging to the buildings category of TAP S.A. were revalued at their fair value on that date. The fair value of these items was determined through an evaluation study performed by an independent expert (Colliers P&I), which also determined the remaining useful life of these assets, on the transition date.

Property, plant and equipment acquired after the transition date are shown at cost, less accumulated depreciation and impairment losses. The acquisition cost includes all expenditure directly attributable to the acquisition of the assets.

Subsequent costs are included in asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the respective cost can be reliably measured. Other costs with maintenance and repairs are recognised as losses in the period as are incurred.

Depreciation is calculated with regard to the acquisition cost, mainly using the straight line method from the date the assets are ready to enter into service, at the depreciation rates that best reflect their estimated useful lives, as follows:

	Years of useful life	Residual value
Buildings and other constructions	20-50	-
Basic equipment:		
Flight equipment:		
Airbus		
Aircraft	20	5%
Aircraft under financial leasing	20	5%
Spare engines and spare parts	20	5%
Spare engines under financial leasing	20	5%
Other 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	7-20	0-10%
Transport equipment	4-10	-
Tools and utensils	8-20	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, when necessary, at the date of the statement of financial position (Note 5). If the book value of the asset is higher than the asset's realizable value, then it is written down to the estimated recoverable amount by recognizing an impairment loss (Note 2.10.).

Gains or losses arising from derecognition or disposal are calculated as the difference between the proceeds received on the disposal and the asset's book value, and are recognised in the income statement as other operating income or costs.

2.7 Investment Properties

Investment properties are buildings, land and other constructions held for capital valuation purposes, lease applications, or both. Investment properties were recognised at fair value at the date of transition to IFRS. After initial recognition investment properties are carried at fair value, for all assets classified as such.

The fair value of Investment properties are based on evaluations made by independent external evaluators, considering its usage conditions, or its best use, depending on whether the properties are leased or not.

2.8 Intangible assets

Intangible assets are booked at acquisition cost less accumulated impairment losses and are amortized using the straight line method over an estimated useful life. The amortization period can be from 3 up to 10 years.

2.9 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary/associate at the date of acquisition by the Group.

Goodwill on acquisitions of subsidiaries and associates is not amortized and is tested, at least on an annual basis, for impairment. Impairment losses on goodwill cannot be reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to that entity.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to the operating segment. The cash-generating units represent the investment of Group at each of business unit that Group TAP operates: air transport, maintenance and engineering, duty free shop, catering and others.

2.10 Impairment of non-current assets

Non-current assets which do not have a defined useful life are not subject to depreciation, but are subject to annual impairment tests. Assets subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

If the recoverable amount is lower than net book value, an assessment is performed as to whether there is objective permanent evidence of impairment, and recognised the impairment loss in the income statement. If the loss is not considered permanent, the reasons that support the decision are disclosed.
An impairment loss is recognised as the amount of the excess of the asset's book value over its recoverable amount. The recoverable amount is the higher of the net sale price and its value in use.

For the purpose of conducting impairment tests, the assets are grouped at the lowest level for which cash flows can be identified separately (cash generating units which belong to the asset), when it is not possible to do so individually for each asset.

The reversal of impairment losses recognised in previous periods is recorded when it can be concluded that the recognised impairment losses no longer exist or have decreased (with the exception of impairment losses relating to Goodwill – see Note 2.9).

The reversal of impairment losses is recognised in the income statement as other operating income, except for the available-for-sale financial assets, unless the asset has been revalued, in which case the reversal will represent a portion or the total of the revaluation reserve. However, an impairment loss is reversed only up to the limit of the amount that would be recognised (net of amortization or depreciation) if it had not been recognised in prior years.

2.11 Financial Instruments

The Group classifies its financial instruments in the following categories: loans and receivables, financial assets at fair value through profit and loss, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its instruments at initial recognition and reassesses this classification on each reporting date.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is no intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterpart.

All acquisitions and disposals of these instruments are recognised on the date of the respective purchase and sale contracts, irrespective of the financial settlement date.

Financial instruments are initially recorded at the acquisition cost, when their fair value equals the price paid, including transaction expenses (except financial assets at fair value through profit or loss). The subsequent measurement depends on the category the instrument falls under, as follows:

- **Loans and receivables**

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments and which are not quoted in an active market. They are originated when the Group advances money, goods or services directly to a debtor without any intention of negotiating the debt.

These instruments are included in current assets, except when their maturity exceeds 12 months after the date of the statement of financial position, in which case they are classified as non-current assets.

Loans and other accounts receivables are initially measured at the fair value and subsequently at amortized cost and are included in consolidated financial statements in captions: “ Others receivables”, “Trade receivable” and “ Advances to suppliers”.

- **Financial assets at fair value through profit or loss**

This category comprises two sub-categories: (i) financial assets held for trading, and (ii) assets designated at fair value through profit or loss at initial recognition. A financial asset is classified under this category if acquired primarily for the purpose of selling in the short-term or if so designated by management.

Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months of the date of the statement of financial position. These investments are measured at fair value through the income statement.

- **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets, with fixed or determinable payments and fixed maturities that the Group’s management has the positive intention and ability to hold to maturity. Investments in this category are recorded at amortized cost using the effective interest rate method.

- **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that: (i) the Group has the intention of holding for an undefined period of time, (ii) are designated as available-for-sale at initial recognition or (iii) do not meet the conditions to be classified in any of the remaining categories, as described above.

These financial instruments are recognised at market value, as quoted at the date of the statement of financial position.

If there is no active market for a financial asset, the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same as the one in question, discounted cash-flows analysis and option pricing models refined to reflect the issuer’s specific circumstances.

Potential gains and losses arising from these instruments are recorded directly in the fair value reserve (shareholders’ equity) until the financial investment is sold, received or disposed of in any way, at which time the accumulated gain or loss formerly reflected in fair value reserve is taken to the income statement.

If there is no market value or if it is not possible to determine one, these investments are recognised at their acquisition cost.

At each reporting date the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired.

Impairment of financial assets

(i) Loans and receivables and held-to-maturity investments

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- A breach of contract, such as a default or delinquency in interest or principal payments;
- Significant financial difficulty of the issuer or obligor;
- It becomes probable that the borrower will enter bankruptcy.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

(ii) Assets classified as available for sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

2.12 Derivative financial instruments an hedging activities

The Group uses derivative financial instruments aimed at managing the financial 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.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (jet fuel swap). The gain or loss relating to the effective portion of interest rate swaps is recognised in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement.

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 receivables and other payables.

✈ 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 Assets and liabilities fair value

The fair value measurements and related disclosures are based on a 'fair value hierarchy'. The hierarchy categorizes the inputs used in valuation techniques into three levels.

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Group can access at the reporting date.

Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

2.14 Corporate Income Tax

Corporate income tax includes current and deferred tax. Current income tax is calculated based on net income, adjusted in conformity with tax legislation in place at the date of the statement of financial position.

Deferred taxes liabilities are recorded based on the temporary differences between the book values of the assets and liabilities and their respective tax base.

Deferred tax assets are recognised whenever there is a reasonable likelihood that future taxable profits will be generated or there are deferred taxes liabilities against which they can be offset. Deferred tax assets are revised periodically and decreased whenever it is likely they will not be used.

The income tax rate expected to be in force in the period in which the temporary differences will reverse is used in calculating deferred tax. If there is no reliable information about those rates, deferred taxes are calculated using the tax rate in place at each reporting date.

Deferred taxes are recorded as a cost or income for the year, except where they result from amounts recorded directly under shareholders’ equity, in which case deferred tax is also recorded under the same caption, ie, the amounts to be included in the current tax and in the deferred tax, resulting from transactions and events recognised in reserves, are recorded directly in these same headings, not affecting the net profit for the period.

Therefore, the impact of changes 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.

2.15 Inventories

Inventories are valued in accordance with the following criteria:

- **Goods and raw materials**

Goods and raw, subsidiary and consumable materials are valued at the lower of their purchase cost or their net realizable value. The purchase cost includes ancillary costs and it is determined using the weighted average cost as the valuation method.

The inventories held essentially refer to parts used in aircraft maintenance activities.

Material recovered internally is valued at cost.

- **Intermediate products and work in progress**

Intermediate products and work in progress are valued at the lower of their production cost (which includes incorporated raw materials, labour and general manufacturing costs, based on a normal production capacity level) or their net realizable value.

The net realizable value corresponds to the estimated selling price after deducting estimated completion and selling costs. The difference between production cost and net realizable value, if lower, are recorded as an operational cost in caption “Impairment of inventories”.

2.16 Trade and other receivables

Debtors’ balances and other current assets are initially recorded at fair value and are subsequently recognised at their amortized cost, net of impairment losses, in order to present those balances at their net realizable amount (Notes 18 e 21).

Impairment losses are recognised when there is objective evidence that the Group will not receive the full amount outstanding in accordance with the original conditions of the accounts receivable and despite of the credit risk management policies and tools.

2.17 Cash and cash equivalents

Cash and cash equivalents includes cash, bank accounts and other short-term investments with an initial maturity of up to 3 months which can be mobilized 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 " Borrowings”.

The Group records the cash and cash equivalents, whose repatriation is restricted, in the heading "Restricted cash" under current assets.

2.18 Share capital and own shares

Ordinary shares are classified in shareholders’ equity (Note 24).

Costs directly attributable to the issue of new shares or other equity instruments are reported as a deduction, net of taxes, from the proceeds of the issue.

Costs directly attributable to the issue of new shares or options for the acquisition of a new business are included in the acquisition cost as part of the purchase consideration.

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.

2.19 Borrowings

Borrowings are initially recognised at fair value, net of the transaction costs incurred and are subsequently stated at their amortized cost. Any difference between the amounts received (net of transaction costs) and the amount to be repaid is recognised in the income statement over the term of the debt, using the effective interest rate method.

Borrowings are classified as a current liability, except when the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the date of the statement of financial position (Note 27).

2.20 Borrowing Costs

Borrowing costs relating to loans are usually recognised as financial costs, in accordance with the accrual principle.

Financial costs on loans directly related to acquisition of the fixed assets, construction or production, are capitalized as part of the asset's cost. Capitalization of these charges begins once preparations are started for the construction or development of the asset and is suspended after its utilization begins or when the respective project is suspended.

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2.21 Provisions

Provisions are recognised whenever the Group has a present legal or constructive obligation, as a result of past events, in which it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions for current lawsuits are recorded in accordance with the risk assessments carried out by the Group and its legal advisors, based on historical success rates by nature of legal action and probability of unfavorable outcomes for the Group.

Provisions for future operating losses are not recognised. Provisions are reviewed on the date of the statement of financial position and are adjusted to reflect the best estimate at that date (Note 26).

2.22 Post-employment benefits

Some of the Group's companies have undertaken to make payments to their employees for complementary retirement pension, early retirement, health care and seniority bonuses.

As referred in Note 28, the Group set up autonomous Pension Funds as a means of funding most of the commitments for such payments.

The total liability of Post-employment benefits referred above is estimated, periodically, by a specialized and independent entity in accordance with the projected unit credit method.

Actuarial gains and losses resulting from differences between the assumptions used for purposes of calculating the liabilities and what effectively occurred (as well as from changes made thereto and from the difference between the expected amount of the return on the funds' assets and the actual return) are recognised when incurred directly in shareholders' equity.

The liability thus determined is stated in the statement of financial position, less the market value of the funds set up, as a liability, under the caption "Post-employment benefits".

Plans that have surplus funding are recorded as assets, when there is explicit authorization for their offsetting with future employer contributions, or if the reimbursement of this financial surplus is explicitly authorized or permitted.

Gains and losses generated on a curtailment or settlement of a defined benefit pension plan are recognised in the income statement when the curtailment or settlement occurs. A curtailment occurs when there is a material reduction in the number of employees or the plan is altered in such a way that the benefits awarded are reduced with a material impact.

Past service costs resulting from the implementation of a new plan, or increases in the benefits awarded are recognised immediately in situations where the benefits are to be paid or are past due.

Past-service costs that results from the implementation of a new plan or increases in the benefits attributed are recognised immediately in income statement.

For defined contribution plans, the Group pays contributions to pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

2.23 Suppliers and other payables

Current suppliers and other payables are, initially, recorded at their fair value and, subsequently, at amortized cost (Notes 30 and 31).

2.24 Government grants

Government grants are recognised when there is a reasonable assurance that the grant will be received and the group will comply with all required conditions.

Government grants related to operating costs are deferred and recognised in the income statement over the period that matches the costs with the compensating grants.

Government grants received to compensate capital expenditure are reported under “Other payables” and are recognised in the income statement during the useful life of the asset being financed, by deducting the value of its amortization.

2.25 Leases

Fixed assets acquired under leasing contracts, as well as the corresponding liabilities, are recorded using the finance method.

According to this method, the asset’s cost is recorded in Tangible fixed assets and the corresponding liability is recorded under liabilities as Borrowings, while the interest included in the instalments and the asset’s depreciation, calculated as described in Note 2.6, are recorded as costs in the consolidated income statement of the period to which they relate.

Leases under which a significant part of the risks and benefits of the property is assumed by the lessor, with the Group being the lessee, are classified as operating leases. Payments made under operating leases, net of any grant received by the lessee, are recorded in the income statement during the period of the lease.

2.26 Dividends distribution

The distribution of dividends to shareholders is recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the shareholders and up until the time of their payment.

2.27 Revenue and accrual basis

Income from sales is recognised in the consolidated income statement when the risks and benefits inherent in the ownership of the respective assets are transferred to the purchaser and the income can be reasonably quantified.

Revenue from the sale of passenger and cargo transport is recorded as a liability when the sale is made, under the heading "Liabilities from unused flight documents". 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. Periodically, the balance of “Liabilities from unused flight documents" 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.
or the "TAP Victoria" frequent flyer program, 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 favorable conditions, such as reduced fares. Based on the number of miles attributed and not used or expired at the end of each year, adjusted to the estimate of the miles to expire without use 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 consolidated income statement up to the point at which it is likely that the costs incurred are recoverable within the terms of the contract.

For purposes of the recognition of revenue of work in progress from maintenance contracts, Group recognizes only to the extent of contract costs incurred that it is probable will be recoverable. It should be noted that, generically, maintenance contracts periods are less than three months.

Contract costs are recognised as a cost in the year in which they occur. When it is likely that the total costs of the contract will exceed the total revenue, the expected loss is recognised as an expense.

The provisional invoicing of maintenance work in progress for third parties as at 31 December 2015 is recorded under the caption of Deferred revenue.

Revenue, namely from free shop segment, is shown net of value-added tax, returns, rebates and discounts and comprises the fair value of the consideration received or receivable for the sale of goods

Group companies record their costs and income according to the accrual basis of accounting, so that costs and income are recognised as they are generated, irrespective of the time at which they are paid or received.

The differences between the amounts received and paid and the respective costs and income are recognised as Deferred expenses and revenues, Other receivables and payables (Notes 18, 19 and 31)

2.28 Non-recurring items

Accordingly to paragraphs 85 and 86 of IAS 1, the non-recurring items recognised in the consolidated income statement reflect unusual expenses that should be presented in a separate line item, considering its magnitude and relevance to an understanding of the Group's operations and results.

2.29 Contingent assets and liabilities

Contingent liabilities in which the probability of an outflow of funds affecting future economic benefits is not likely, are not recognised in the consolidated financial statements, and are disclosed in the notes, unless the probability of the outflow of funds affecting future economic benefits is remote, in which case they are not disclosed. Provisions are recognised for liabilities which meet the conditions described in note 2.21.

Contingent assets are not recognised in the consolidated financial statements but are disclosed in the notes when it is probable that a future economic benefit will arise from them.

2.30 Consolidated statement of cash flow

Consolidated statement of cash flow is prepared in accordance IAS 7, through direct method.

Cash and cash equivalents includes cash, bank accounts and other short-term investments with an initial maturity of up to 3 months which can be mobilized immediately without any significant risk of fluctuations in value.

For the purpose 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 "Borrowings ", as well as "Restricted cash".

The cash flows are presented 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 post-employment benefit obligations.

The cash flow from investing 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.

The cash flow from financing activities includes, namely, the payments and receipts related to loans obtained, own shares acquisition and payment of dividends.

2.31 Subsequent events

Events after the date of the statement of financial position which provide additional information about the conditions prevailing at the date of the statement of financial position are reflected in the consolidated financial statements.

Subsequent events which provide information about conditions which occur after the date of the statement of financial position are disclosed in the notes to the consolidated financial statements, if material.

2.32 Important accounting estimates and judgments

The preparation of consolidated financial statements requires that the Group's management makes judgments and estimates that affect the amount of revenue, costs, assets, liabilities and disclosures at the date of the statement of financial position.

These estimates are influenced by the Group's management's judgments, based on: (i) the best information and knowledge of present events and in certain cases on the reports of independent experts; and (ii) the actions which the Group considers it may have to take in the future. However, on the future date on which the operations will be realized, the outcome could be quite different from those estimates.

The estimates and assumptions which present a significant risk of generating a material adjustment to the book value of assets and liabilities in the following financial period are presented below:

- **Impairment of goodwill**

The Group tests the goodwill carried in its statement of financial position for impairment losses annually, in accordance with the accounting policy described in Note 2.9. The recoverable amounts of the cash generating units are ascertained based on the calculation of their value-in-use. These calculations require the use of estimates.

The estimated value in use involves a high degree of judgement by the Board of Directors, regarding the determination of estimated cash flows, applicable discount rates and residual values.

- **Deferred tax**

The Group recognizes 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 recognizes 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 adjusted prospectively through income statement.

- **Post Post-employment benefits**

Liabilities relating to defined-benefit plans are calculated based on actuarial assumptions. Changes to those assumptions can have a material impact on the aforesaid liabilities.

The key assumptions for pension obligations are detailed in Note 28. The Group's policy is to periodically review the main demographic assumptions, when their impact on the consolidated financial statements is considered relevant.

- **Recognition of provisions and impairments**

The Group is involved in several lawsuits, for which, based on the opinion of its lawyers, a judgment is made in order to decide if it should be recorded a provision for those contingencies.

Impairment losses in trade receivables are booked essentially based on the analysis of the ageing of accounts receivable, the customers' risk profile and their financial situation.

Impairment losses in inventories are calculated based on criteria's that consider the nature, purpose of use, ageing and moving average stock levels.

- **Customer loyalty program**

The Group proceeds of defers the revenue, under the customer loyalty program "TAP Victoria", based on, at the fair value perceived by the customer.

The deferral of revenue related with the customer loyalty program "TAP Victoria", is based on the unit value of the mile perceived by the customer. Changes in the assumptions used by the Group in the calculation of this estimate may have a significant impact.

- ✈ **Useful life and residual value of tangible fixed assets**

The determination of the useful life of tangible fixed assets and their residual value, as well as the method of depreciation/amortization, is essential to estimate the amount of depreciation/amortization to be recorded in the consolidated income statement for each financial year.

These parameters are defined in accordance with the best judgement of the Board of Directors for the referred assets in question, also considering the practices adopted by peers.
See additionally Note 5.

- ✈ **Fair value of derivatives and other financial instruments**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

- ✈ **Venezuela rate exchange**

Following the strong deterioration of the Venezuelan economy, the successive devaluations of the local currency and the current limitation to the repatriation of capital controlled by local government entities, the Group has been periodically monitoring the timing of the repatriation of the amounts indicated and applicable rate exchange in order to obtain the best possible estimate as at 31 December 2015.

The future currency fluctuations and future capital repatriation policies are not under Group's control, thus a different completion may result in significant impacts in the future, which could affect the operating results and the Group's financial position.

See additionally Note 22.

3 – Financial risk management policies

Risk management is conducted at the strategic level by the Group and subject to ongoing monitoring by the management board. The defined guidelines and decisions adopted regarding risk management are key elements for the positioning of the Group in the face of external threats of the markets and the economic and financial environment. Given the multiplicity of scenarios and possible developments, the Group's risk management strategy incorporates elements of flexibility and discretion to allow adjustment in a timely basis to changes in the general context.

The Group's activities are exposed to a variety of financial risk factors, including the effects of market price changes, namely fuel price risk, currency risk, interest rate risk, as well as credit risk and liquidity risk.

The Group's risk management is driven and monitored by the Board of Directors and is executed by competent management areas of the Group, in particular, with regard to financial instruments risk management, including derivative fuel operations, interest and exchange rate, by the corporate finance department of TAP SA, following the guidelines and policies defined and disclosed as well as specific instructions issued.

✈ Market risk

The extent and geographical dispersion of air transport activity of the Group expose it, fundamentally, to international operators competition for market share in the various routes and market segments. The inherent risk in the Group's nuclear activity is subject to countless factors connected to the national and international economies, to exchange rate fluctuations in different currencies, and the offer of several competing airlines.

The development of the TAP Group activity in 2015 has highlighted once again the multiplicity of risk factors that are present in the air transport business, related with risks and conditions such as exchange, economic, financial and also political, legislative, tax, in every market and every country where the Group operates. Economic and exchange rate fluctuations, although moderate, may have significant impacts on large markets but profound changes in lower markets can also cause significant impacts and eventually decisive for the activity overall incomes or losses. The sovereign credit risk, associated to the financial situation of the countries where the Group operates is a factor to be taken into account, although always difficult to evaluate. The fluctuations on capital and currency markets and fluctuations on crude oil market prices and its derivatives are the major market and price risks to which the TAP Group is exposed.

✈ Fuel price risk

The several competition in the commercial aviation market, airlines are particularly subject to the impact of changes in international energy markets that determine their fuel costs. In the Group, this cost is the component with the highest weight in the operating expenses structure. On the other hand it is a cost component with extreme volatility and which is decisive for the exploration results, so as to the definition of pricing conditions and market policies, in each year. At the end of 2014 hedging operations were established amounting to more than a quarter of the estimated fuel consumption for 2015.

These operations were carried out especially in the end of 2014 to ensure some predictability for the beginning of 2015. Since energy markets declined in the end of 2014, hedging reserves were recorded corresponding to the market value of the respective operations. During 2015 were contracted additional operations amounting, globally, about 50% of the expected exposure. Given the further decline observed in the energy markets, the hedging process was suspended in the second half of 2015, so by the end of the year all hedging transactions have been extinguished and thus no negative value in hedging reserves in 2015.

The settlement of various transactions with derivatives in 2015 resulted in an additional fuel cost of some 100 million dollars in total fuel consumption of 1 million tonnes a year, corresponding to an additional cost of approximately $ 100 per ton. After several years with market prices average near $ 1,000 per tonne, at the end of 2015 the price stood at $ 350 per ton. Excluded supply costs not related to the energy market, the variation in market conditions corresponded to a cost variation of some 650 million dollars or 600 million euros at 2015 final exchange rate.

The Group had no open position of fuel price hedging for 2016 at the end of year 2015, so it can fully benefit from a possible scenario of maintenance of low prices.

As at 31 December 2015 a variation (positive or negative) of 10% in the jet fuel price, would result in an impact on the income statement of some 50 million Euros.

✈ Currency risk

The global foreign exchange exposure of the Group, in all markets where it is present, is significant due to the operation in more than 100 routes, on three continents, and with an important presence in Brazil in terms of air transport activity, in addition to involvement of the Group in Brazil industrial investment in the maintenance and engineering aircraft activities. To the inherent risks to currency markets fluctuations and to the policy decisions of the monetary authorities of countries with controlled exchange systems, joins the sovereign risks as the one that occurred in Venezuela due to its economic and financial collapse.

At the income level, the Group's currency risk resides to its exposure to the US dollar, the Brazilian real and to a several other currencies with significant potential impacts on the Group results as the Venezuelan bolivar, the Angolan kwanza, the British pound, the Swiss franc, amongst others.

The US dollar is the reference currency for rates in Brazil, in the United States and in Angola, representing, in 2015, 22%, 5.5% and 5% income, respectively. Considering that major markets with sales denominated in dollars represents a third of sales, these markets are directly or indirectly influenced by fluctuations in the US currency. Despite the pricing definition based in dollars in these markets, these markets are strongly influenced by the behaviour of the local currency and by competition of different operators, using the fluctuation of exchange rate as a weapon.

In 2015, despite an average dollar valuation of 17%, the average fares in euros fell by some 4% in Brazil, increased 10% in the US and decreased 1.5% in Angola, which is the combined result of the dollar and local currency fluctuation, in the case of Brazil and Angola, the economic conditions in these countries and of competition between air transport companies.

In the Brazilian market should be noted that currency risk resulting from the translation of balances denominated in Brazilian reals and may have significant impacts in the Group results each year.

Generally, has not been verified, in markets that do not use the euro as its currency, a direct relationship between currency fluctuations in the respective local currencies and average fare variation or income.

The Venezuelan market, subject to this country political and currency risk, was the cause of the main currency translation impact on the Group's operating results in 2015. This market represented, in previous years, around 4% of income. However, the decision of Group to suspend sales due to funds retention, determined by the authorities of that country, and the strong devaluation of its currency, led to residual sales in this market. On the other hand, the extreme economic and financial environment experienced during 2015 in Venezuela determined the recognition of a non-recurring foreign exchange loss in the amount of Euro 91 million euros representing almost all of the funds held in the market. On the year ended as at 31 December 2014 were recognised expenses related to the revaluation of the discount granted under the capital repatriation process in the amount of EUR 20.5 million.

At the costs level, the most relevant Group's currency exposure is to the US dollar. The cost of fuel is almost entirely denominated in that currency, except secondary components such as supply commercial margins and fees. The fuel market is always connected to the dollar and the cost of fuel in 2015 represented almost a quarter of all Group's costs in 2015.

Despite some inverse correlation between the jet fuel price and the dollar level, the dollar registers fluctuations that normally do not outweigh the impact of the jet fuel price. In addition to the dollar exposure, which results from fuel costs, there are other operating costs denominated in that currency, namely operational leases and maintenance of material equipment and added of different kind of exposure relating to the fleet acquisition and renewal, involving large investments in US dollars. There is also a part of Group's debt that is denominated in US dollars and amounted in 2015 to about 13% of the total.

At consolidated level, also the maintenance and engineering investment in the Brazilian subsidiary is a factor of currency exposure to the Brazilian real, through the value of that company goodwill which has impact on the Group's equity due to the respective currency fluctuations.

Taking into account the multiple factors that influence each other and the various correlations between markets, there is no direct calculation of the net foreign exchange exposure to the dollar on the Group's results. The exposure of assets and liabilities to the dollar represent significant values. The exchange balance is heavily dependent on the fuel markets and the respective fuel costs, on the Brazilian market behaviour and their reaction to price changes that result from the dollar fluctuation.

It has been the Group's policy not to perform hedging on dollar transactions because of varied correlations mentioned above and taking in consideration the relative size of the foreign exchange balance of the dollar against the overall size of the operation. In 2015 remained the option of not hedging the currency risk due to the significant reduction in the estimated balance of currency exposure through the strong reduction in the fuel price. The Brazilian real hedging also has not occurred because it is a market with limited liquidity and above all because it has high costs due to interest gap between the Brazilian currency and euro.

The Group's exposure to currency risk as at 31 December 2015 and 2014, based on its financial position, from financial assets and liabilities converted into euro at the exchange rates at the reporting date, is presented as follows:

	2015				
	USD	**BRL**	**VEF**	**OTHER**	**TOTAL**
ASSETS					
Cash and cash equivalents	3,814	616	-	48,689	53,119
Restricted cash (Note 22)	-	-	4,177	-	4,177
Trade receivables	30,385	78,412	-	14,638	123,435
Other receivables	72,319	27,979	2	512	100,812
	106,518	**107,007**	**4,179**	**63,839**	**281,543**
LIABILITIES					
Borrowing (Note 27)	124,829	13,665	-	-	138,494
Suppliers	12,414	23,503	-	7,882	43,799
Other payables	120,513	11,963	76	5,580	138,132
	257,756	**49,131**	**76**	**13,462**	**320,425**

	2014				
	USD	**BRL**	**VEF**	**OTHER**	**TOTAL**
ASSETS					
Cash and cash equivalents	3,189	1,052	-	36,467	40,708
Restricted cash (Note 22)	-	-	100,917	-	100,917
Trade receivables	28,383	64,838	118	18,844	112,183
Other receivables	44,092	36,488	35	778	81,393
	75,664	**102,378**	**101,070**	**56,089**	**335,201**
LIABILITIES					
Borrowing (Note 27)	123,673	9	-	-	123,682
Suppliers	11,835	16,030	2	7,471	35,338
Other payables	69,341	14,701	790	12,287	97,119
	204,849	**30,740**	**792**	**19,758**	**256,139**

As at 31 December 2015, a 10% variation (positive or negative) of all the exchange rates relative to the Euro, would have an impact in the income statement of some 4 million euros (2014: 8 million euros).

✈ Interest rate risk

The interest cost to which the Group is subject has been moderate over the years, both in periods of high market turbulence, as in periods of greater abundance of capital and financing. The weighted average interest rate of the Group has remained at moderate levels due to the selective management over financial operations and, when possible, its renegotiation.

The proportion of fixed interest rate in the total borrowings was 30% in 2015 against 44% in the last year. The majority of operations at fixed rate found themselves covered by the initial contracts or resulted from the exercise options in the course of the operations. In 2015 was on going a transaction of interest rate hedging on a finance lease. Taking into account the low level of Euribor rates, the proportion of variable rate borrowings is appropriate, contributing to the containment of financial expenses.

The Group's re-privatization in 2015 allowed the modification of the Group's debt maturity profile, with the negotiation of extension of several short-term loans to medium and long term, having the majority of the existent debt extended for 7 years with two years of grace period and thus repayments to the following 5 years. The non-current component of the Group's debt increased from 40% in 2014 to about 80% in 2015.

As at 31 December 2015 and 2014, financial liabilities with interest rate exposure, by type of interest rate, is as follows:

	2015				
	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	Total
Variable Rate					
Loans	21,190	118,659	152,819	172,774	465,442
Financial leases	47,873	34,047	33,193	-	115,113
	69,063	**152,706**	**186,012**	**172,774**	**580,555**
Fixed Rate					
Loans	86,943	55,260	22,291	-	164,494
Financial leases	42,791	93,398	60,929	-	197,118
	129,734	**148,658**	**83,220**	**-**	**361,612**
Total	**198,797**	**301,364**	**269,232**	**172,774**	**942,167**
% Fixed Rate	**65%**	**49%**	**31%**	**0%**	**38%**

	2014				
	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	Total
Variable Rate					
Loans	416,887	35,638	1,124	-	453,649
Financial leases	41,499	36,834	65,937	-	144,270
	458,386	**72,472**	**67,061**	**-**	**597,919**
Fixed Rate					
Loans	99,011	46,065	48,029	-	193,105
Financial leases	76,285	44,132	143,909	6,301	270,627
	175,296	**90,197**	**191,938**	**6,301**	**463,732**
Total	**633,682**	**162,669**	**258,999**	**6,301**	**1,061,651**
% Fixed Rate	**28%**	**55%**	**74%**	**100%**	**44%**

The TAP Group performs a sensitivity analysis in order to assess the impact in the income statement cause by and increase or decrease in market interest rates, considering all other variables constant. This is an illustrative analysis only, since changes in market rates rarely occur in isolation.

The sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect interest income and expenses arising from financial instruments subject to floating rates;
- Changes in market interest rates only lead to interest income and expenses regarding fixed rate instruments that are measured at their fair value.

Under these assumptions and considering also that: (i) the market interest rate for Euribor is 2% and for dollar Libor is 1.75%, (ii) the Eurodollar exchange rate for 2015 is 1.0887 (2014: 1.2141) and (iii) the intra-annual amortization is linear for purposes of future interest calculation (simplifying assumption), an increase or decrease of 0.5% in market interest rates, to all currencies in which the Group has loans would have an impact in the future interest expense of some approximately 10 million Euros (2014: 4 million euros).

Note 27 presents detailed information about the remunerated bank debt financing entity and respective interest rate.

- **Liquidity risk**

The Group's liquidity risk is, therefore, made up of a combination of factors that result from the operation, the existent debt and its repayment schedule, the negotiations conditions for new transactions, the intra-group liquidity, currency conversion gains or losses, and investment activities, when significant. The Group has to ensure, annually, the repayment of its debt, although properly planned and scheduled over time, has an impact on the Group´s treasury and has to be continuously evaluated in accordance with the events occurred during financial years. Any turbulence in financial markets, such as those that occurred during the sovereign debt crisis, or any market changes in terms of the Group current costs or revenues, restricts the treasury, liquidity, economic and financial balance and the prosperity of the Group.

The table below, which includes principal and interests payments, considers assumptions related to market interest rates and Eurodollar exchange, as follows: 2% to Euribor 1.75% to dollar libor and 1.0887 in eurodollar (2014: 1.2141 in Eurodollar). The financial liabilities reflect the amounts payable in each maturity, including the estimation of all contractual cash flows including principal and interest payments, not discounted, until borrowings maturity. It was considered a simplifying assumption of linear intra-annual amortisation rate for future interests calculation purposes:

	2015					
	< 6 months	6 months - 1 year	1 - 2 years	3 - 5 years	6 - 10 years	Total
Loans	82,450	58,499	202,947	241,542	173,470	758,908
Financial leases	57,364	44,954	134,998	98,178	-	335,494
Total	**139,814**	**103,453**	**337,945**	**339,720**	**173,470**	**1,094,402**

	2014					
	< 6 months	6 months - 1 year	1 - 2 years	3 - 5 years	6 - 10 years	Total
Loans	101,433	430,185	85,274	50,195	-	667,087
Financial leases	82,555	49,372	92,590	219,547	6,399	450,463
Total	**183,988**	**479,557**	**177,864**	**269,742**	**6,399**	**1,117,550**

In addition to short and long term financial management and cash management, also in the area of current asset management, the monitoring of customers' positions has been rigorous and the repercussions of the effects of the economic crisis on their credit quality. It was thus possible to restrict the increase, for example, of the adjustments to an insignificant level when compared to the activity as a whole.

✈ Credit Risk

The following table presents elements relative to the Group's assets as at 31 December 2015 and 2014, as well as other accounts receivable, which reflect the credit risk on those dates:

	2015	2014
Non-current assets		
Judicial deposits - Brazil (Note 18)	24,352	27,560
Other non-current assets	26,600	23,131
Current assets		
Cash and cash equivalents	136,814	140,364
Restricted cash	4,177	100,917
Trade receivables	138,130	146,991
Other current assets	64,196	69,806
	394,269	**508,769**

The Group's quality of credit risk and liquidity, as at 31 December 2015 and 2014, relative to financial assets (cash and cash equivalents and derivative financial instruments), whose counterparts are financial institutions, are detailed as follows:

Rating	2015	2014
AA-	9	104
A+	32	287
A	21,587	17,014
A-	769	4,714
BBB	4,371	-
BBB-	420	761
BBB+	217	151
BB	71	46,331
BB-	898	41,529
BB+	239	-
B+	47,207	2,092
B	4,588	-
CCC	27,329	-
Others	33,160	128,221
	140,897	**241,204**
Restricted cash (Note 22)	4,177	100,917
Bank deposits (Note 22)	136,720	140,287
	140,897	**241,204**

The caption "Other" refers to values related to various international institutions, for which it was not possible to obtain their rating.

As at 31 December 2015 and 2014, the balances receivable from customers showed the following age structure, considering the maturity date as reference:

	2015	2014
Outstanding values	122,180	67,910
1 to 90 days	19,355	24,851
91 to 180 days	4,300	18,592
181 to 270 days	529	20,153
271 to 365 days	2,994	22,996
over 366 days	63,564	65,331
	212,922	**219,833**
Impairments (Note 21)	(74,792)	(72,842)
Customers - Net value (Note 21)	**138,130**	**146,991**

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 impairment losses apart from those considered through the recognised impairment loss. The impairment loss recognised refers, essentially, to debts overdue for more than 366 days.

The balances of airline companies and travel agencies included in Trade receivables, as identified in Note 21, are settled, mainly, through the BSP and the IATA Clearing House system, which substantially reduces the credit risk of the TAP Group.

✈ Capital management

The Group's equity shows, synthetically, the evolution of the operating results of the several activities developed by the Group, as well as the accumulated impact of the consecutive transformations on assets and liabilities over time.

The Group's re-privatisation at the end of 2015 determined structural changes in Group liabilities and equity. The equity was strengthened immediately in the equivalent amount in euros of $ 150 million plus 15 million euros, amounting to 154 million euros of supplementary capital contributions, and current debt was converted into non-current.

It was also granted by several domestic and foreign lenders, the waiver to clauses that predicted the anticipated termination of the respective loans in the event of change of the shareholder structure that determines the loss of majority of the Group's share capital by the Portuguese State. In cases that creditors do not abdicated on early repayment prerogative of their loans, they were repayed in advance.

The Group's liabilities recorded an overall reduction of 8%, about € 170 million, mainly through the reduction of total debt of some 120 million euros. The Group's equity remained negative in more than 500 million, despite the favourable effect of supplementary capital, due to the net losses for the year of Euro 156 million. In addition to this impact also exchange differences relating to the maintenance and engineering unit in Brazil negatively affected the foreign currency translation reserves in the Group's equity. On the other hand, there was a reduction in the negative hedging reserves considering that they were extinguished throughout the year all existent contracted fuel hedging operations, both those that existed in 2014, and those carried out in 2015, not having any hedging operation contracted at reporting date for 2016.

The injection of funds corresponding to the equity reinforcement by way of the supplementary capital contributions was applied on the repayment of debt to financial institutions, so the Group's liquidity maintained the levels of prior year amounting 140 million Euros. The maintenance, at the same level, of the cash and cash equivalents amounts through the application of the capital contributions in the debt reduction, has determined a decrease on total assets, taking into account the unfavourable developments occurred in Venezuela and Brazil, with an impact on corresponding assets. Thus, it was reduced almost entirely the 014 balance of restricted cash, assuming the respective loss and there was a decrease in Maintenance and Engineering Brazil business unit goodwill, as a result of the devaluation of the Brazilian real.

Despite the maintenance of negative equity level in 2015, the Group's financial stability improved significantly at the end of 2015, taking into account the debt reduction, the substantial improvement of the debt maturity profile and also the maintenance of a liquidity level, which is considered essential to the Group's day-to-day operations.

The worldwide economic, financial and political environment indicate a high risks regarding the world economy growth, the robustness of the banking system in Europe and the global geopolitical stability that may have important effects on the global economy and, consequently, on the Groups' activity and profitability. However, the elimination of several unfavourable pending situations in 2015 and the beginning of the financial strengthening of the Group may create the conditions for a positive future performance.

4 - Employees

During 2015 and 2014, the average number of employees working for TAP SGPS and all its subsidiaries was 11,023 and 10,882, respectively.

	2015					
	Air Transport	Maintenance	Duty Free Shop	Catering	Other	Total
Portugal	5,053	1,881	451	501	736	8,622
Brazil	129	1,892	-	-	-	2,021
Other	375	5	-	-	-	380
	5,557	3,778	451	501	736	11,023

	2014					
	Air Transport	Maintenance	Duty Free Shop	Catering	Other	Total
Portugal	4,872	1,860	431	494	717	8,374
Brazil	128	1,987	-	-	-	2,115
Other	385	8	-	-	-	393
	5,385	3,855	431	494	717	10,882

5 - Tangible fixed assets

During the years ended 31 December 2015 and 2014, changes in tangible fixed assets, as well as the accumulated depreciation, were as follows:

	2015									
	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	Advances to suppliers of tangible assets	**Total**
Acquisition Cost										
Opening balance	41.916	349.154	2.093.064	5.662	33.009	67.322	23.689	3.332	17.167	**2.634.315**
Additions	-	-	9.513	90	565	697	7.606	5.637	32.700	**56.808**
Disposal	-	-	(164.566)	-	(10)	-	-	-	-	**(164.576)**
Other transfers / write-offs	(71)	(999)	(12.401)	(58)	54	(1.676)	(4.335)	(659)	-	**(20.145)**
Currency conversion differences	(171)	(1.074)	(3.773)	(23)	(2.713)	(974)	-	(632)	-	**(9.360)**
Closing balance	**41.674**	**347.081**	**1.921.837**	**5.671**	**30.905**	**65.369**	**26.960**	**7.678**	**49.867**	**2.497.042**
Accumulated Depreciation										
Opening balance	-	248.033	1.598.925	5.229	22.020	64.270	22.120	-	-	**1.960.597**
Depreciation for the year (Note 50)	-	5.748	53.454	168	998	1.339	728	-	-	**62.435**
Disposal	-	-	(143.580)	-	(5)	-	-	-	-	**(143.585)**
Other transfers / write-offs	-	(710)	(10.071)	(57)	(207)	(1.653)	(4.335)	-	-	**(17.033)**
Currency translation differences	-	(437)	(3.370)	(22)	(1.633)	(911)	-	-	-	**(6.373)**
Closing balance	**-**	**252.634**	**1.495.358**	**5.318**	**21.173**	**63.045**	**18.513**	**-**	**-**	**1.856.041**
Carrying Amount	**41.674**	**94.447**	**426.479**	**353**	**9.732**	**2.324**	**8.447**	**7.678**	**49.867**	**641.001**

	2014									
	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	Advances to suppliers of tangible assets	**Total**
Acquisition Cost										
Opening balance	41.916	348.686	2.105.309	5.539	31.760	66.487	23.624	5.916	6.898	**2.636.135**
Additions	-	453	15.096	314	1.146	1.330	257	773	10.269	**29.638**
Disposal	(8)	(31)	(1.864)	(17)	-	(5)	-	-	-	**(1.925)**
Other transfers / write-offs	-	(2)	(25.640)	(175)	(14)	(532)	(192)	(3.380)	-	**(29.935)**
Currency conversion differences	8	48	163	1	117	42	-	23	-	**402**
Closing balance	**41.916**	**349.154**	**2.093.064**	**5.662**	**33.009**	**67.322**	**23.689**	**3.332**	**17.167**	**2.634.315**
Accumulated Depreciation										
Opening balance	-	242.221	1.549.860	5.267	20.120	63.155	20.402	-	-	**1.901.025**
Depreciation for the year (Note 50)	-	5.821	73.559	153	1.892	1.615	1.968	-	-	**85.008**
Impairment losses	-	-	1.984	-	-	-	-	-	-	**1.984**
Disposals	-	(17)	(1.799)	(17)	-	(5)	-	-	-	**(1.838)**
Other transfers / write-offs	-	(1)	(24.796)	(175)	(13)	(528)	(250)	-	-	**(25.763)**
Currency translation differences	-	9	117	1	21	33	-	-	-	**181**
Closing balance	**-**	**248.033**	**1.598.925**	**5.229**	**22.020**	**64.270**	**22.120**	**-**	**-**	**1.960.597**
Carrying Amount	**41.916**	**101.121**	**494.139**	**433**	**10.989**	**3.052**	**1.569**	**3.332**	**17.167**	**673.718**

Until the end of 2013, the Group depreciated the Airbus air fleet over a useful life of 16 years, considering a residual value of 10%. Following the analysis undertaken by the Group, the technological developments and the increasing requirements regarding operating profitability in the air transport market, have resulted in significant changes to the estimated useful economic life.

In this regard, and in line with the evolution of the renewal strategy of the existing fleet combined with various external considerations, the Airbus aircrafts are depreciated over a period of 20 years with a residual value of 5%, since the beginning of 2014. The adjustment to the estimates of useful lives and residual values was recognised prospectively accordingly IAS 8.

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 additions of basic equipment in the amount of 9,513 thousand euros, essentially refers to: (i) spare parts in the amount of 9,513 thousand euros; (ii) a communication system project (FANS B+) related to fleet and aircraft equipment in the amount of 2 million euros; (iii) aircraft maintenance material in the amount of 1.4 million euros; and (iv) information technology equipment in the amount of 1 million euros.

- The additions of other tangible fixed assets, in the amount of 7,606 thousand euros, refers, mainly, to refurbishment carried out in Free Shop stores at the airports of Lisbon and Oporto.

- The increase in the heading “Advances to suppliers of tangible assets”, in the amount of 32,700 thousand euros, refers, essentially, to the payments made for future aircraft acquisition, in the amount of 27,271 thousand euros (Note 60).

- Moreover, the additions of other assets in progress, in the amount of 5,637 refers to consulting services provided in the process of negotiating purchase agreements for future aircraft acquisition (Note 60).

✈ Basic equipment disposals, in the amount of 20,986 thousand euros, refers, essentially, to the disposal of 6 aircraft A319, due to a sale and leaseback operation, which resulted in a gain of some 24,207 euros (Note 48).

✈ Transfers and write-offs of basic equipment refer, essentially, to the write-off of spare parts as scrap and other miscellaneous maintenance equipment.

As at 31 December 2015 and 2014, the heading "Basic equipment" is detailed as follows:

	2015			2014		
	Acquisition cost	Accumulated depreciation	Carrying amount	Acquisition cost	Accumulated depreciation	Carrying amount
Flight equipment						
Aircraft	380,141	(349,610)	30,531	368,391	(344,796)	23,595
Spare engines	24,369	(17,932)	6,437	21,348	(18,342)	3,006
Spare parts	118,109	(85,162)	32,947	118,924	(85,501)	33,423
	522,619	(452,704)	69,915	508,663	(448,639)	60,024
Flight equipment under financial leases						
Aircraft	1,284,858	(947,300)	337,558	1,444,614	(1,044,797)	399,817
Spare engines	-	-	-	6,867	(3,187)	3,680
	1,284,858	(947,300)	337,558	1,451,481	(1,047,984)	403,497
Machines and miscellaneous equipment	114,360	(95,354)	19,006	132,920	(102,302)	30,618
	1,921,837	**(1,495,358)**	**426,479**	**2,093,064**	**(1,598,925)**	**494,139**

As at 31 December 2015 and 2014, the Group's aircraft fleet is detailed as follows:

	2015				2014			
	Owned by TAP Group	**Finance leases**	**Operating leases**	**Total**	**Owned by TAP Group**	**Finance leases**	**Operating leases**	**Total**
Airbus A340	4	-	-	**4**	4	-	-	**4**
Airbus A330	-	11	3	**14**	-	11	3	**14**
Airbus A319	-	9	12	**21**	-	15	6	**21**
Airbus A320	-	5	14	**19**	-	5	14	**19**
Airbus A321	-	2	1	**3**	-	2	1	**3**
Fokker 100	-	6	-	**6**	-	6	-	**6**
Embraer 145	-	8	-	**8**	-	8	-	**8**
	4	**41**	**30**	**75**	**4**	**47**	**24**	**75**

Moreover, during the second half of 2014 and during 2015, the Group used two White aircraft (ATR 42-600), which are being operated by TAP S.A. under an ACMI (Aircraft, Crew, Maintenance and Insurance) agreement.

6 - Investment properties

As at 31 December 2015, "Investment properties" refers to: i) a property in Maputo (Mozambique); ii) two apartments in Sacavém, and iii) an apartment in Oporto which was transferred, in 2015, from the caption tangible fixed assets according to its undetermined use.

The movement occurred in this caption was as follows:

	2015	2014
Opening balance	2,139	3,864
Fair value adjustments - net gains and losses (Note 47)	(174)	104
Disposals	-	(1,829)
Transfers	251	-
Closing balance	**2,216**	**2,139**

During the year ended as at 31 December 2014, the building in Rio de Janeiro (Brazil) was sold for 2.8 million euros, which result in a gain of some 1 million euros (Note 48).

The fair value of the investment properties was determined by an independent expert with recognised professional qualifications, where the methods and significant assumptions applied in the determination of the fair value of the properties was 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 2015 and 2014, the movement was as follows:

	2015		
	Opening balance	**Currency translation differences**	**Closing balance**
Air Transport	63,099	-	63,099
Maintenance and Engineering Brazil	130,380	(43,688)	86,692
	193,479	**(43,688)**	**149,791**

	2014		
	Opening balance	**Currency translation differences**	**Closing balance**
Air Transport	63,099	-	63,099
Maintenance and Engineering Brazil	129,940	440	130,380
	193,039	**440**	**193,479**

The negative amount of 43,688 thousand euros refers to the currency translation differences of the goodwill of Maintenance and Engineering Brazil, which is denominated in Brazilian reais in the amount of 373,791,337 reais (124,880,960 reais at 31 December 2014).

It should be noted that, from the amount recorded in the current year, approximately 14 million euros are related to prior years, due to the fact that foreign currency translation reserves have been properly recorded in year ended on 31 December 2015, at the level of functional currency of the operations acquired in Brazil and not at the level of the acquired legal entity. This amount is considered to be insignificant in the context of the financial position of TAP Group.

Accordingly to IAS 36, goodwill is subject to impairment tests carried out on an annual basis, as described in the accounting policy (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:

	2015		
	Air Transport	**Maintenance**	**Total**
Portugal	63,099	-	63,099
Brazil	-	86,692	86,692
	63,099	**86,692**	**149,791**

	2014		
	Air Transport	**Maintenance**	**Total**
Portugal	63,099	-	63,099
Brazil	-	130,380	130,380
	63,099	**130,380**	**193,479**

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, considering the budget for the following year and an estimation of cash flows for the subsequent 4 years.

For the Maintenance and Engineering Brazil business unit, was considered a budget for the following year and an estimation of cash flows for the subsequent period of 7 years which incorporated, namely, the recovery of the existent tax losses.

As a result of the impairment tests conducted to the different CGUs, no impairment losses on goodwill were identified.

The main assumptions used for the purposes of impairment tests were the following:

31 December 2015	Portugal	Brazil
Discount rate*	8.9%	16.5%
CAGR of revenue**	4.1%	15.2%
Perpetuity growth	2.0%	5.0%
Tax rate	25.5%	34.0%

31 December 2014	Portugal	Brazil
Discount rate*	8.9%	14.5%
CAGR of revenue**	2.6%	14.7%
Perpetuity growth	2.0%	5.0%
Tax rate	25.0%	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 2015 sustain the recoverability of the book value of the referred cash-generating units. As at 31 December 2015, the book value of the air transport unit stands at 181,271 thousand euros, and the book value of the maintenance unit in Brazil is negative by 191,710 thousand euros.

8 -

Other intangible assets

During 2015 and 2014, changes in Other intangible assets were as follows:

	Industrial property and other rights	Computer programmes	Assets in progress	Total
Acquisition cost				
Balance as at 1 January 2014	**11,952**	**2,382**	**25**	**14,359**
Additions	-	395	-	395
Adjustments, transfers and w rite-offs	-	6	(25)	(19)
Currency translation differences	-	(3)	-	(3)
Balance as at 31 December 2014	**11,952**	**2,780**	**-**	**14,732**
Acquisitions	-	75	5	80
Currency conversion differences	-	(30)	-	(30)
Balance as at 31 December 2015	**11,952**	**2,825**	**5**	**14,782**
Accumulated amort. and impairment losses				
Balance as at 1 January 2014	**(11,716)**	**(1,869)**	**-**	**(13,585)**
Amortisations and impairment losses (Note 50)	(236)	(193)	-	(429)
Adjustments, transfers and w rite-offs	-	19	-	19
Currency translation differences	-	1	-	1
Balance as at 31 December 2014	**(11,952)**	**(2,042)**	**-**	**(13,994)**
Amortisations and impairment losses (Note 50)	-	(262)	-	(262)
Currency translation differences	-	8	-	8
Balance as at 31 December 2015	**(11,952)**	**(2,296)**	**-**	**(14,248)**
Carrying amount as at 31 December 2014	**-**	**738**	**-**	**738**
Carryng amount as at 31 December 2015	**-**	**529**	**5**	**534**

10 – Investment in associates

As at 31 December 2015 and 2014, the investment in SPdH is reduced to zero, and the liabilities imputable to the Group are recorded under provisions (see "Provisions for financial investments" in Note 26).

13 - Other financial assets

As at 31 December 2015 and 2014, other financial non-current assets are detailed as follows:

	2015	2014
Bank deposits in Guinea Bissau	1,838	1,672
SITA Group Foundation	648	648
Bank deposits in Mozambique	-	577
Salvor Hotéis Moçambique loan	255	700
Other	212	211
Impairment losses	(1,853)	(1,686)
	1,100	**2,122**

During 2014, the existent cash and cash equivalents at “Banco Internacional da Guiné Bissau” were considered as non-recoverable following the dissolution and liquidation of this institution, and thus impairment loss for the total amount was recognised (Note 44).

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. In 2010, TAP S.A. received 3,250 thousand dollars, and was signed an agreement for the repayment of the remaining balance and a promissory note for the outstanding amount. The entire impairment booked at that date was thus reversed.

The value presented for the SITA Group Foundation refers essentially to 519,778 certificates (unlisted securities) of that company, which was founded by Société International de Télécommunications Aéronautiques.

The movement which occurred in this heading during 2015 and 2014 was as follows:

	2015	2014
Opening balance	2,122	2,220
Increases	-	741
Decreases	(1,128)	(253)
Currency translation differences	98	158
Impairment loss (Note 44)	-	(741)
Other movements	8	(3)
Closing balance	**1,100**	**2,122**

15 - Deferred tax assets and liabilities

As mentioned in Note 2.14, the Group recorded deferred taxes related to the temporary differences between 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 recognised in the consolidated statement of financial position are recoverable, both through their use in reducing future taxable profits, based on the net income of “TAP S.A.” budgeted for 2016 on net income projections for subsequent years, adjusted by differences between the accounting and tax results, and through the reversal of deferred tax liabilities.

As at 31 December 2015 and 2014 the tax rate used to calculate the deferred tax assets relating to tax losses carried forward was 21%. In the case of temporary differences, the rate used was 27.5% increased to a maximum of 5% of state surcharge, when it was deemed that the taxation of temporary differences in the estimated period of application of the aforesaid rate was probable.

Tax benefits are considered at 100%, whereas, in some cases, their full acceptance is still dependent on the approval of the authorities granting these tax benefits. The deferred taxes arising from tax benefits are recorded when they have been approved by the authorities granting these tax benefits.

The main temporary differences between accounting and taxable amounts as at 31 December 2015 and 2014, the corresponding deferred tax assets and liabilities and the respective effect on the results for 2015 and 2014 are as follows:

	2015			
	Opening balance	Effect in results (Note 52)	Effect in comprehensive income	Closing balance
Deferred tax assets				
Tax losses carried forward	8,572	29,478	-	38,050
Employee benefits obligations	14,155	(1,032)	812	13,935
Impairment losses in inventories	8,052	103	-	8,155
Impairment losses in fixed assets	506	-	-	506
Impairment losses of accounts receivable	6,336	1,145	-	7,481
Derivative financial instruments (Note 24)	13,931	-	(13,645)	286
Tax benfits	1,387	(870)	-	517
Other provisions and adjustments not accepted for tax purposes	471	84	-	555
	53,410	**28,908**	**(12,833)**	**69,485**
Deferred tax liabilities				
Revaluation of tangible fixed assets	21,035	(998)	-	20,037
	21,035	**(998)**	**-**	**20,037**
		29,906	**(12,833)**	

	2014			
	Opening balance	Effect in results (Note 52)	Effect in comprehensive income	Closing balance
Deferred tax assets				
Tax losses carried forward	5,218	3,354	-	8,572
Employee benefits obligations	13,486	(1,764)	2,433	14,155
Impairment losses in inventories	8,489	(437)	-	8,052
Impairment losses in fixed assets	-	506	-	506
Impairment losses of accounts receivable	3,112	3,224	-	6,336
Derivative financial instruments (Note 24)	456	-	13,475	13,931
Tax benfits	740	647	-	1,387
Other provisions and adjustments not accepted for tax purposes	507	(36)	-	471
	32,008	**5,494**	**15,908**	**53,410**
Deferred tax liabilities				
Derivative financial instruments	2,357	-	(2,357)	-
Revaluation of tangible fixed assets	23,464	(2,429)	-	21,035
	25,821	**(2,429)**	**(2,357)**	**21,035**
		7,923	**18,265**	

✈ Tax losses carried forward

Under the terms of current tax legislation in Portugal, tax losses generated up to 2009, from 2010 to 2011, from 2012 to 2013 and as of 2014 can be carried forward for a period of six, four, five and twelve years, respectively, after their occurrence and may thus be deducted to 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 the following years.

In Brazil, tax losses have not a limited period for its deduction. However, the deduction is limited to 30% of taxable profit for the following years.

The Group considers that, as at 31 December 2015, tax losses carried forward of TAP S.A. are recoverable, through their use in the reduction of future taxable profit, and therefore recorded the corresponding deferred tax assets.

The tax losses carried forward as at 31 December 2015 and used in 2015 are detailed as follows:

01 January 2015	**2009**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
TAP SGPS	1,454	2,691	2,923	-	2,480	n/a	**9,548**
TAP S.A.	-	-	-	-	40,338	n/a	**40,338**
Portugália	-	-	-	-	-	n/a	**-**
UCS	-	-	258	95	-	n/a	**353**
TAP M&E Brazil	-	-	19,869	15,842	40,756	n/a	**76,467**
	1,454	**2,691**	**23,050**	**15,937**	**83,574**	**n/a**	**126,706**

Use of tax losses carried forward in 2015	**2009**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
TAP SGPS	-	-	-	-	-	n/a	**-**
TAP S.A.	-	-	-	-	-	n/a	**-**
Portugália	-	-	-	-	-	n/a	**-**
UCS	-	-	-	-	-	n/a	**-**
TAP M&E Brazil	-	-	-	-	-	n/a	**-**
	-	**-**	**-**	**-**	**-**	**n/a**	**-**

31 December 2015	**2009**	**2011**	**2012**	**2013**	**2014**	**2015 Provisório**	**Total**
TAP SGPS	n/a	n/a	2,923	-	2,480	3,168	**8,571**
TAP S.A.	n/a	n/a	-	-	40,338	140,851	**181,189**
Portugália	n/a	n/a	-	-	-	33	**33**
UCS	n/a	n/a	258	95	-	44	**397**
TAP M&E Brazil	-	-	19,869	15,842	40,756	7,529	**83,996**
	n/a	**n/a**	**23,050**	**15,937**	**83,574**	**151,625**	**274,186**
Limit for deduction (in Portugal)	**2015**	**2015**	**2017**	**2018**	**2026**	**2027**	

16 - Advances to suppliers

The advances to suppliers as at 31 December 2015 and 2014 refer to the following entities:

	2015	**2014**
Sr Technics Switzerland, Ltd.	689	-
SITA	615	551
Recaro Aircraft Seating Gmbh	250	-
QuickTurn, S.A.	-	1,426
Others	2,990	4,768
	4,544	**6,745**

17 - State and other public entities

The balances with the State and other public entities are detailed as follows:

	2015	2014
Current assets		
Income tax receivable	4,268	-
Other	13,159	13,878
	17,427	**13,878**
Current liabilities		
Income tax payable	2,580	1,822
Other	19,888	20,199
	22,468	**22,021**

The amounts relative to 2015 and 2014 are detailed as follows:

	2015		2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**
State - Grants receivable:				
Compensation	1,354	-	3,399	-
State and Other Public Entities:				
IRC (corporate income tax)	4,268	2,580	-	1,822
IRS (personal income tax)	-	8,802	2	8,689
VAT (value added tax)	7,840	366	6,501	271
Social Security	-	9,611	-	9,552
State - Brazil	3,918	810	3,955	1,400
Other	47	299	21	287
	17,427	**22,468**	**13,878**	**22,021**

As at 31 December 2015 and 2014, the value recorded under the heading "Compensation" includes the part of the fare subsidised by the Portuguese State for the routes of the Autonomous Region of the Azores until 29 March 2015, in the total amount of 450 thousand euros and 1,505 thousand euros, respectively. These values correspond to tickets sold by “TAP S.A.” which may be used on “TAP S.A.” or other airline flights. This caption also includes receivable amount from the Portuguese State of 904 thousand euros and 1,894 thousand euros, respectively, relative to flights between the islands of the Autonomous Region of the Azores.

The figures for the second semester of 2014 and the year of 2015 have not yet been verified and audited by the Portuguese Authorities or approved by the Government. However, no significant corrections to the values recorded by the Group are expected.

The Group recognizes, annually, under the caption Sales and services rendered, Grants receivable from the Portuguese State which reimbursement the fare of the ticket for passengers to or from the Azores, since passengers are covered by the applicable legal regime. The amount recognised each year corresponds to the Group’s estimation for the amount receivable for tickets flown by those passengers. It should be noted that, due to liberalization of Azores airspace, with effect from 29 March 2015 on the responsibility of reimbursement request was transferred to the passengers.

As at 31 December 2015, the VAT receivable refers, essentially, to reimbursement requests, which have not yet been received, relative to the months of November and December 2015.

Decree-Law nº 258/98 of 17 August repealed the tax exemptions from which “TAP S.A.” had benefited, and which had been established based on XII attached to Decree-Law nº 39.188 of 25 April 1953 and on Decree-Law nº 39.673 of 22 May 1954, nº 41.000 of 12 February 1957 and nº 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 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 2015 and 2014.

18 - Other receivables

As at 31 December 2015 and 2014, Other receivables is detailed as follows:

	2015		2014	
	Current	**Non-current**	**Current**	**Non-current**
Related parties (Note 56)	106	4,700	3,305	4,700
Personnel	12,159	-	12,216	-
Accrued income	14,405	-	10,405	-
Other	37,570	47,073	41,615	45,790
Impairment losses of accounts receivable	(4,588)	(1,921)	(4,480)	(1,921)
	59,652	**49,852**	**63,061**	**48,569**

✈ Related parties - non-current

The caption "Related parties - non-current", in the amount of 4,700 thousand euros, refers to the supplementary capital contribution granted to SPdH (Notes 26 and 56).

✈ Accrued income

As at 31 December 2015 and 2014, the amount recorded under the caption "Accrued income" is detailed as follows:

	2015		2014	
	Current	Non-current	Current	Non-current
Work for aviation companies	7,289	-	1,682	-
Advertising	4,173	-	2,004	-
Sale of miles to partners	1,889	-	5,450	-
Other	1,054	-	1,269	-
	14,405	**-**	**10,405**	**-**

✈ Other – non-current

As at 31 December 2015 and 2014, the amount recorded under the caption "Other - non-current" corresponds to:

	2015	2014
Judicial deposits - Brazil	24,352	27,560
Security deposits (Note 27)	12,954	9,237
SITA - Société Internationale de Télécommunic	335	337
Other	9,432	8,656
	47,073	**45,790**

The caption “Judicial deposits – Brazil” refers to security deposits related to several labour, fiscal and civil legal processes in which TAP M&E Brasil is involved (Note 26).

The security deposits are constituted by “TAP S.A.” under the operating lease contracts for aircraft and engines, and will be returned, without interests, when the aircraft and engines are returned to their lessors.

✈ Other - current

As at 31 December 2015 and 2014, the amount recorded under the caption "Other - current" corresponds to:

	2015	2014
Interline and other invoicing	11,439	12,252
Receivables from suppliers	7,132	9,166
Debtors - Brazil	3,315	5,645
VAT of Representations	3,265	2,216
Pasogal SGPS, S.A. (Note 37)	3,000	3,000
Deposits and guarantees	955	792
Debtors - Italy	595	888
Other	7,869	7,656
	37,570	**41,615**

The caption "Other", in the amount of 7,869 thousand euros, includes 637 thousand euros relative to the financing surplus (2014: 583 thousand euros), recorded as at 31 December 2015, of the "Horizonte Valorização" Pension Fund of the subsidiary UCS. This financing surplus is reimbursable under the terms of the law and/or exemption from future contributions (Note 28).

✈ Impairment losses on other accounts receivable

The movement which occurred in this caption during 2015 and 2014 is as follows:

Opening balance as at 1 January 2014	**6,352**
Increases (Note 44)	255
Reversals (Note 44)	(176)
Utilisation	(30)
Closing balance as at 31 December 2014	**6,401**
Increases (Note 44)	143
Reversals (Note 44)	(33)
Utilisation	(2)
Closing balance as at 31 December 2015	**6,509**

19 – Deferrals

As at 31 December 2015 and 2014, the caption "Deferrals" is detailed as follows:

	2015	2014
Deferred costs	13,272	17,094
	13,272	**17,094**

	2015	2014
Deferred incomes	64,129	67,717
	64,129	**67,717**

The amount recorded under the caption "Deferred costs", as at 31 December 2015 and 2014, is detailed as follows:

	2015	2014
Aircraft and engine leasings	4,866	3,360
Hire and rental charges	2,953	3,639
Commissions	1,906	3,514
Insurance	1,659	1,932
Equipment maintenance	316	294
Travel vouchers	-	2,688
Other deferred costs	1,572	1,667
	13,272	**17,094**

Commissions refer to the values paid to agents for tickets sold but which have not yet been used and have not expired until 31 December 2015 and 2014.

The travel vouchers are related to the vouchers assigned to passengers in the form of compensation for the irregularities occurred during 2014 and which have been used or have expired in 2015.

The caption "Deferred income", as at 31 December 2015 and 2014, is detailed as follows:

	2015	2014
Customer loyalty programme	41,995	30,766
Work for aviation companies	20,686	36,194
Advertising	341	347
Other	1,107	410
	64,129	**67,717**

Under the application of IFRIC 13 - Customer loyalty programme, 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 2.27). The increase of this liability arises from de combined effect of increasing use of the program by passengers and fair value per mile update.

The amount of 20,686 thousand euros (2014: 36,194 thousand euros), recorded under the caption "Maintenance work for airline companies", refers to advanced billing of maintenance work for third parties that was in progress as at 31 December 2015.

20 - Inventories

On 31 December 2015 and 2014, the detail of the inventories is as follows:

	2015	2014
Goods (Note 40)	16,719	15,112
Work in progress (Note 38)	5,545	14,173
Raw , subsidiary and consumable materials (Note 40)	108,125	117,319
Inventory impairment losses	(44,355)	(49,432)
	86,034	**97,172**

The caption "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, subsidiary and consumables materials refer, essentially, to technical material used in aircraft maintenance services for the Group's fleet and the third parties.

The movement of Inventory impairment losses in 2014 and 2015 is as follows:

Opening balance as at 1 January 2014	**49.198**
Increases (Note 43)	2.035
Reversals (Note 43)	(1.930)
Utilisation	(47)
Currency conversion differences	176
Closing balance as at 31 December 2014	**49.432**
Increases (Note 43)	591
Reversals (Note 43)	(739)
Utilisation	(58)
Currency conversion differences	(4.871)
Closing balance as at 31 December 2015	**44.355**

The currency translation differences verified in 2015 and 2014 arises from the conversion of the Brazilian subsidiary financial statements.

21 – Trade receivables

As at 31 December 2015 and 2014, the caption "Trade receivables" is detailed as follows:

	2015	2014
Trade receivables - current account	173,215	180,870
Trade receivables - doubtful accounts	39,707	38,963
Impairment of trade receivables	(74,792)	(72,842)
	138,130	**146,991**

The detail of this heading by type of customer is as follows:

	2015	2014
Private entities	59,554	41,631
Travel agencies	48,076	62,195
Airline companies	21,855	28,437
Related parties (Note 56)	1,157	1,599
Other	7,488	13,129
	138,130	**146,991**

The trade receivable from travel agencies and airline companies are primarily settled through IATA Billing and Settlement Plan (BSP) and IATA Clearing House (ICH).

The movement of "Impairment of trade receivables" in 2015 and 2014 is as follows:

Opening balance as at 1 January 2014	**59,860**
Increases (Note 44)	15,650
Reversals (Note 44)	(2,426)
Utilisation	(199)
Currency translation differences	(43)
Closing balance as at 31 December 2014	**72,842**
Increases (Note 44)	6,925
Reversals (Note 44)	(1,363)
Utilisation	(510)
Currency translation differences	(3,102)
Closing balance as at 31 December 2015	**74,792**

22 - Cash and cash equivalents

As at 31 December 2015 and 2014, cash and cash equivalents is detailed as follow:

	2015	2014
Term deposits	69,085	95,535
Bank deposits available on demand	67,635	44,752
Cash	94	77
Cash and cash equivalent in the statement of financial position	**136,814**	**140,364**
Restricted cash	**4,177**	**100,917**
Bank overdrafts (Note 27)	**-**	**(7,283)**
Cash and cash equivalents in the cash flow statement	**140,991**	**233,998**

The amount of cash presented by the Group primarily arises from the cash of “TAP S.A.”, in the amount of 134,822 thousand euros (2014: 225,932 thousand euros).

Surplus liquidity is normally invested in short term financial investments, earning interest at normal market rates.

Restricted cash

During the year ended on 31 December 2014 the Group classified the cash and cash equivalents, in Venezuelan bolivars, arising from the sales of airline tickets in Venezuela, between May 2013 and May 2014, under the caption "Restricted cash".

As at 31 December 2014, the Group presented in restricted cash the amount of 101 million euros, detailed as follows:

- 74 million euros, relating to the sales of May 2013 to December 2013, valued at the exchange rate of 6.3 VEF/USD (CENCOEX);

- 3 million euros, relating to the sales of May 2013 to December 2013, valued at the exchange rate of 50 VEF/USD, which represents the official exchange rate of SICAD II; and

- 24 million euros, relating to the sales of January to May 2014 deducted from local expenses, valued at the exchange rate of 12 VEF/USD, which represents the official exchange rate of SICAD I.

Despite the TAP Group attempts on the referred funds repatriation during 2015 TAP Group verified the existence of new data and unfavourable indicators to the repatriation of funds held in Venezuela, such as:

- More than one year has passed without any transfer of funds being authorized by the Venezuelan authorities despite the several payment promises given by different political representatives of that country to TAP Group;
- The sharp deterioration of Venezuela economic environment and consequently significant increase of its country-risk;
- The unsuccessful negotiation from IATA and from several Governments of the aviation companies that operate in Venezuela.
- The pressure perpetrated, fundamentally the second semester of 2015 onwards, by several local suppliers in order to: (i) demand the use of the SIMADI exchange rate for the payment of invoices denominated in US dollars; (ii) increase the price of invoices denominated in Venezuelan bolivars to a rate equivalent to the use of such exchange rate and (iii) charge, in dollars, invoices that traditionally were paid in Venezuelan bolivars, restricting significantly the TAP Group ability to spend locally the funds retained at the exchange rate correspondent to the one applied at the time of sale.

In this context, accompanying its peers, the Board of Directors understands that the best estimate for the exchange rate of restricted cash in Venezuela is SIMADI rate, which represented the recognition of a negative exchange variation in the amount of 91 million Euros in 2015 (Note 54). For the period ended as at 31

December, 2014, there were recognised expenses relating with the revaluation of discount conceded, regarding the repatriation of funds, in the amount of 20.5 million euros.

Despite regular motorization undertaken by the Group, should be noted that future currency fluctuations and future capital repatriation policies are not under Group's control, thus a different completion may result in significant impacts in the future, which could affect the operating results and the Group's financial position.

It is also important to note that the existing cash and cash equivalents in Angola, as at 31 December, 2015, amounting to 27,691 thousand euros, are currently facing repatriation difficulties. In this regard, a current credit line was negotiated with a financial institution, limited to 20 million euros, that makes available to the Group the amounts retained in Angola. The bank deposits stands as collateral of the referred loan obtained. Additionally, the referred cash will be used in the payment of local expenses.

24 - Equity

The nominal share capital of the Group, in the amount of 15,000 thousand euros is represented by 1,500,000 nominal shares of 10 euros each, and is fully underwritten and paid-up. Following the re-privatization process of TAP Group, on November 12th 2015, 915,000 nominal shares, representative of 61% of share capital of TAP SGPS, were transferred to Atlantic Gateway, and Parpública remains with 39% of share capital of TAP SGPS.

✈ Supplementary Capital Contributions

Following the Shareholders General Meeting resolution on 12 November 2015, the shareholder Atlantic Gateway proceeded to a cash entry, fully realized, in the amount of 154,353 thousands euros of supplementary capital contributions, in two phases, one of 15,000 thousand euros and another of 150,000 thousand dollars. These supplementary capital contributions are non-remunerated, do not have a defined maturity date and may not be reimbursed before a period of 30 years. If any reimbursement occurs after such period the respective deliberation has to be approved by, at least, 76% of the General Meeting members with voting rights.

✈ Legal reserves

The legal reserve was constituted in accordance with article 295 of the Commercial Companies Code, which establishes that, at least, 5% of annual net profit must be transferred to legal reserves until it reaches 20% of the company share capital. This reserve cannot be distributed, except in the 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 2015 and 2014, the legal reserve was fully constituted in accordance with the commercial legislation in force.

✈ Foreign currency translation reserves

Foreign currency translation reserves arising from the conversion of operating units denominated in foreign currency are recorded in equity, under this caption:

	2015			
	Opening balance	Increases	Decreases	Closing balance
TAP M&E Brasil and Aeropar:				
Currency translation of financial statements and goodwill	71,028	46,109	-	117,137
Extension of the net investment in TAP M&E Brasil	(90,531)	-	(97,012)	(187,543)
	(19,503)	**46,109**	**(97,012)**	**(70,406)**

	2014			
	Opening balance	Increases	Decreases	Closing balance
TAP M&E Brasil and Aeropar:				
Currency translation of financial statements and goodwill	73,103	-	(2,075)	71,028
Extension of the net investment in TAP M&E Brasil	(93,248)	2,717	-	(90,531)
	(20,145)	**2,717**	**(2,075)**	**(19,503)**

The increase of 46,109 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, with a positive impact of 89,797 thousand euros and its respective goodwill with a negative impact of 43,688 thousand euros (Note 7).

The decrease of 97,012 thousand euros, which occurred in 2015, refers to negative currency conversion differences arising from the medium and long term loans granted to TAP M&E Brasil, whose settlement is unlikely to occur in a predictable future, and is, in substance, an extension of the Group's net investment in this foreign operation.

✈ Hedge reserves

The negative amount of 752 thousand euros (2014: negative amount of 36,727 thousand euros) presented under the captions "Hedge reserves" corresponds to the fair value of the financial instruments classified as hedging accounting of the subsidiary TAP, S.A. recorded in accordance with the policy described in Note 2.12., net of tax, in the amount of 286 thousand euros (2014: 13,931 thousand euros) (Note 15).

As at 31 December 2015 and 2014, the derivative financial instruments fair value is detailed as follows:

	2015	2014
Interest rate swaps (Notes 31 and 58)	(1,038)	(1,492)
Jet fuel swaps (Notes 31 and 58)	-	(49,166)
	(1,038)	**(50,658)**

The interest rate and jet fuel derivative financial instruments in portfolio, classified as hedging instruments presented the following evolution, during the financial years ended on 31 December 2015 and 2014:

	Assets	Liabilities	
	Current	Current	Non-current
Fair value as at 1 January 2014	**7,988**	**-**	**(1,546)**
Acquisitions during the year - payment/(receipt)	-	18,560	-
Payment/(receipt) of swaps during the year	-	9,831	613
Receipt/(payment) of swaps retained through profit or loss	-	(28,391)	(613)
Increase/(decrease) of fair value reflected in equity	(7,988)	(49,166)	54
Fair value as at 31 December 2014	**-**	**(49,166)**	**(1,492)**
Acquisitions during the year - payment/(receipt)	-	35,241	-
Payment/(receipt) of swaps during the year	-	52,272	549
Receipt/(payment) of swaps retained through profit or loss	-	(87,513)	(549)
Increase/(decrease) of fair value reflected in equity	-	49,166	454
Fair value as at 31 December 2015	**-**	**-**	**(1,038)**

✈ Retained earnings

The caption "Retained earnings" corresponds to the net losses of previous years, as deliberated at the General Meetings. The impact that resulted from the first-time adoption of the International Financial Reporting Standards (IFRS) were also recorded under this caption, as well as gains or losses from the remeasurements of post-employment benefits, net of tax.

✈ Results per share

There are no convertible financial instruments relative to “TAP SGPS” shares hence there is no dilution of results.

	2015	2014
Earnings/(losses) attributable to TAP SGPS shareholders	(156,042)	(85,096)
Weighted average number of shares	1,500,000	1,500,000
Basic earnings/(losses) per share (value in euros)	(104)	(57)
Diluted earnings/(losses) per share (value in euros)	(104)	(57)

25 - Non-controlling interests

The non-controlling interests recorded in the statement of financial position are detailed as follows:

	%	2015	2014
Non-controlling interests of equity			
TAP M&E Brasil	1.36%	(3,785)	-
Cateringpor	49%	3,210	3,293
LFP	49%	5,382	4,642
		4,807	**7,935**

26 - Provisions

During 2015 and 2014, changes in provisions were as follows:

2015	Opening balance	Increases	Utilisation	Reversal	Currency translation differences	Other movements	Closing balance
Provisions							
Provision for legal claims (Note 45)	23,094	5,124	-	(5,494)	(3,174)	953	**20,503**
Provision for financial investments (Note 37)	4,059	-	-	(1,067)	-	71	**3,063**
Other provisions (Note 45)	2,570	253	-	(61)	(289)	87	**2,560**
	29,723	**5,377**	**-**	**(6,622)**	**(3,463)**	**1,111**	**26,126**

2014	Opening balance	Increases	Utilisation	Reversal	Currency translation differences	Other movements	Closing balance
Provisions							
Provision for legal claims (Note 45)	16,766	9,378	-	(3,626)	(100)	676	**23,094**
Provision for financial investments (Note 37)	5,235	-	-	(1,611)	-	435	**4,059**
Other provisions (Note 45)	3,286	203	(15)	(249)	15	(670)	**2,570**
	25,287	**9,581**	**(15)**	**(5,486)**	**(85)**	**441**	**29,723**

In 2015 and 2014, resulted gains of 178 thousand euros and losses of 5,706 thousand euros, respectively, recorded under the caption "Provisions" (Note 45).

✈ Provision for legal claims

Provisions for legal claims are recognised in accordance with the Group's and its legal advisors risk assessments, based on historical success rates by type of legal action and probability of unfavourable outcomes for the Group. As at 31 December 2015, the existent provision, in the amount of 20,503 thousand euros, aims to cover the risk of several lawsuits filed against the Group, in Portugal and foreign countries.

The detail of the provision for legal claims is as follows:

	2015	2014
Group (without the subsidiary TAP M&E Brasil)	11,121	10,779
Subsidiary TAP M&E Brasil	9,382	12,315
	20,503	**23,094**

As at 31 December 2015, the subsidiary TAP M&E Brasil faced about 1,900 labour claims (2,071 claims as at 31 December 2014). The subsidiary is a joint debtor of the labour liabilities related to the migration of employees from VARIG to TAP M&E Brasil 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.

These labour claims can be divided into 4 categories: (i) union claims; (ii) claims filed by pilots; (iii) claims filed by former employees of VARIG against it and the Group, demanding the succession of the employment status and (iv) claims filed by service providers requesting the acknowledgement of the Group's liability for any recognised labour debts.

✈ **Provision for financial investments**

In 2015, the Group appropriated gains from the associate SPdH in the amount of 1,067 thousand euros, which were recorded under the caption of "Gains and losses in associates" (Note 37). Moreover, the caption "Other movements", in the amount of 71 thousand euros, corresponds to the appropriation of the losses arising from the remeasurement of post-employment benefits of SPdH, which were recorded in the Group's retained earnings.

In March 2009, a consortium of three banks (BIG, Banif and Banco Invest) transferred the participation in SPdH (50.1%) to "TAP S.A." for 31.6 million euros. On the same date and during the period in which the concentration process was pending at the Competition Authority, "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 process adopted a decision of prohibition relative to the concentration operation, which consisted in the acquisition of the exclusive control of SPdH, by "TAP S.A.", 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 disposal 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 agreement was concluded between “TAP S.A.”, “TAP SGPS” and Portugália and between SPdH and Urbanos Grupo, SGPS, S.A. for the acquisition of 50.1% of the share capital of SPdH, which take effect from 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. in all rights and obligations that resulted from the agreement referred above and the shareholders' agreement.

SPdH operating licenses to provide handling services to third parties, at Lisbon and Oporto airports, in categories 3 (baggage handling), 4 (cargo and mail handling) and 5 (runway operations handling) of reserved access expired on 31 December 2011.

Portuguese Civil Aviation Institute ("INAC") had still not 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 Oporto airports, in which SPdH was an opponent. Decree-Law nº 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 handling service provider in the aforesaid reserved categories at Lisbon and Oporto airports, held by SPdH as at 31 December 2011, until the time when the ground handling service providers begin their activity, after being selected under the public tenders in progress.

Based on evolution of handling market in Portugal, it was announced the Order nº 14.886-A/2013, of 14 November, of the State Secretary for Infrastructure, Transport and Communications. These developments, consistent with the rationale behind the legislative proposals in discussion at the European Union institutions, highlighted the need to introduce a higher level of competition in handling services in order to reduce the costs of airline companies and, therefore, the prices charged to passengers.

The referred Order allowed the increase of the number of handling services providers, from two to three, in the categories 3, 4 and 5 at Lisbon, Porto and Faro airports, subject to some conditions compliance related to the annual traffic and load volume.

ANAC considered that fundamental assumptions that were on the basis for the international public tenders for Lisboa, Oporto and Faro have changed. Following this, ANAC decided on the tenders cancellation and consequent revocation of the decision to hire, based on paragraph d) of number 1 of Article 79 and on number 1 of Article 80 of Public Procurement Law ("Código dos Contratos Públicos").

Following the above mentioned facts, Decree-Law nº 57/2014, of 11 April, was published, which amended article 4 of Decree-Law nº 19/2012, of 27 January. The article now states that the current licenses granting access to the activity of ground handling services in Lisbon, Oporto and Faro airports can be extended until

31 May 2015 or until the date on which the ground handling service providers, to be selected, begin their activity in the mentioned categories and airport infrastructures, whichever is earlier.

Portuguese Civil Aviation Authority ("ANAC"), former "INAC", has issued, at 21 May 2015, a new access licence that extends the validity of the activity license for Lisbon, Oporto, Funchal and Porto Santo, initially issued with effects on 1 January 2005.

Thus, the operating licenses were extended regarding reserved categories 3, 4 and 5, for Lisbon and Oporto airports, until the selection of handling services providers within the scope of international public tenders limited by pre-qualification.

Regarding the operating licenses in the non-reservation categories services, the number 1 of article 14 of Decree-Law nº 275/99, of 23 July, deliberated its extension until the expiration of the related licenses under the public domain. In this way, the airport public domain usage licenses for Lisbon and Oporto regarding the categories of non-reservation services, initially issued with an extension of seven years, from 1 January 2005 to 31 December 2011, were extended for successive 2-year periods, from 1 January 2012 to 31 December 2013 and from 1 January 2014 to 31 December 2015. Further, these licenses will be renewed for a period of seven years (with effect since 1 January 2016 up to 31 December 2022).

Concerning Madeira and Porto Santo airport usage license, initially issued with a maturity of seven years, from 1 January 2005 to 31 December 2011, those were extended for a period of five years, from 1 January 2012 up to 31 December 2016.

It should be noted that if SPdH is not selected as the handling service provider for third parties in future international public tenders launched by ANAC, Pasogal SGPS, S.A. will have the right to dissolve the aforesaid purchase and sale agreement.

As at 31 December 2015 and 2014, the financial information relative to the associate SPdH is as follows:

	2015				
	Total assets	Total equity	Total liabilities	Sales and services rendered	Net income for the year
SPdH	**25,444**	**5,187**	**20,257**	**108,048**	**4,906**

	2014				
	Total assets	Total equity	Total liabilities	Sales and services rendered	Net income for the year
SPdH	**25,368**	**281**	**25,087**	**106,757**	**2,356**

✈ Other provisions

This caption is detailed as follows:

	2015	2014
Subsidiary TAP M&E Brasil:		
Provision for tax contingencies	693	815
Provisions for civil contingencies	422	284
Remaining subsidiaries:		
Other provisions	1,445	1,471
	2,560	**2,570**

Provision for tax and civil contingencies

The subsidiary TAP M&E Brasil is currently involved in tax proceedings, both in the administrative and judicial sphere, which, when applicable, are guaranteed by judicial deposits and/or pledging of assets.

In 2009 the subsidiary TAP M&E Brasil joined the Tax Recovery Programme, called REFIS, through which it defined an installment plan of all its federal contingencies with sucess probability classified as remote, compensating part of the interest and contingency fines with deferred rent tax and social security contributions, over the total tax losses carried forward and negative social security contribution base ("CSLL"), having reduced its debt by Euro 49,448 thousand.

On 9 July 2014, Provisional Measure nº 651/2014 (MP 651, converted into Law 13.043/14) was enacted which, among other issues, permitted the taxpayer to pay tax debts in advance, once the installment plan was agreed, with the use of own credits from tax losses carried forward and negative calculation base of CSLL.

In this sense, TAP M&E Brasil, following the legal recommendation of the respective lawyer on the legal conditions required to benefit from the measures regulated by article 33 of the Provisional Measure, decided that criteria were met. Consequently, the Company paid 30% of the debt in the amount of Reais 71,234 thousand and settled the rest with the tax credits arising from tax losses and from a negative social security contribution base in the amount of Reais 166,214 thousand (Euro 51,594 thousand). This gain was recognised in the caption of "Other operational income" (Note 48), taking into consideration that the same is essentially due to social security contributions that were recorded in operating costs.

In addition, due to the accounting criteria adopted, the subsidiary requested a legal opinion on the tax treatment relative to the effects arising from the settlement of REFIS based on the tax credits arising from tax losses and from a negative social security contribution base. It is thus observed that it is a change in the form of use of an existing right, and thus no new right was created, regardless of its accounting classification. In this sense, the operating gain resulting from the compensation of the subdivision was not subject to corporate income tax, social integration programme (“PIS”) and contribution to the financing of social security ("COFINS").

The movement in the provision for tax and civil contingencies was as follows:

Balance as at 1 de January 2014	**1,588**
Provision increase/decrease	167
Currency translation differences	15
Other movements	(671)
Balancete as at 31 December 2014	**1,099**
Provision increase/decrease	252
Reversal by revised estimate	(34)
Currency translation differences	(289)
Other movements	87
Balancete as at 31 December 2015	**1,115**

27 - Borrowings

Borrowings are detailed as follows:

	2015		2014	
	Current	**Non-Current**	**Current**	**Non-Current**
Bank loans	108,133	521,803	508,615	130,856
Leasing liabilities	90,664	221,567	117,784	297,113
Bank overdrafts (Note 22)	-	-	7,283	-
	198,797	**743,370**	**633,682**	**427,969**

✈ Net debt

As at 31 December 2015 and 2014, net debt is detailed as follows:

	2015	2014
Borrowings		
Non-current	743,370	427,969
Current	198,797	633,682
	942,167	**1,061,651**
Cash and cash equivalents (Note 22)		
Cash	94	77
Bank deposits available on demand	67,635	44,752
Term deposits	69,085	95,535
	136,814	**140,364**
Net debt	**805,353**	**921,287**

✈ Bank loans

As at 31 December 2015 and 2014, the current and non-current bank loans are detailed as follows:

	2015	2014	Reference Rate
Non-current			
TAP SGPS			
BCP Bank Loan	1,827	1,827	Euribor 3m
TAP S.A.			
CGD Bank Loan	121,462	-	Euribor 6 m
BIC Bank Loan	79,951	-	Euribor 3 m
Deutsche Bank Loan	77,551	94,095	Fixed rate
BCP Bank Loan	74,009	-	Euribor 3 m
Novo Banco Bank Loan	66,738	-	Euribor 3 m
Montepio Geral Bank Loan	39,490	-	Euribor 3 m
BPI Bank Loan	24,942	-	Euribor 6 m
Santander Bank Loan	19,974	-	Euribor 12 m
Banco Popular Bank Loan	15,859	-	Euribor 6 m
Tagus – Sociedade de Titularização de Créditos, S.A.	-	34,934	Euribor 3m
	521,803	**130,856**	
Current			
TAP SGPS			
BCP Bank Loan	14	672	Euribor 3m
Deutsche Bank Loan	-	53,914	Fixed rate
TAP S.A.			
Deutsche Bank Loan	73,280	45,097	Fixed rate
BIC credit line	18,373	10,380	Libor 6m
Revenue anticipation - Brazil	13,663	-	Fixed rate
Novo Banco Bank Loan	371	-	Euribor 3 m
CGD Bank Loan	209	-	Euribor 6 m
Montepio Geral Bank Loan	133	-	Euribor 3 m
BCP Bank Loan	124	-	Euribor 3 m
Banco Popular Bank Loan	49	-	Euribor 6 m
BPI Bank Loan	17	-	Euribor 6 m
BIC credit line	-	75,713	Euribor 3m
BCP credit line	-	50,215	Euribor 1m
CGD credit line	-	50,198	Euribor 6m
CGD credit line	-	40,009	Euribor 3m
Novo Banco mutual loan	-	40,032	Euribor 3m
Tagus – Sociedade de Titularização de Créditos, S.A.	-	32,959	Euribor 3m
CGD mutual loan	-	33,033	Euribor 6m
Commercial paper	-	20,134	Euribor 1a
Novo Banco credit line	-	20,218	Euribor 3m
Banco Popular credit line	-	16,024	Euribor 3m
Novo Banco overdrafts	-	7,283	Euribor 3m
Santander mutual loan	-	20,017	Euribor 3m
LFP S.A.			
BPI Bank Loan	1,900	-	Euribor 3m
	108,133	**515,898**	
Bank debt	**629,936**	**646,754**	

In the context of re-privatization process, accordingly to the Direct Sale Agreement complemented with the Debt Service Agreement on Economic and Financial Stability of TAP Group, referred in Note 1, on 12 November 2015 TAP SA bank debt was restructured, being the main changes related to the maturity of the loans.

The amount of 34,934 thousand euros and 32,959 thousand euros, recorded as at 31 December 2014 under non-current and current bank loans, 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. During December 2015, this debt was fully repaid.

The remunerated bank loans, by maturity and type of interest rate, as at 31 December 2015 and 2014, is detailed as follows:

Maturity	2015	2014
Up to 1 year	108,133	515,898
1 to 2 years	173,919	81,703
2 to 3 years	7,354	48,769
3 to 4 years	83,007	384
4 to 5 years	84,749	-
Over 5 years	172,774	-
	629,936	**646,754**

Type of interest rate	2015	2014
Variable rate		
Up to 1 year	21,190	416,887
1 to 2 years	118,659	35,638
2 to 3 years	-	740
Over 3 years	325,593	384
	465,442	**453,649**
Fixed rate		
Up to 1 year	86,943	99,011
1 to 2 years	55,260	46,065
2 to 3 years	7,354	48,029
Over 3 years	14,937	-
	164,494	**193,105**
	629,936	**646,754**

The detail of the bank loans, by functional currency, as at 31 December 2015 and 2014 is as follows:

	2015		2014	
	Values in foreign currency	Values in Euros	Values in foreign currency	Values in Euros
Euros (EUR)	-	597,900	-	636,374
American Dollars (USD)	20,000	18,373	12,602	10,380
Brazilian Real (BRL)	58,911	13,663	-	-
	78,911	**629,936**	**12,602**	**646,754**

The chapter related to interest rate risk (Note 3) presents the bank loans liabilities and interest expense estimative until the loans maturity.

✈ Financial leases

The Group records the assets acquired under financial leases as tangible fixed assets. As at 31 December 2015 and 2014, the Group had commitments arising from financial leases liabilities as described in Note 5, with the corresponding principal being included in the statement of financial position under the caption "Borrowings", as follows:

	2015	2014
Financial leases debt		
Basic equipment	312,148	414,770
Other tangible fixed assets	83	127
	312,231	**414,897**
Future payments of principal		
Up to 1 year	90,664	117,784
1 to 5 years	221,567	290,812
Over 5 years	-	6,301
	312,231	**414,897**

Financial leases, by functional currency, are detailed as follows:

	2015	2014
Financial leases in EUR	205,773	301,595
Financial leases in USD (Note 3)	106,456	113,293
Financial leases in BRL (Note 3)	2	9
	312,231	**414,897**

The financial leases liabilities, by maturity and type of interest rate, as at 31 December 2015 and 2014, are detailed as follows:

Maturity	**2015**	**2014**
Up to 1 year	90,664	117,784
1 to 2 years	127,445	80,966
2 to 3 years	52,046	130,646
3 to 4 years	31,447	50,462
4 to 5 years	10,629	28,738
Over 5 years	-	6,301
	312,231	**414,897**

Type of interest rate	**2015**	**2014**
Variable rate		
Up to in 1 year	47,873	41,499
1 to 2 years	34,047	36,834
2 to 3 years	27,030	40,082
Over 3 years	6,163	25,855
	115,113	**144,270**
Fixed rate		
Up to in 1 year	42,791	76,285
1 to 2 years	93,398	44,132
2 to 3 years	25,016	90,564
Over 3 years	35,913	59,646
	197,118	**270,627**
	312,231	**414,897**

The chapter related to interest rate risk (Note 3) presents the financial leases liabilities and interest expense estimative until the leases maturity.

Some borrowings have real guarantees, namely financial leases, loan from BIC and the receivable anticipation from air transport operation in Brazil.

✈ Operating leases

As referred to in Note 2.25., these liabilities are not recorded in the Group's statement of financial position. Group's operating leases contracts have different periods which may reach up to 7 years, which may be extended through the explicit consent of the contracting parties.

As at 31 December 2015, thirty aircraft (Note 5) and four engines were under operating lease contracts.

As at 31 December 2015 and 2014, the financial commitments assumed by the subsidiary "TAP S.A." relative to operating lease contracts for aircraft and engines reached the total of 342,014 thousand euros (366,639 thousand USD) and 310,001 thousand euros (387,501 thousand USD), respectively (Note 60).

The payment schedule for the operating lease agreements are detailed as follows:

	2015	2014
Up to 1 year	85,276	65,610
1 to 2 years	76,960	64,054
2 to 3 years	67,240	56,835
3 to 4 years	52,476	48,534
Over 4 years	60,062	74,968
	342,014	**310,001**

These contracts require security deposits which, as at 31 December 2015 and 2014, reached a total of 12,954 thousand euros and 9,237 thousand euros, respectively (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 leases, operating duties relative to registrations at official entities, information relative to leased aircraft, strict compliance with all the regulations, and procedures defined by the authorities, amongst others.

Additionally, in the context of the bank debt restructure referred above, some commitments were assumed regarding the follow up of the Group's financial performance, through the analysis and accomplishment of certain ratios related to equity, EBITDAR and unsecured financial net debt. These ratios have as main objective to follow up the Group's financial situation and its capability to repay the debt.

28 – Post-employment benefits obligations

The Group has responsibility for post-employment benefits payments to employees who have retired, due to their age, taken early retirement or are still active.

GRUPO TAP

✈ 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 Banco Português de Investimento ("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 Brasil

From 1 January 2002 onwards, the subsidiary TAP M&E Brasil 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 Brasil 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 Brasil 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 caption "Post-employment benefits obligations”.

✈ 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 effectively 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, describing 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 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. In addition, "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 December 2015 and 2014, prepared by independent entities, individually for each company, using the projected unit credit method and essentially based on the following financial and demographic assumptions:

	2015		2014	
	Portugal	**Brazil**	**Portugal**	**Brazil**
Mortality table	TV 88/90	AT2000	TV 88/90	AT2000
Invalidity table	EKV1980	IAPB-57	EKV1980	IAPB-57
Discount rate	2.50%	13.15%	2.50%	12.25%
Fund yield rate	2.50%	13.15%	2.50%	12.25%
Growth rate				
Wages	1.50%	6.56%	1.50%	6.56%
Pensions	1.00%	5.50%	1.00%	5.50%
Trend of medical costs	1.50%	--	1.50%	--

The net liabilities evolution for past services, as at 31 December 2015 and 2014 is detailed as follows:

	2015	2014
Liabilities for past services at the beginning of the year	**56,626**	**47,593**
Net interest	2,043	2,382
Cost of current services	3,622	3,533
Pensions fund contributions	(5,218)	(6,808)
Remeasurements	2,732	14,222
Exchange rate changes in the plans measured in a different currency	(1,636)	(243)
Benefits paid	(3,901)	(4,053)
Liabilities for past services at the end of the year	**54,268**	**56,626**

Liabilities for 2015 and 2014 are detailed as follows:

	2015								
	VIVA Pensions	Before 1997	Active	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Liabilities from past services									
- Active employees	324	-	1,841	-	58,921	-	-	9	61,095
- Early retirement	83	-	456	45	-	-	51,319	-	51,903
- Retired	9,951	37,197	-	2,957	-	15,859	-	-	65,964
Market value of the funds	(16,792)	-	-	-	(44,527)	(15,641)	(47,725)	(646)	(125,331)
Deficit / (surplus)	**(6,434)**	**37,197**	**2,297**	**3,002**	**14,394**	**218**	**3,594**	**(637)**	**53,631**

	2014								
	VIVA Pensions	Before 1997	Active	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Liabilities from past services									
- Active employees	646	-	1,782	-	51,203	-	-	37	53,668
- Early retirement	129	-	476	87	-	-	9,065	-	9,757
- Retired	10,536	39,836	-	3,116	-	15,767	58,475	-	127,730
Market value of the funds	(16,954)	-	-	-	(39,595)	(15,549)	(62,394)	(620)	(135,112)
Deficit / (surplus)	**(5,643)**	**39,836**	**2,258**	**3,203**	**11,608**	**218**	**5,146**	**(583)**	**56,043**

The surplus financing of the Horizonte Valorização Pension Fund of the subsidiary UCS, in the amount of 637 thousand euros, is recorded under the caption "Other receivable" (2014: 583 thousand euros) (Note 18).

The liabilities between 2011 and 2013 are detailed as follows:

	2013								
	VIVA Pensions	Before 1997	Active	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**

	2012								
	VIVA Pensions	Before 1997	Active	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**

	2011							
	VIVA Pensions	Before 1997	Active	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**

According to the actuarial study carried out by an independent entity, the best estimate of contributions to the pension benefit plans, for the following financial year, is 6,667 thousand euros for the subsidiary “TAP S.A.” and 2,111 thousand euros for the subsidiary TAP M&E Brasil.

As at 31 December 2015 and 2014, the defined benefit plans of the Group in Portugal (excluding the Representation in England and Brazil) covered 2,271 and 2,364 active beneficiaries, respectively. The total number of retired former employees entitled to a supplementary retirement pension, as at 31 December 2015 and 2014, was 839 and 875 beneficiaries, respectively.

As at 31 December 2015, the average maturity of the liabilities related to the defined benefit plan for the VIVA open pension fund is 10.8 years (2014: 12 years), for the Seniority Bonus plan it is 13 years (2014: 13.7 years).

Sensitivity analysis

✈ 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, Seniority Bonus scheme and Horizonte Valorização Pension Fund, 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 2015:

	Rate	VIVA* Pensions	Seniority Bonus	Horizonte Valorização Pension Fund
Annual discount rate of pensions	2.50%	49,852	58,921	9
0.25% increase in the discount rate	2.75%	48,775	56,728	9
0.25% decrease in the discount rate	2.25%	50,972	61,224	9

* includes "VIVA Pensions"; "Before 1997" and "Active"

	Rate	Brazil
Annual discount rate of pensions	13.15%	51,319
1.1% increase in the discount rate	14.25%	47,263
0.9% decrease in the discount rate	12.25%	56,118

✈ Rate of growth 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 2015 and 2014 is as follows:

	Rate	2015	2014
Annual growth rate of medical costs	1.50%	3,002	3,203
1% increase in the growth rate of medical costs	2.50%	3,262	3,490
1% decrease in the growth rate of medical costs	0.50%	2,773	2,951

Evolution of liabilities from past services

The movement of the liabilities from past services, reflected in the consolidated statement of financial position, as at 31 December 2015 and 2014, is as follows:

2015	VIVA Pensions	Before 1997	Active	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Liabilities at the beginning of the year	11,311	39,836	2,258	3,203	51,203	15,767	67,540	37	191,155
Currency translation difference	-	-	-	-	-	-	(17,584)	-	(17,584)
Values recorded through profit or loss for the year:									
Current services	57	-	-	-	3,344	-	221	12	3,634
Net interest	283	996	57	80	1,369	92	7,076	1	9,954
Remeasurements	(733)	266	(18)	(281)	3,922	-	(1,995)	(41)	1,120
Benefits paid	(560)	(3,901)	-	-	(917)	-	(3,939)	-	(9,317)
	10,358	**37,197**	**2,297**	**3,002**	**58,921**	**15,859**	**51,319**	**9**	**178,962**

2014	VIVA Pensions	Before 1997	Active	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Liabilities at the beginning of the year	11,762	38,569	3,368	3,114	39,334	16,180	60,460	5	172,792
Currency translation difference	-	-	-	-	-	1,007	(1,015)	-	(8)
Values recorded through profit or loss for the year:									
Current services	159	-	-	-	3,149	-	225	3	3,536
Net interest	442	964	609	59	1,111	719	9,006	-	12,910
Remeasurements	(252)	4,522	(1,719)	30	8,965	(1,704)	3,521	29	13,392
Benefits paid	(800)	(4,219)	-	-	(1,356)	(435)	(4,657)	-	(11,467)
	11,311	**39,836**	**2,258**	**3,203**	**51,203**	**15,767**	**67,540**	**37**	**191,155**

Evolution of funds allocated to pensions benefit schemes

In 2015 and 2014 the fund assets evolution was as follows:

2015	VIVA Pensions	Seniority bonus	England Representation	Brazil	UCS	Total
Opening balance	16.954	39.595	15.549	62.394	620	135.112
Exchange rate variation	-	-	-	(15.948)	-	(15.948)
Contributions in the year	-	4.656	92	470	-	5.218
Net interest	399	990	-	6.521	26	7.936
Remeasurements	-	202	-	(1.773)	-	(1.571)
Benefits paid	(561)	(916)	-	(3.939)	-	(5.416)
	16.792	**44.527**	**15.641**	**47.725**	**646**	**125.331**

2014	VIVA Pensions	Seniority bonus	England Representation	Brazil	UCS	Total
Opening balance	16.443	35.218	14.948	58.585	587	125.781
Exchange rate variation	-	-	1.052	(817)	-	235
Contributions in the year	-	4.656	544	1.608	-	6.808
Net interest	1.311	880	(560)	8.897	33	10.561
Remeasurements	-	197	-	(1.056)	-	(859)
Benefits paid	(800)	(1.356)	(435)	(4.823)	-	(7.414)
	16.954	**39.595**	**15.549**	**62.394**	**620**	**135.112**

The composition of the funds and its category as at 31 December 2015 and 2014 is as follows:

	2015						
	Fair Value Level	VIVA Pensions	Seniority Bonus	England Representation	Brazil	UCS	Total
Shares	1	4,921	-	9,906	6,204	169	21,200
Bonds	1	4,861	43,659	4,245	41,521	435	94,721
Public debt	1	4,965	-	-	-	-	4,965
Real estate	1	586	347	-	-	25	958
Liquidity	1	1,459	521	-	-	17	1,997
Other current investments	1	-	-	1,490	-	-	1,490
		16,792	**44,527**	**15,641**	**47,725**	**646**	**125,331**

	2014						
	Fair Value Level	VIVA Pensions	Seniority Bonus	England Representation	Brazil	UCS	Total
Shares	1	4,461	-	9,848	8,111	153	22,573
Bonds	1	5,525	35,256	4,221	54,283	403	99,688
Public debt	1	5,098	-	-	-	-	5,098
Real estate	1	769	261	-	-	17	1,047
Liquidity	1	1,101	4,078	-	-	47	5,226
Other current investments	1	-	-	1,480	-	-	1,480
		16,954	**39,595**	**15,549**	**62,394**	**620**	**135,112**

Expenses related to pensions and other post-employment benefits

The expenses relative to pensions and other post-employment benefits are detailed as follows:

	2015								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Current Services	58	-	-	-	3,343	-	221	12	3,634
Net interest	(116)	996	57	80	379	92	555	(25)	2,018
	(58)	**996**	**57**	**80**	**3,722**	**92**	**776**	**(13)**	**5,652**

	2014								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Current Services	159	-	-	-	3,149	-	225	3	3,536
Net interest	(869)	964	609	59	231	1,279	109	(33)	2,349
	(710)	**964**	**609**	**59**	**3,380**	**1,279**	**334**	**(30)**	**5,885**

As previously mentioned, the pilots of “TAP S.A.”, admitted after 1 June 2007, and the pilots of Portugália, benefit from a defined contribution plan. During 2015, a cost was recognised in the heading “Employee costs - expenses related to post-employment benefits" in the amount of 1,739 thousand euros (2014: 1,476 thousand euros), relative to the contributions made during the year in favour of its employees.

The expenses relative to pensions and other post-employment benefits for 2015 and 2014 are recorded under the caption "Employee costs" (Note 42).

Remeasurement gains/losses

The remeasurement gains/losses related to post-employment benefit plans are detailed as follows:

	2015								
	VIVA Pensions	Before 1997	Active	Medical acts	Seniority Bonus	England Representation	Brazil	UCS	Total
Remeasurements									
Return of assets, excluding amounts included in net income	-	-	-	-	(202)	-	1,773	-	1,571
	-	**-**	**-**	**-**	**(202)**	-	1,773	-	**1,571**
(Gains)/losses due to changes in demographic assumptions	-	-	-	-	(211)	-	141	-	(70)
(Gains)/losses due to changes in financial assumptions	-	-	-		-	-	(4,454)		(4,454)
(Gains)/losses due to experience	(733)	266	(18)	(281)	4,133	-	2,318	(41)	5,644
	(733)	**266**	**(18)**	**(281)**	**3,922**	**-**	**(1,995)**	**(41)**	**1,120**
Total remeasurements	**(733)**	**266**	**(18)**	**(281)**	**3,720**	**-**	**(222)**	**(41)**	**2,691**

	2014								
	VIVA Pensions	Before 1997	Active	Medical acts	Seniority Bonus	England Representation	Brazil	UCS	Total
Remeasurements									
Return of assets, excluding amounts included in net income	-	-	-	-	(197)	-	1,056	-	859
	-	**-**	**-**	**-**	**(197)**	**-**	**1,056**	**-**	**859**
(Gains)/losses due to changes in demographic assumptions	-	-	-	-	1,068	(1,686)	-	-	(618)
(Gains)/losses due to changes in financial assumptions	1,298	6,766	(2,572)	304	7,897	-	995	1	14,689
(Gains)/losses due to experience	(1,550)	(2,244)	853	(274)	-	(18)	2,526	28	(679)
	(252)	**4,522**	**(1,719)**	**30**	**8,965**	**(1,704)**	**3,521**	**29**	**13,392**
Total remeasurements	**(252)**	**4,522**	**(1,719)**	**30**	**8,768**	**(1,704)**	**4,577**	**29**	**14,251**

The remeasurement gains/losses were recognised directly in the Group's comprehensive income.

The difference to the amount recognised in the consolidated statement of comprehensive income relates to the remeasurements of the associated company SPdH, consolidated by the equity method (Note 26), in the amount of 70 thousand euros (2014: 435 thousand euros).

29 - Advances from customers

As at 31 December 2015 and 2014, the carrying amount of the caption "Advances from customers" is detailed as follows:

	2015	2014
Ministere de la Defense	308	-
Linhas Aéreas de Angola - TAAG	230	206
Travel agencies	89	98
Misc. passengers	81	70
Other	551	446
	1,259	**820**

30 - Suppliers

As at 31 December 2015 and 2014, the carrying amount of the heading "Suppliers" is detailed as follows:

	2015	2014
Suppliers - current account	153,391	124,155
Suppliers - invoices pending	14,452	16,927
	167,843	**141,082**

As at 31 December 2015 and 2014, this caption is detailed as follows:

	2015	2014
ANA - Aeroporto de Portugal	49,865	35,189
TAP ME Brazil Suppliers	20,206	5,240
Eurocontrol - EU	7,908	7,548
Petrogal	7,867	6,430
Suppliers - related parties (note 56)	6,862	7,543
Others	75,135	79,132
	167,843	**141,082**

31 – Other payables

As at 31 December 2015 and 2014, the caption "Other payables" is detailed as follows:

	2015		2014	
	Current	Non-current	Current	Non-current
Accrued costs	173,171	82,981	293,593	-
Related parties (Note 56)	193	-	264	-
Personnel	3,668	-	3,274	-
Fixed asset suppliers	1,371	-	1,879	-
Unions	292	-	261	-
Other	72,265	1,038	66,930	1,492
	250,960	**84,019**	**366,201**	**1,492**

Accrued costs

As at 31 December 2015 and 2014, the caption "Accrued costs" is detailed as follows:

	2015		2014	
	Current	Non-current	Current	Non-current
Remunerations	64,054	-	64,188	-
Maintenance reserves	14,416	82,981	55,887	-
Navigation charges	13,082	-	15,165	-
Aircraft fuel	12,834	-	34,370	-
Special sales charges	7,604	-	10,650	-
Remuneration - air crew	7,235	-	10,254	-
Maintenance and repair of materials	7,213	-	135	-
Variable remunerations	5,787	-	6,403	-
Handling services	3,841	-	2,534	-
Specialised w ork	3,706	-	3,794	-
Insurance payable	3,304	-	714	-
Passenger boarding taxes	3,015	-	2,996	-
Landing charges	601	-	711	-
Booking fees	566	-	1,593	-
Jet fuel rate sw aps (Note 24)	-	-	49,166	-
Other	25,913	-	35,033	-
	173,171	**82,981**	**293,593**	**-**

The increase verified in maintenance reserves is due, essentially, to the sale and leaseback operation of 6 aircrafts A319 that occurred at the year ended 2015, for the average period of 6 years.

The special sales charges refer to commissions granted to agents according to the flight revenue for the year obtained through this sale channel.

✈ Other - non-current

As at 31 December 2015 and 2014, this caption refers to the fair value of the derivative financial instruments (interest rate swaps), in the amount of 1,038 thousand euros and 1,492 thousand euros, respectively (Notes 24 and 58).

✈ Other - current

As at 31 December 2015 and 2014, the caption "Other - current" was detailed as follows:

	2015	2014
Rates and taxes	56,779	54,330
Work accident indemnities	782	881
Other	14,704	11,719
	72,265	**66,930**

The caption of rates and taxes refers, essentially, to amounts payable to several entities, related to rates charged to customers on the issued tickets.

32 – Liabilities from unused flight documents

As at 31 December 2015 and 2014, the Group's liabilities relative to unused flight documents were as follows:

	2015	2014
Passengers	270,516	303,861
Cargo	552	28
	271,068	**303,889**

The decrease in this heading is mostly related to the decline in the average sale price of each passenger transported and to the reduction of the time elapsed between the ticket sale and its respective flight.

During 2015 and 2014, based on the partial and periodic analyses of this heading (Note 2.27.), adjustments were made to the revenue from passenger and cargo transport in the amount of 74,552 thousand euros (3.3% of revenue from flown tickets) and 88,637 thousand euros (3.8% of revenue from flown tickets), respectively, which were recognised under the caption "Sales and services rendered".

35 - Sales and services rendered

As at 31 December 2015 and 2014, the sales and services rendered, by external and internal market, are presented as follows:

	2015	2014
Sales		
Internal market		
Air transport and maintenance	392	668
Catering	5,910	5,445
Duty free shop	19,432	18,253
Health care	136	34
Other	1,382	1,621
External market		
Air transport and maintenance	18,577	24,398
Duty free shop	171,506	161,129
	217,335	**211,548**
Services rendered		
Internal market		
Air transport and maintenance	129,486	132,840
Catering	1,534	623
Health care	3,214	3,339
Information technologies	1,028	1,205
Other	2,976	3,014
External market		
Air transport and maintenance	2,242,363	2,345,752
	2,380,601	**2,486,773**
	2,597,936	**2,698,321**

The breakdown of sales and services rendered by geographic market is as follows:

2015	Air Transport	Maintenance Portugal	Maintenance Brazil	Duty free shop	Catering	Holdings and other	Consolidated
Sales and services rendered:							
Mainland Portugal and islands	114,807	15,071	-	19,432	7,444	8,736	165,490
Europe	854,197	72,796	-	114,409	-	-	1,041,402
South Atlantic	728,516	2,415	62,666	27,911	-	-	821,508
North Atlantic	124,900	3,426	-	3,220	-	-	131,546
Mid Atlantic	68,505	-	-	1,882	-	-	70,387
Africa	335,749	1,385	-	22,369	-	-	359,503
Other	148	6,237	-	1,715	-	-	8,100
	2,226,822	**101,330**	**62,666**	**190,938**	**7,444**	**8,736**	**2,597,936**

2014	Air Transport	Maintenance Portugal	Maintenance Brazil	Duty free shop	Catering	Holdings and other	Consolidated
Sales and services rendered:							
Mainland Portugal and islands	119,640	13,868	-	18,253	6,068	9,213	167,042
Europe	860,784	58,332	-	107,487	-	-	1,026,603
South Atlantic	793,757	4,616	69,256	26,222	-	-	893,851
North Atlantic	112,999	396	-	3,025	-	-	116,420
Mid Atlantic	106,105	-	-	1,768	-	-	107,873
Africa	349,198	4,065	-	21,016	-	-	374,279
Other	145	10,497	-	1,611	-	-	12,253
	2,342,628	**91,774**	**69,256**	**179,382**	**6,068**	**9,213**	**2,698,321**

Sales and services rendered by geographic market are defined based on the destination country of the goods and services rendered by the Group, which, in the case of air transport and duty free shops, is considered the destination country of the flight.

36 - Operating government grants

For the years ended as at 31 December 2015 and 2014, this caption amounts 594 thousand euros and 1,151 thousand euros, respectively.

37 - Gains and losses in associates

For the years ended as at 31 December 2015 and 2014, the caption of gains and losses in associates are detailed as follows:

	2015	2014
Gains		
SPdH	1,067	1,611
	1,067	**1,611**

The amount recorded in this caption refers to the appropriation of the Group's share in the net income of the company SPdH (Nota 26).

38 - Variation in production

The variation in production in 2015 and 2014 was as follows:

	2015	2014
Inventories - opening balance (Note 20)	(14,173)	(5,288)
Adjustment of inventories	39	9
Inventories - closing balance (Note 20)	5,545	14,173
	(8,589)	**8,894**

39 – Internally generated assets

Internally generated assets, in 2015 and 2014, in the amount of 608 thousand euros and 791 thousand euros, respectively, refers to staff and other costs included in inventory acquisition/production costs, long than one year.

40 - Cost of goods sold and materials consumed

The cost of goods sold and materials consumed in 2015 and 2014 was as follows:

	2015		2014	
	Goods	Raw , subsidiaries and consumable materials	Goods	Raw , subsidiaries and consumable materials
Inventories - opening balance (Note 20)	15,112	117,319	14,788	138,021
Purchase goods	123,852	126,894	129,952	126,899
Adjustment of inventories	(5)	(14,538)	-	(646)
Inventories - closing balance (Note 20)	(16,719)	(108,125)	(15,112)	(117,319)
	122,240	**121,550**	**129,628**	**146,955**
		243,790		**276,583**

The cost of goods sold and consumed has decreased 12% in 2015, comparing last year, due to several factors: i) reduction of material consumption in the maintenance and engineering activity in Portugal, despite the increase in activity for third parties, because the activity for the company itself has remained stable and, in comparison, have consumed less material and have more subcontracted services comparing 2014. The 6 phase-in of the year 2014, involving a significant consumption of materials for aircraft adaption and modification, inflated the item material costs this year, different situation from that experienced in 2015 and ii) an increase of free shop activity by 6.4% which resulted in an increase in consumption goods of about 10%, about 10 million Euros.

In 2015, the caption “Adjustment of inventories” refers, essentially, to the currency translation differences, verified in Brazilian subsidiary, denominated in reais.

41 - External supplies and services

External supplies and services are detailed as follows:

	2015	2014
Aircraft fuel	660,310	797,812
Handling services	154,337	164,938
Navigation charges	151,730	143,334
Maintenance and repair of flight equipment	102,474	86,739
Specialised w ork	94,409	90,465
Operating leases of aircraft and spare parts	77,595	57,315
Landing charges	74,233	64,947
Rental costs	65,150	61,666
In-flight expenses	50,296	50,528
Commissions	38,765	41,365
Special sales charges - air transport	26,679	32,361
Accommodation and meals during stopovers	25,255	23,738
Subcontracts	16,417	15,553
Maintenance and repair of other assets	14,981	13,240
Insurance	6,903	5,535
Fees	6,246	5,365
Surveillance and security	3,048	3,655
Other costs related to external supplies and services	149,517	157,706
	1,718,345	**1,816,262**

The caption "Other costs related to external supplies and services" presents the following details:

	2015	2014
Other costs related to passengers	25,899	28,590
Air traffic control charges	20,749	23,635
Facilities at airports	16,896	4,262
Baggage, cargo and mail charges	16,272	17,309
Advertising and publicity	14,694	14,093
Chartering of aircraft	13,573	28,007
Communication	7,671	7,868
Ground costs related to executive class passengers	7,409	6,108
Transport of goods	4,918	5,448
Electricity	4,860	4,657
Cleaning, hygiene and comfort	3,716	3,711
Travel costs	2,967	4,045
Other	9,893	9,973
	149,517	**157,706**

The decrease related to External supplies and services is due mainly to the decrease in fuel costs (due, mainly, to the reduction in the average price - see Note 3).

Expenses with handling services, navigation charges, airport taxes and facilities at airports, have a different behaviour with each other, with a decrease of handling services in 6.5%, increase in spending on navigation and air traffic control in 3%, rising costs of landing fees by more than 14%, and sharp increases in costs with several facility at airports. Together, these items increase by 4.2% amounts 420 million euros in 2015, compared to about 400 million Euros in 2014. The reduction on the handling costs was not enough to offset the increase in other items, including several service fees and prices at Portuguese airports.

In contrast, the charges related maintenance services increased by about 20% with an impact approximately of 15 million euros.

Relatively to the leasing costs or aircraft rentals, there were significant increases in the operational leasing costs, as well as increases in ACMI charges of two ATR aircrafts of OMNI, but in contrast there was a significant reduction of chartering costs. The decrease of charter flights costs is explained by the high number of charter flights carried out in 2014 related with the start-up of six new aircraft received on the middle of 2014. The ACMIS costs increased in 2015 due to the fact of two ATRs in ACMI have been operating all year instead of what occurred last year when operated only from the summer.

The increase of about a third of the operating lease costs is justified by the combination of effects on the average increase in the number of aircraft on lease, the exchange variation of rents, the dollar, and the change of the rent average per aircraft. The overall increase in operating lease costs, which also includes rental booking reactors, was about 20 million, but the reduction in freight movement partially offset this increase.

42 - Employee costs

Employee costs are detailed as follows:

	2015	2014
Employee remuneration	428,346	437,995
Social Security Contributions	86,150	87,816
Other personnel costs	44,518	45,708
Expenses related to post-employee benefit obligation (Note 28)	7,391	7,361
	566,405	**578,880**

Employee costs amounted to 566 million euro, a decrease of 2% compared with previous year. In 2014, because of the increase in fleet and operation, it was necessary to incur, on the training and recruitment of new crew and on payment of additional variable remunerations. These values were no longer incurred in 2015, which represents a reduction of variable remuneration. In contrast, the fixed remuneration of technical and flight attendant increased about 7, 5% and 5%, respectively.

The remunerations attributed to the Statutory Bodies, in 2015 and 2014, were:

	2015	2014
Board of Directors / General and Supervisory Board (Note 56)	2,115	2,516
General Meeting	3	3
Supervisory Board / Statutory Auditor	11	76
	2,129	**2,595**

The caption "Other costs" is detailed as follows:

	2015	2014
Insurance	19,539	17,666
Social action costs	10,936	12,447
Subsidies of meals	5,016	5,207
Indemnities	3,124	2,523
Other	5,903	7,865
	44,518	**45,708**

43 – Impairment in inventory (losses/reversals)

For the years ended as at 31 December 2015 and 2014, this caption is detailed as follows:

	2015		**2014**	
	Inventory impairment	Reversal of inventory impairment	Inventory impairment	Reversal of inventory impairment
Raw , subsidiary and consumable materials (Note 20)	591	(739)	2,035	(1,930)
	591	**(739)**	**2,035**	**(1,930)**
		(148)		**105**

44 - Impairment in receivable (losses/reversals)

For the years ended as at 31 December 2015 and 2014, this caption is detailed as follows:

	2015		**2014**	
	Impairment of accounts receivable	Reversal of impairment of accounts receivable	Impairment of accounts receivable	Reversal of impairment of accounts receivable
Trade receivables (Note 21)	6,925	(1,363)	15,650	(2,426)
Other current receivables (Note 18)	143	(33)	255	(176)
Other financial assets (Note 13)	-	-	741	-
	7,068	**(1,396)**	**16,646**	**(2,602)**
		5,672		**14,044**

45 - Provisions (increases/decreases)

For the years ended as at 31 December 2015 and 2014, this caption is detailed as follows:

	2015	2014
Provision for legal claims (Note 26)	(370)	5,752
Other provisions (Note 26)	192	(46)
	(178)	**5,706**

46 - Impairment of assets subject to depreciation/amortisation (losses/reversals)

In 2015 it was not recognised any fixed assets impairment. In 2014, an impairment loss for the Embraer 145 aircraft in the amount of 1,984 thousand euros was recognised, given the expectation of sale of the fleet and its impact on the recoverable value comparing with net book value.

47 - Fair value increases/reductions

During the year ended on 31 December 2015, a loss of 174 thousand euros was recognised (2014: a gain of 104 thousand euros) related with changes in fair value of investment properties (Note 6).

48 – Other operational income

For the years ended as at 31 December 2015 and 2014, the caption Other operational income is detailed as follows:

	2015	2014
Supplementary income	41,126	48,415
Gains from fixed assets	25,628	583
Cash discounts received	246	188
Gains from inventories	83	313
REFIS (Note17)	-	51,594
Gains from Investment Properties (Note 6)	-	965
Other income and gains	1,000	1,900
	68,083	**103,958**

The caption "Supplementary income" presents the following composition as at 31 December 2015 and 2014:

	2015	2014
Advertising	10,967	9,803
Recovered w arehouse material	8,660	8,240
Sale of miles	8,534	18,402
Rents and sub-leases	2,389	2,191
Other	10,576	9,779
	41,126	**48,415**

The observed variation in gains on tangible fixed assets, is due, essentially, to the capital gain caused by the disposal of six A319 aircrafts in a sale and leaseback operation at the end of 2015, amounting to 24,207 thousand euros (Note 5).

According to the Brazilian tax legislation, namely Law 13.043 of 2014, it was possible to use tax losses through the consolidation of the special instalment of some tax debts. Thus, in the year of 2014, TAP M&E Brazil has chosen to use its tax losses through the compensation of the debt interest in 34% (tax rate), which resulted in the elimination of tax losses carried forward in the amount of 51,594 thousand euros, nullifying the entire REFIS debt (Note 26).

49 - Other operational costs

For the years ended as at 31 December 2015 and 2014, the caption Other operational costs is detailed as follows:

	2015	2014
Currency translation differences	51,272	5,391
Taxes	10,297	11,274
Other costs and losses from financial services	5,448	5,301
Indemnities from legal claims	2,896	6,012
Losses from tangible fixed assets	2,621	1,838
Inventory losses	1,382	1,017
Fines and penalties	484	636
Other	2,816	1,788
	77,216	**33,257**

The increase on currency translation differences occur, mainly, due to the combined effect of the depreciation of the Brazilian reals and appreciation of the dollar in respect of the euro.

50 - Depreciation and amortisation costs

For the years ended as at 31 December 2015 and 2014, this caption is detailed as follows:

	2015	2014
Tangible fixed assets (Note 5)		
Buildings and other constructions	5,748	5,821
Basic equipment	53,454	73,559
Transport equipment	168	153
Tools and utensils	998	1,892
Administrative equipment	1,339	1,615
Other tangible fixed assets	728	1,968
	62,435	**85,008**
Other intangible assets (Note 8)		
Other intangible assets	262	429
	262	
	62,697	**85,437**

The variation essentially results from the impact of changes made on residual value in 2014 for aircraft that were in the maturity of their useful lives in 2014.

51 – Finance Income and Costs

For the years ended as at 31 December 2015 and 2014, this caption is detailed as follows:

	2015	2014
Interest received from investments	4,633	3,091
	4,633	**3,091**
Costs and losses		
Interest paid on loans	42,971	44,659
Currency translation differences	20,143	36,688
Other financial costs and losses	4,795	3,162
	67,909	**84,509**

The average cost of the Group's total debt increase slightly from 2014 to 2015, as a result of repayment of operations, with lower spreads, and maintenance of the most recent operations with higher margins. Financing costs of the Group, excluding currency translation differences amounted to about 48 million euros. The global financial costs was increased by unfavourable foreign exchange differences arising from the dollar appreciation, focusing on 13% of total debt, in addition to some foreign exchange differences related to deposits in foreign markets. However, in 2014 was recorded in financial costs, in addition to the dollar appreciation, the discount granted under the capital repatriation of 2013 sales, following the negotiations conducted with the Venezuelan authorities, in the amount of 20.5 million, justifying the cost reduction occurred in 2015.

52 – Income tax for the year

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 21% plus a surcharge at the maximum rate of 1.5% on taxable profit, thus reaching an aggregate rate of 22.5%. The austerity measures established by Law number 82-B/2014, of 31 December, which approved the State Budget for 2015, increased 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, to 5% on the portion of taxable profit of each company which is greater than 7.5 million euros and less than 35 million euros, and to 7% on the portion of taxable profit of each company which is greater than 35 million euros, giving rise to an aggregate maximum tax rate of 29.5%.

In the calculation of the taxable profits, to which the tax rates referred to above are applied, the amounts not accepted for tax purposes are added and subtracted to the accounting results. These differences between the results for accounting and tax purposes may have a 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 same expenses, at the tax rates listed therein.

For the year ended as at 31 December 2015 and 2014, the caption "Income tax for the year" is detailed as follows:

	2015	2014
Current tax	12,739	10,026
Deferred tax (Note 15)	(29,906)	(7,923)
	(17,167)	**2,103**

The current tax for 2015 essentially refers to the current tax of the subsidiaries "TAP S.A." and LFP in the amount of 8,974 thousand euros (2014: 7,046 thousand euros) and 3,004 thousand euros (2014: 2,198 thousand euros), respectively.

The reconciliation of the effective tax rate for 2015 and 2014 is detailed as follows:

	2015	2014
Net income/(loss) before income tax	**(168,944)**	**(78,846)**
Nominal tax rate	21%	23.0%
	(35,478)	**(18,135)**
Permanent differences	6,705	(4,813)
Reversal/(reinforcement) of deferred tax assets relative to tax losses	-	5,218
Insufficient/(surplus) estimate of taxes for the previous year	1,397	90
Use of tax losses carried forward of previous years without DTA	-	(346)
Tax losses carried forward for the year without DTA	2,253	13,118
Autonomous tax and other forms of taxation	7,956	6,971
Income tax	**(17,167)**	**2,103**
Effective tax rate	10%	(3%)

53 - Non-controlling interests - net income

The non-controlling interests, presented in the consolidated income statement, as at 31 December 2015 and 2014 are detailed as follows:

	2015	2014
Non-controlling interests of net income		
TAP ME Brasil	(546)	-
Cateringpor	567	643
LFP	4,244	3,504
	4,265	**4,147**

54 – Non-recurring items

In the context described in Note 22, as at 31 December 2015, the Board of Directors understand that the best estimate for the exchange rate of cash held in Venezuela is the SIMADI rate, which resulted in the recognition of a negative exchange variation in the amount of 91,394 thousand euros, recorded under this caption, since it reflects a situation considered as non-recurring, considering its nature and magnitude in the context of these consolidated financial statements.

55 - Segment reporting

The following business segments have been identified: air transport, maintenance, duty free shop, catering and other. The net income/(loss) of each segment correspond to those directly allocated to them, as well as to those that can be reasonable attributed to those segments.

The financial information by operational segment for 2015 is analysed as follows:

	Air Transport	Maintenance Portugal	Maintenance Brazil	Duty free shop	Catering	Holdings and other	Intersegment eliminations	Consolidated
REVENUE								
Revenue	2,226,998	102,021	68,611	190,938	46,652	50,063	(87,347)	2,597,936
Net operating income/(loss)	(99,762)	10,881	(17,061)	11,674	1,585	(12,985)	-	(105,668)
External net financial results	(2,131)	-	(23,102)	(3)	10	(38,050)	-	(63,276)
Net gains in associates	-	-	-	-	-	1,067	-	1,067
Income tax	(7,754)	-	-	(3,009)	(437)	28,367	-	17,167
Non-controlling interests	-	-	(546)	4,244	567	-	-	4,265
Net income/(loss) for the year	**(109,647)**	**10,881**	**(40,163)**	**8,662**	**1,158**	**(22,668)**	**-**	**(151,777)**

The financial information by operational segment for 2014 is analysed as follows:

	Air Transport	Maintenance Portugal	Maintenance Brazil	Duty free shop	Catering	Holdings and other	Intersegment eliminations	Consolidated
REVENUE								
Revenue	2,342,628	92,049	75,394	179,386	42,233	49,738	(83,107)	2,698,321
Net operating income/(loss)	(12,538)	13,678	(2,751)	9,352	1,706	(6,875)	-	2,572
External net financial results	(20,985)	-	(19,852)	10	31	(40,622)	-	(81,418)
Net gains in associates	-	-	-	-	-	1,611	-	1,611
Income tax	(5,612)	-	-	(2,211)	(425)	6,145	-	(2,103)
Non-controlling interests	-	-	-	3,504	643	-	-	4,147
Net income/(loss) for the year	**(39,135)**	**13,678**	**(22,603)**	**7,151**	**1,312**	**(41,352)**	**-**	**(80,949)**

56 - Related parties

Balances and transactions between Group companies 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 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 Group's Board of Directors were considered, according to IAS 24, as the only "key" management members of the Group.

During the financial years ended on 31 December 2015 and 2014, the remunerations earned by the Board of Directors and by the General and Supervisory Board reached 2,115 thousand euros (2014: 2,516 thousand euros), as described in Note 42.

As at 31 December 2015 and 2014, the balances with related parties are detailed as follows:

	2015 - Assets		
	Other non-current accounts receivable (Note 18)	Trade Receivables (Note 21)	Other current accounts receivable (Note 18)
Associates			
SPdH - Serviços Portugueses de Handling, S.A.	4,700	1,157	106
	4,700	**1,157**	**106**

	2015 - Liabilities		
	Suppliers (Note 30)	Other current accounts payable (Note 31)	Deferrals
Associates			
SPdH - Serviços Portugueses de Handling, S.A.	(6,862)	(193)	(100)
	(6,862)	**(193)**	**(100)**

	2014 - Assets		
	Other non-current accounts receivable (Note 18)	Trade Receivables (Note 21)	Other current accounts receivable (Note 18)
Associates			
SPdH - Serviços Portugueses de Handling, S.A.	4,700	1,599	3,305
	4,700	**1,599**	**3,305**

	2014 - Liabilities		
	Suppliers (Note 30)	Other current accounts payable (Note 31)	Deferrals
Associates			
SPdH - Serviços Portugueses de Handling, S.A.	(7,543)	(264)	(99)
	(7,543)	**(264)**	**(99)**

For the years ended as at 31 December 2015 and 2014, the transactions with related parties are as follows:

	2015				
	External supplies and services	Other operational costs	Sales and services rendered	Other income and gains	Financial results
Associates					
SPdH - Serviços Portugueses de Handling, S.A.	(77,614)	(8)	6,592	1,235	89
	(77,614)	**(8)**	**6,592**	**1,235**	**89**

	2014				
	External supplies and services	Other operational costs	Sales and services rendered	Other income and gains	Financial results
Associates					
SPdH - Serviços Portugueses de Handling, S.A.	(80,542)	(10)	6,753	1,178	240
	(80,542)	**(10)**	**6,753**	**1,178**	**240**

The transactions, amounting to the total of 77,614 thousand euros (2014: 80,542 thousand euros) recorded under external supplies and services, refer to ground handling services provided by SPdH to support aircraft, passengers, baggage, cargo and mail.

57 - Contingencies

Contingent assets

As at 31 December 2015 and 2014, 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 recognised, as follows:

✈ **Labour claims**

(i) <u>Dangerousness/ Insalubrity and Other</u>
<u>Amount: Euro 50,733 thousand</u>

The main labour claim refers to the request for additional payment due to insalubrity and hazard, for all employees working as aircraft maintenance auxiliaries al 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.

Other actions relate to individual cases concerning claims of different kinds, such as overtime, moral damages, among others.

Based on information provided by its lawyers, TAP M&E Brazil understands that from these legal actions will not result material impacts on its financial statements as at 31 December 2015.

✈ Tax claims

(ii) Notice of infraction of import tax (“II”), tax on industrialised products (“IPI”), PIS and COFINS
Amount: Euro 18,705 thousand

The subsidiary was notified by the Federal Reserve Office, on 26 April 2010, 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 challenge has been filed and awaits trial.

Based on information provided by its lawyers, TAP M&E Brazil understands that from this legal action will not result material impacts on its financial statements as at 31 December 2015. The probability of loss for the subsidiary is considered possible.

(iii) Tax foreclosure relative to accessory obligations of tax on circulation of goods and services ("ICMS")
Amount: Euro 7,593 thousand

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.

(iv) Notice of infraction regarding failure to comply with the temporary import regime.
Amount: Euro 4,645 thousand

In 2012, the subsidiary was notified by the Federal Revenue Office, due to failure to comply with the temporary import regime. The subsidiary awaits judgement of the appeal filed with the Tax Appeals Administration Board (“CARF”). The defence lawyers concluded that the probability of loss for the subsidiary is considered possible.

(v) Notice of infraction of PIS and COFINS
Amount: 2,501 thousand euros

The tax authorities considered that there were differences between the analytical ledger and the Declaration of federal tax debits and credits (“DCTF”), with reference to 2006. The subsidiary is currently awaiting the decision on the challenge at the Brazilian Federal Tax Office (“DRJ”). The probability of loss for the subsidiary is considered possible.

(vi) Notice of infraction of corporate income tax (“IRPJ”), social contribution on net income (“CSLL”), “PIS” and “COFINS” relative to 2007.
Amount: Euro 1,244 thousand

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 PIS and COFINS contributions, a protest letter has been submitted and trial is pending at first instance.

(vii) Notice of infraction of “ICMS”
Amount: Euro 947 thousand

TAP M&E Brazil was notified in 2014 by the Secretary of the Treasury Office of Rio Grande do Sul, due to the ICMS credit on electricity in Porto Alegre. The subsidiary filed a challenge and is still awaiting for trial. The defence lawyers concluded that the probability of loss for the subsidiary is possible.

✈Civil claims

(viii) Claims over lawyers' fees
Amount: Euro 2,352 thousand

Claims over fees filed by a law firm against the subsidiary TAP M&E Brazil, within the scope of the withdrawal of the lawsuit and adhesion to the subdivision programme of REFIS. It is currently awaiting judgement of the appeal. The defence lawyers concluded that the probability of loss for the subsidiary is considered possible.

✈ Other

(ix) Pledged assets
Amount: Euro 11,386 thousand

The subsidiary TAP M&E Brazil has pledged various assets to the value of Euro 11,386 thousand (Euro 15,243 thousand in 2014), which refer to guarantees required in tax and labour proceedings. These assets include vehicles, computers, components and items of the hangars of Rio de Janeiro and Porto Alegre, among others.

As at 31 December 2014, a labour contingent liability was disclosed, amounting to Euro 3,610 thousand, relating to employees’ severance indemnity fund ("FGTS") not deposited between 2002 and 2004, in which the union claims the deposit of FGTS between 2002 and 2004 for all Porto Alegre employees. As at 31 December 2015 its disclosure is not applicable, since according to the evaluation of the subsidiary legal advisors, the probability of loss is considered remote.

The disclosure of a civil claims, made on 31 December 2014, relating to a claim for damages following an work accident, amounting to Euro 1,306 thousand, is not applicable as at 31 December 2015, once that after the process review, it was concluded that the subsidiary had no responsibility in the work accident.

Guarantees provided

As at 31 December 2015 and 2014, the guarantees provided by the Group are detailed as follows:

	2015	2014
Bank guarantees provided by TAP S.A.		
Aircraft	45,874	37,573
BIC Angola credit line (unused)	18,371	16,473
Fuel	3,019	3,072
Natwest - Acquiring relative to credit cards	2,861	2,696
Portuguese State - Operation of the Azores routes	1,654	1,654
Labour Court	1,329	1,525
Other	11,170	16,004
Bank guarantees provided by LFP		
Operating license concession contracts for Lojas Francas	9,000	9,000
Bank guarantees provided by other Group companies	397	672
Securities provided to insurers	90	87
	93,765	**88,756**

The reinforcement undertaken during the current financial year, to bank guarantees provided by "TAP S.A." relative to aircraft, is essentially related to operating lease contracts.

58 - Financial assets and liabilities

The reconciliation of the consolidated financial positions, as at 31 December 2015 and 2014, relative to the different categories of the financial assets and liabilities, are detailed as follows:

	2015				
	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	-	50,952	-	-	50,952
Current receivables	-	207,755	-	30,699	238,454
Restricted cash	-	4,177	-	-	4,177
Cash and cash equivalents	-	136,814	-	-	136,814
Total Assets	**-**	**399,698**	**-**	**30,699**	**430,397**
Liabilities					
Non-current borrowings	-	-	(743,370)	-	(743,370)
Other non-current liabilities	(1,038)	-	(82,981)	-	(84,019)
Current borrowings	-	-	(198,797)	-	(198,797)
Current payables	-	-	(420,062)	(357,665)	(777,727)
Total Liabilities	**(1,038)**	**-**	**(1,445,210)**	**(357,665)**	**(1,803,913)**

	2014				
	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	-	50,691	-	-	50,691
Current receivables	-	216,797	-	30,972	247,769
Restricted cash	-	100,917	-	-	100,917
Cash and cash equivalents	-	140,364	-	-	140,364
Total Assets	**-**	**508,769**	**-**	**30,972**	**539,741**
Liabilities					
Non-current borrow ings	-	-	(427,969)	-	(427,969)
Other non-current liabilities	(1,492)	-	-	-	(1,492)
Current borrow ings	-	-	(633,682)	-	(633,682)
Current payables	(49,166)	-	(458,937)	(393,627)	(901,730)
Total Liabilities	**(50,658)**	**-**	**(1,520,588)**	**(393,627)**	**(1,964,873)**

The following tables presents the assets and liabilities measured at fair value as at 31 December 2015 and 2014, according to the following fair value hierarchical levels established in IFRS 13:

Level 1: the fair value of financial instruments is based on prices available on active, liquid markets at the date of the financial position;

Level 2: the fair value of financial instruments is not determined based on active market prices, but rather through valuation 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 valuation models, whose main inputs are not observable on the market.

✈ Assets measured at fair value

	2015		
	Level 1	Level 2	Level 3
Non-financial Assets			
Investment properties	-	2,216	-

	2014		
	Level 1	Level 2	Level 3
Non-financial Assets			
Investment properties	-	2,216	-

✈ Liabilities measured at fair value

	2015		
	Level 1	Level 2	Level 3
Financial Liabilities			
Derivative financial instruments hedging	-	1,038	-
Non-financial liabilities			
Deferrals - Customers loyalty program	-	41,995	-

	2014		
	Level 1	Level 2	Level 3
Financial Liabilities			
Derivative financial instruments hedging	-	50,658	-
Non-financial liabilities			
Deferrals - Customers loyalty program	-	30,766	-

Derivative financial instruments

The fair value of the derivative financial instruments is recorded under the caption of other payables when negative, and under the caption of other receivables when positive.

During 2015 and 2014, the variation of derivative financial instruments fair value was recognised in equity.

The breakdown of the derivative financial instruments fair value is detailed in Note 24.

Credit and other receivables

Other receivables are initially recognised at their fair value, corresponding to their nominal value, deducted of any impairment loss identified during credit risk analysis.

Other financial liabilities

Other financial liabilities 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

✈ Purchase commitments

As at 31 December 2015, the financial commitments assumed by the subsidiary “TAP S.A.” relative to rents and operating lease contracts for aircraft and engines reached a total of 342,014 thousand euros (310,001 thousand euros as at 31 December 2014) (Note 27).

As at 31 December 2014, it was contracted with Airbus S.A.S. (“Airbus”) a future acquisition of twelve Airbus A350, to be received between 2017 and 2019, with the option of a further three aircraft. In November 2015 the Group agreed with Airbus to cancel this contract, having been released from any obligations under it. The advances already made to Airbus (39,956 thousand euros) were allocated to the new contract but signed with Airbus, previously negotiated between this entity and DGN Corporation, for the future acquisition of 53 aircrafts (15 A320 NEO, NEO 24 A321 and 14 A330 NEO), to be received between 2017 and 2025. It should be noted that the contract considers the existence of contractual penalties for each aircraft that is not acquired.

✈ Other commitments

During 2016, the TAP Group intends to replace Portugália current fleet (6 Fokker 100s and eight Embraer 145) for 9 Embraer 190 and 8 ATR 72-600, through an sub leases agreement with Azul SA, concerning to the 9 Embraer, and an ACMI contract with White Airways SA referring to the ATR.

Additionally, TAP SGPS is committed to the issue a 10 years bond loan, convertible into shares, in the amount of 120 million euros until 23 June 2016.

61 - Subsequent events

As part of the TAP Group re-privatization process, a Memorandum of Understanding between the Portuguese State and Atlantic Gateway was signed on 6 February 2016, the objective of which is the sale by Atlantic Gateway to the Portuguese State of shares representing the share capital of TAP SGPS so that Parpública will become the holder of 50% of the share capital of TAP SGPS, mantaining TAP SGPS the status of private company. The sale is subject to the prior verification of certain conditions, of which the required third parties authorizations (including ANAC authorization) and the financial restructuring of TAP Group.

On 19 February 2016 ANAC notified TAP S.A. and Portugália of a resolution from the ANAC Board of Directors in which ANAC considers that, due to the elements submitted until the date by TAP S.A. and Portugália for analysis, and taking into consideration the Regulation (referred in Note 1), there are indicators of facts of the inexistence of "Effective Control" by a national from a Member State. Therefore, ANAC applies to both airlines a number of provisional measures that limit their operation, requiring all acts and operations of the referred companies that may exceed normal, day-to-day management activity to be subjected to prior authorization by ANAC.

On 22 February 2016 a meeting between TAP S.A. Executive Commission and ANAC Board of Directors took place, in order to clarify some aspects about the content of the ANAC notification above mentioned, related with the acquisition of the share capital of TAP SGPS by Atlantic Gateway. It was decided by both parties to hold working meetings in order to clarify, on a timely basis, any eventual doubts that may result from this situation, ensuring that the current re-privatization process will continue as previously predicted.

On 17 February 2015, the Venezuelan government announced a simplification of the exchange control mechanisms through the following changes:

- ✈ Devaluation of CENCOEX from 6.3 VEF/USD to 10 VEF/USD;
- ✈ SICAD is eliminated;
- ✈ SIMADI is replaced by a new exchange system which exchange rate is expected to start at a rate of approximately 200 VEF/USD

Should be noticed that, considering the estimate already reflected in the Group's consolidated financial statements as at 31 December 2015, as mentioned in Note 22, this situation will not have significant impacts on future TAP Group results.

62 - Note added for translation

The accompanying financial statements are a translation of financial statements originally issued in Portuguese. In the event of any discrepancies the Portuguese version prevails.

CHARTERED ACCOUNTANT

Sandra Candeias Matos da Luz

BOARD OF DIRECTORS

Humberto Manuel dos Santos Pedrosa
Chairman

Fernando Abs da Cruz Souza Pinto
Member

David Humberto Canas Pedrosa
Member

Maximilian Otto Urbahn
Member

David Gary Neeleman
Member

Philippe Calixte Albert Delmas
Member

Sydney John Isaacs
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Robert Aaron Milton
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Henri Courpron
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Tiago Gonçalves de Aires Mateus
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Francisco Maria Freitas de Morais Sarmento Ramalho
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