

**TACA INTERNATIONAL AIRLINES, S.A.  
AND SUBSIDIARIES**  
(San Salvador, Republic of El Salvador)

**Consolidated Financial Statements**

December 31, 2009

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**TACA INTERNATIONAL AIRLINES, S.A.  
AND SUBSIDIARIES**  
(San Salvador, Republic of El Salvador)

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## **Independent Auditors' Report**

The Board of Directors and Shareholders  
TACA International Airlines, S.A.:

We have audited the accompanying consolidated financial statements of TACA International Airlines, S.A. (hereinafter "the Company"), which comprise the consolidated statement of financial position as of December 31, 2009, the consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Basis for Qualified Opinion*

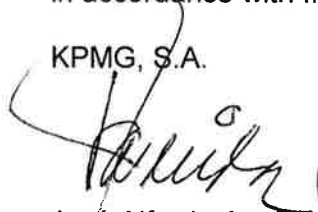
The Company recognizes changes in the fair value of certain derivative financial instruments directly in stockholder's equity in the "Hedging reserve" account. In accordance with International Financial Reporting Standards, changes in the fair value of the Company's derivate financial instruments should be recognized in the consolidated statement of operations because the Company does not fulfill the requirements for hedge accounting for derivates established by those reporting standards. If the changes in fair value of the derivate financial instruments had been included in the consolidated statement of operations, this would have changed the net loss in 2009 of US\$12,095 into a net profit of US\$20,038 and resulted in an understatement in "Accumulated deficit" at December 31, 2009 of US\$21,846 (2008: resulted in an understatement of the net loss of US\$53,039 and an understatement of "Accumulated deficit" of US\$53,979).

The Company amortizes the estimated cost of the first major overhaul of an engine over a period of 25 years which is the estimated useful life of the aircraft. In accordance with International Financial Reporting Standards, this estimated cost would be amortized over the period until the first major overhaul is expected to occur (normally around six years). Had the Company used this latter period of amortization, the balance of flight equipment at December 31, 2009 would have decreased by US\$2,562 thousand, the accumulated deficit at that date would have increased by the same amount, and the net loss for the year then ended would have increased by US\$500 thousand.

*Qualified Opinion*

In our opinion, except for the effects on the consolidated financial statements of the matters referred to in the Basis for Qualified Opinion paragraphs, the 2009 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TACA International Airlines, S.A. and subsidiaries as of December 31, 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards.

KPMG, S.A.

  
José Alfredo Aguirre  
Partner



April 20 2010

San Salvador, El Salvador

**TACA INTERNATIONAL AIRLINES, S.A. AND SUBSIDIARIES**

**Consolidated Statement of Financial Position**

December 31, 2009

(With corresponding figures of December 31, 2008)

(In thousands of US dollars)

	<u>Note</u>	<u>2009</u>	<u>2008</u>
<b><u>Assets</u></b>			
Current assets:			
Cash and cash equivalents	6	28,894	27,664
Available-for-sale securities		-	2,491
Fair value of derivative instruments	21	130	-
Receivables, net	7	12,433	23,423
Due from related parties	8	58,057	49,137
Income tax receivable		2,407	2,397
Expendable spare parts and supplies, net	9	8,310	9,882
Deposits and other assets	10	40,299	77,594
Prepaid expenses	11	12,625	15,009
<b>Total current assets</b>		<b>163,155</b>	<b>207,597</b>
Investments	12	12,426	12,380
Flight equipment, property, and other equipment, net	13	133,470	142,368
Deposits and other assets	10	68,966	64,379
Intangible assets, net	14	283	456
Income tax receivable		942	1,135
Deferred tax	20	1,549	1,492
		<b>380,791</b>	<b>429,807</b>
<b><u>Liabilities and Stockholders' Equity</u></b>			
Current liabilities:			
Interest bearing liabilities	15	66,026	54,545
Accounts payable and accrued expenses	16	63,357	74,521
Due to related parties	8	1,279	4,659
Fair value of derivative instruments	21	27,085	62,273
Air traffic liability		83,300	93,941
Maintenance provisions	17	13,987	23,678
Total current liabilities		<b>255,034</b>	<b>313,617</b>
Maintenance provisions	17	29,531	23,124
Long-term debt, excluding current portion	15	56,889	73,767
<b>Total liabilities</b>		<b>341,454</b>	<b>410,508</b>
Stockholders' equity:			
Common stock, US\$90.28 par value. Authorized, issued, and paid 853 shares.		77,008	77,008
Additional paid-in capital		1,045	1,045
Accumulated deficit		(27,732)	(15,600)
Reserves		(10,984)	(43,154)
<b>Stockholders' equity, net</b>		<b>39,337</b>	<b>19,299</b>
		<b>380,791</b>	<b>429,807</b>

See accompanying notes to consolidated financial statements.

**TACA INTERNATIONAL AIRLINES, S.A. AND SUBSIDIARIES**

**Consolidated Statement of Operations**

Year ended December 31, 2009

(With corresponding figures of year ended December 31, 2008)

(In thousands of US dollars)

	<u>Note</u>	<u>2009</u>	<u>2008</u>
Operating revenues:			
Passengers		303,885	359,934
Freight and mail		14,482	17,020
Aircraft leasing		20,420	20,374
Gain on sale of fixed assets		10,198	6,811
Other operating income	18	30,857	23,976
<b>Total operating revenues</b>		<u>379,842</u>	<u>428,115</u>
Operating expense:			
Flight operations		77,883	80,513
Fuel		79,900	124,065
Ground operations		27,762	29,547
Passenger services		20,092	22,166
Maintenance and repairs		35,021	34,001
Air traffic		46,918	51,454
Sales and advertising		46,936	48,451
General and administrative		32,101	31,213
Depreciation		12,091	14,525
Impairment of flight equipment		667	1,000
Gain from involuntary conversion	13	-	(10,126)
<b>Total operating expense</b>		<u>379,371</u>	<u>426,809</u>
<b>Operating income</b>		<u>471</u>	<u>1,306</u>
Finance:			
Income		2,013	4,084
Expense		(13,929)	(22,408)
<b>Finance, net</b>	19	<u>(11,916)</u>	<u>(18,324)</u>
<b>Loss before income taxes</b>		(11,445)	(17,018)
Income tax, net	20	(650)	943
<b>Net loss</b>		<u>(12,095)</u>	<u>(16,075)</u>

See accompanying notes to consolidated financial statements.

## TACA INTERNATIONAL AIRLINES, S.A. Y SUBSIDIARIAS

### Consolidated Statement of Comprehensive Income

Year ended December 31, 2009

*(With corresponding figures of year ended December 31, 2008)*

(In thousands of US dollars)

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	<u>Note</u>	<u>2009</u>	<u>2008</u>
<b>Net loss</b>		<b>(12,095)</b>	<b>(16,075)</b>
Other comprehensive income			
Changes in fair value of cash flow hedges	19	17,975	(29,518)
Net change of cash flow hedges transferred to income	19	14,158	(23,521)
<b>Other comprehensive income</b>		<u><b>32,133</b></u>	<u><b>(53,039)</b></u>
<b>Total comprehensive income for the period</b>		<u><b>20,038</b></u>	<u><b>(69,114)</b></u>

*See accompanying notes to consolidated financial statements.*

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TACA INTERNATIONAL AIRLINES, S.A. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity

December 31, 2009  
 (With corresponding figures of December 31, 2008)

(In thousands of US dollars)

	Common stock	Additional paid-in capital	Retained earnings (Accumulated deficit)	Legal reserve	Hedging reserve	Total stockholders' equity
Balances at December 31, 2007	77,008	1,045	475	10,825	(940)	88,413
Total comprehensive income (loss) for the year:						
Net loss	-	-	(16,075)	-	-	(16,075)
Other comprehensive income:						
Changes in fair value of cash flow hedges	-	-	-	-	(29,518)	(29,518)
Net change of cash flow hedges transferred to income	-	-	-	-	(23,521)	(23,521)
Total comprehensive income (loss) for the year	-	-	(16,075)	-	(53,039)	(69,114)
Balances at December 31, 2008	77,008	1,045	(15,600)	10,825	(53,979)	19,299
Total comprehensive income for the year:						
Net loss	-	-	(12,095)	-	-	(12,095)
Other comprehensive income:						
Changes in fair value of cash flow hedges	-	-	-	-	17,975	17,975
Net change of cash flow hedges transferred to income	-	-	-	-	14,158	14,158
Total comprehensive income (loss) for the year	-	-	(12,095)	-	32,133	20,038
Appropriation to legal reserve	-	-	(37)	37	-	-
Balances at December 31, 2009	77,008	1,045	(27,732)	10,862	(21,846)	39,337

See accompanying notes to consolidated financial statements.

**TACA INTERNATIONAL AIRLINES, S.A. AND SUBSIDIARIES**

**Consolidated Statement of Cash Flows**

Year ended December 31, 2009

(With corresponding figures of year ended December 31, 2008)

(In thousands of US dollars)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net loss	(12,095)	(16,075)
Adjustments for:		
Allowance for doubtful accounts	541	671
Allowance for inventory obsolescence	176	264
Deferred tax	(57)	(1,096)
Current tax	707	153
Depreciation and amortization	14,977	22,517
Maintenance provisions	21,379	8,675
Interest expense	4,570	5,974
Interest income	(1,613)	(4,539)
Impairment losses of rotable spare parts	667	1,000
Gain on disposal of assets	(10,198)	(6,811)
Valuation of derivative instruments	(400)	7,851
	<u>18,654</u>	<u>18,584</u>
Financial derivative instruments	20,033	27,761
Notes and accounts receivable	1,712	(51,624)
Expendable spare parts and supplies	1,395	(769)
Prepaid expenses	2,384	496
Deposits and other assets	8,034	(66,390)
Accounts payable and accrued expenses	(13,044)	4,600
Air traffic liability	(10,642)	1,139
Maintenance provisions	(24,663)	(3,503)
	<u>3,863</u>	<u>(69,706)</u>
Interest paid	(4,754)	(6,226)
Interest received	1,613	4,539
Income tax paid	(524)	(408)
Net cash provided by (used in) operating activities	<u>198</u>	<u>(71,801)</u>
Cash flows from investing activities:		
Major repairs	(555)	(1,090)
Acquisition of operating equipment and improvements	(13,368)	(20,858)
Proceeds from sale of assets	17,861	13,864
Available-for-sale securities	2,491	11
Net cash provided by (used in) investing activities	<u>6,429</u>	<u>(8,073)</u>
Cash flows from financing activities:		
Bank loans and long-term debt:		
New borrowings	49,328	47,998
Amortization payments	(54,725)	(28,027)
Net cash (used in) provided by financing activities	<u>(5,397)</u>	<u>19,971</u>
Net increase (decrease) in cash and cash equivalents	1,230	(59,903)
Cash and cash equivalents at beginning of year	27,664	87,567
Cash and cash equivalents at end of year	<u>28,894</u>	<u>27,664</u>
Supplemental disclosure of cash flow information		
Unwind payments of derivatives with collateral deposits	<u>18,766</u>	<u>-</u>

See accompanying notes to consolidated financial statements.

## TACA INTERNATIONAL AIRLINES, S.A. AND SUBSIDIARIES

(San Salvador, Republic of El Salvador)

### Notes to Consolidated Financial Statements

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#### (1) Reporting entity

TACA International Airlines, S.A. (the Company) is the legal designated flag air carrier of El Salvador. The Company was incorporated under the laws of El Salvador in November 1939 and is engaged in the commercial transportation of passengers, cargo, and mail. The Company's registered office is in San Salvador, El Salvador, Central America.

#### (2) Basis of preparation

##### (a) *Statement of compliance*

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), except as discussed in note 3-d (ii) and 3-g (ii). The Consolidated Financial Statements include the financial position, results of operations and cash flows of Exportec S. A., and Transportes del Sur, S. A., both under process of dissolution, and Aerospace Investments Limited, a wholly owned aircraft leasing subsidiary.

The Consolidated Financial Statements were authorized for issue by the Board of Directors on March 22, 2010.

##### (b) *Basis of measurement*

The Consolidated Financial Statements have been prepared on the historical cost basis except for the following items in the statement of financial position:

- derivative financial instruments are measured at fair value
- available-for-sale securities are measured at fair value

The methods used to measure fair values are discussed further in note 4.

##### (c) *Functional and presentation currency*

These Consolidated Financial Statements are presented in US dollars (US\$), which is the Company's functional currency. All financial information presented has been rounded to the nearest thousand.

##### (d) *Use of estimates and judgments*

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**TACA INTERNATIONAL AIRLINES, S.A. AND SUBSIDIARIES**  
(San Salvador, Republic of El Salvador)

**Notes to Consolidated Financial Statements**

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Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Consolidated Financial Statements is included in the following notes:

- Note 3-d – valuation of financial instruments
- Note 3-g – flight equipment, property, and other equipment
- Note 3-k – lease classification

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 3-j – maintenance deposits and provisions
- Note 3-o (iii) – frequent flyer program
- Note 20 – utilization of tax losses

**(3) Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by the Company's entities.

*(a) Basis of consolidation*

Subsidiaries are entities controlled by TACA International Airlines, S.A. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

*(b) Transactions eliminated on consolidation*

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

*(c) Foreign currency*

Transactions in foreign currencies are translated to the functional currency of the Company at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognized in the Consolidated Statement of Operations.

**TACA INTERNATIONAL AIRLINES, S.A. AND SUBSIDIARIES**  
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**Notes to Consolidated Financial Statements**

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(d) *Financial instruments*

(i) Non-derivative financial instruments

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through the Consolidated Statement of Operations) are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company has the following non-derivative financial instruments: investments in securities, trade and other receivables, cash and cash equivalents, deposits, loans and borrowings, trade and other payables, and available-for-sale financial assets.

***Cash and cash equivalents***

Comprise cash balances, demand deposits and time deposits with original maturities of three months or less.

Accounting for financial income and expenses is discussed in note 3(q).

**TACA INTERNATIONAL AIRLINES, S.A. AND SUBSIDIARIES**  
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**Notes to Consolidated Financial Statements**

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

Available-for-sale financial assets are non-derivate financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within equity in a fair value reserve. When an investment is derecognized, the cumulative gain or loss in equity in other comprehensive income is transferred to the Consolidated Statement of Operations.

***Receivables***

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortized cost using the effective interest method, less any impairment losses.

***Deposits***

Deposits comprise funds deposited with aircraft lessors, collateral on derivative contracts and certain other guarantee deposits recorded at the amount of cash delivered.

***Financial assets at fair value through the Consolidated Statement of Operations***

A financial asset is classified at fair value through the Consolidated Statement of Operations if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through the Consolidated Statement of Operations if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investing strategy. Upon initial recognition attributable transaction costs are recognized in the Consolidated Statement of Operations when incurred. Financial instruments at fair value through the Consolidated Statement of Operations are measured at fair value, and changes therein are recognised in the Consolidated Statement of Operations.

***Other***

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

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**Notes to Consolidated Financial Statements**

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(ii) Derivative financial instruments

The Company holds derivative financial instruments to hedge its exposure to interest rate risks arising from financing and leasing activities and to fluctuations in aircraft fuel prices. In accordance with policies established by management, the Company does not hold derivative financial instruments for trading purposes. The Company does not comply with all the requirements for hedge accounting for derivatives established by IFRS and, accordingly, under IFRS the amounts reported under the "Hedging reserve" caption in the Consolidated Statement of Stockholders' Equity would have been reported in the Consolidated Statement of Operations and as part of "Retained earnings (Accumulated deficit)". This departure from IFRS would have changed the net loss in 2009 of US\$12,095 into a net profit of US\$20,038 and resulted in an understatement in "Accumulated deficit" at December 31, 2009 of US\$21,846 (2008: resulted in an understatement of the net loss of US\$53,039 and an understatement of "Accumulated deficit" of US\$53,979).

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in the Consolidated Statement of Operations as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below. The fair value of interest rate swaps and interest, and crude oil and heating oil options is their market price at the Consolidated Statement of Financial Position date.

***Cash flow hedges***

When a derivative is designated as a hedge of the variability in cash flows of a recognized liability or a highly probable forecasted transaction, the gain or loss on the derivative financial instrument is recognized directly in equity as "Hedging reserve". The cumulative gain or loss is recognized in the Consolidated Statement of Operations as the liability is settled or the future transaction is realized.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecasted transaction occurs. The amount recognized in equity is transferred to the Consolidated Statement of Operations in the same period that the hedged item affects the Consolidated Statement of Operations.

(iii) Share capital

***Ordinary shares***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

## TACA INTERNATIONAL AIRLINES, S.A. AND SUBSIDIARIES

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### Notes to Consolidated Financial Statements

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- (e) *Expendable spare parts and supplies*  
Expendable spare parts relating to flight equipment are measured at the lower of average cost or net realizable value. Net realizable value is the estimated selling price, less selling expenses. Expendable spare parts are accounted for on a weighted average basis. Supplies are charged to the Consolidated Statement of Operations when used.
- (f) *Prepaid expenses*
- (i) Prepaid commissions  
Commissions paid for tickets sold are recorded as prepaid expenses and expensed when the tickets are flown.
- (ii) Prepaid rent  
Prepaid rent for aircraft corresponds to prepaid contractual amounts that will be applied to future lease payments over a term of less than one year.
- (g) *Flight equipment, property, and other equipment*
- (i) Recognition and measurement  
Flight equipment and other equipment are measured at cost less accumulated depreciation and accumulated impairment losses.
- Property, operating equipment, and improvements that are being built or developed for future use by the Company are recorded at cost as under-construction assets. When under-construction assets are ready for use, the accumulated cost is reclassified to the respective property, operating equipment, and improvements category.
- Borrowing costs related to the acquisition or construction of qualifying assets are capitalized and added to the cost of the asset.
- Gain and losses on disposal of an item of flight equipment, property and equipment are determined by comparing the proceeds from disposal with the carrying amount of flight equipment, property and equipment, and are recognized net within other operating income in the Consolidated Statement of Operations.
- (ii) Subsequent costs  
Major repairs are capitalized and depreciated over the shorter of the period until the next major repair or the remaining aircraft lease term.
- Repairs, replacements, and improvements that do not extend the remaining useful life are expensed when incurred. Expenses for routine maintenance and repair of flight equipment are charged to operating results when incurred.

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The estimated cost of the first major overhaul of an engine is amortized over a period of 25 years which is the estimated useful life of the aircraft. In accordance with IFRS, this estimated cost would be amortized over the period until the first major overhaul is expected to occur (normally around six years). Had the Company used this latter period of amortization, the balance of flight equipment at December 31, 2009 would have decreased by US\$2,562 (2008: decreased by US\$2,062), the accumulated deficit at that date would have increased by US\$2,562 (2008: increased by US\$2,062), and the net loss for the year ended December 31, 2009 would have increased by US\$500 (2008: net loss would have increased by US\$500).

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in the Consolidated Statement of Operations on a straight-line basis over the estimated useful lives of flight equipment, property, and other equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Leased assets are depreciated over the shorter of the lease term or their useful lives. Rotable spare parts for flight equipment are depreciated on the straight-line method, using rates that allocate the cost of these assets over the estimated useful life of the related aircraft. Land is not depreciated.

The estimated useful lives and residual values of the assets for both financial and income tax purposes for the current and comparative periods are as follows:

	<u>Depreciable life (years)</u>	<u>Residual value</u>
Flight equipment:		
Airbus A320	25	20%
Engines	10 – 25	10%
Rotable spare parts	5 – 12	10%-30%
Non-routine major repairs	3 – 4	None
Property	5 – 50	None
Airport equipment	2 – 15	None
Office furniture and other	2 – 10	None

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(h) *Intangible assets*

Software

Software acquisition costs include the purchase of software and associated implementation costs for internal use. Capitalized development costs include expenditures on materials, labor, and direct costs incurred for development or improvement of systems that will generate probable future economic benefits. Software amortization is calculated on a straight line basis for both financial and tax purposes over a maximum of three years.

(i) *Security deposits for aircraft and engines*

This item corresponds to security deposits for aircraft and engine lease agreements. Reimbursable aircraft deposits are stated at cost.

(j) *Maintenance deposits and provisions*

Maintenance deposits and provisions correspond to deposits paid to lessors based on cycles, flight hours, or fixed monthly amounts, depending on the specific nature of each provision. Rates used for the calculation and monthly amounts are specified in each lease agreement. Certain maintenance deposits paid to aircraft lessors are recorded within "Deposits and other assets" to the extent that such amounts are expected to be recoverable through future maintenance activities, and then recognized as maintenance costs when the underlying maintenance is performed. Deposits that are not probable of being used to fund future maintenance activities are expensed as incurred.

(k) *Leased assets*

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Company's Consolidated Statement of Financial Position.

(l) *Impairment*

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, and/or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing the recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than as suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statement of Operations.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in a fair value reserve in equity, to the Consolidated Statement of Operations. The cumulative loss that is removed from other comprehensive income and recognized in the Consolidated Statement of Operations is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in the Consolidated Statement of Operations. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in the Consolidated Statement of Operations, then the impairment loss is reversed, with the amount of the reversal recognized in the Consolidated Statement of Operations. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than expendable spare parts and supplies, and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in the Consolidated Statement of Operations.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) *Air traffic liability*

Revenue from the sale of transportation documents that have not been used, or the amount of revenue attributable to the unused portion of a transportation document sold, is deferred. Deferred unearned transportation revenue is recorded in the Consolidated Statement of Operations when the service is provided or one year after the sale of the transportation document.

(n) *Provisions*

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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(o) *Revenue*

(i) Passenger and cargo transportation

The Company recognizes revenue from passenger and cargo transportation as earned when the service is rendered.

(ii) Aircraft leasing

Aircraft leasing income is recognized in the Consolidated Statement of Operations when it is earned, according to the terms of each lease agreement.

(iii) Frequent flyer

The Company operates a frequent flyer loyalty program known as "Distancia". Distancia is designed to retain and increase traveler loyalty by offering incentives to travelers for their continued patronage. Under the Distancia program, miles are earned by flying on TACA or its alliance partners and by using the services of program partners for such things as credit card use, hotel stays, car rentals, and other activities.

The estimated fair value of providing free travel awards is accrued. This liability is adjusted periodically based on changes in patterns of awards redeemed and changes in the frequent flyer program, and is included in the Consolidated Statement of Financial Position under "Air traffic liability".

(p) *Lease payments*

Payments made under operating leases are recognized in the Consolidated Statement of Operations on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(q) *Finance income and finance costs*

Financial income comprises interest income on funds invested (including available-for-sale financial assets), foreign currency gains, changes in the fair value of financial assets at fair value through the Consolidated Statement of Operations and gains on interest rate hedging instruments that are recognized in the Consolidated Statement of Operations. Interest income is recognized as it accrues in the Consolidated Statement of Operations, using the effective interest method.

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Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through the Consolidated Statement of Operations, and losses on interest rate hedging instruments that are recognized in the Consolidated Statement of Operations. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the Consolidated Statement of Operations using the effective interest method.

(r) *Income tax*

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the Consolidated Statement of Operations except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(s) *Reserves*

(i) Legal reserve

Under current Salvadoran regulations, the Company must establish a legal reserve each year, equivalent to 7% of net earnings, and up to 20% of outstanding capital stock. This reserve must be maintained as prescribed by law, which requires that a portion be invested in certain types of assets. The Company has met both requirements.

(ii) Hedging reserve

Hedging reserve comprises the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

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(t) *Employee benefits*

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in the Consolidated Statement of Operations when they are due.

(ii) Termination benefits

Termination benefits are recognized as an expense when the Company is demonstrably committed.

(u) *New standards and interpretations*

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2009, and have not been applied in preparing these Consolidated Financial Statements:

- IFRS 9 *Financial Instruments*, published on November 12, 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to the Consolidated Statement of Operations at a later date. However, dividends on such investments are recognized in the Consolidated Statement of Operations, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in the Consolidated Statement of Operations.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

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The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

The Company is currently in the process of evaluating the potential effect of this standard. Given the nature of the Company's operations, this standard is not expected to have a significant impact on the Company's consolidated financial statements.

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Company's 2010 consolidated financial statements, with retrospective application required. The amendments are not expected to have a significant impact on the consolidated financial statements.

**(4) Determination of fair values**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*(a) Investments in equity and debt securities*

The fair value of financial assets at fair value through the Consolidated Statement of Operations and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

*(b) Derivatives*

The fair value of derivatives is based on market prices.

*(c) Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

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**(5) Financial risk management**

The Company has exposure to different risks from its use of financial instruments, namely credit risk, liquidity risk, and market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

**Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

**Receivables, net**

The Company's exposure to credit risk is influenced by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

Additionally, the Company is not exposed to significant concentrations of credit risk since most notes and accounts receivable arise from sales of airline tickets to individuals through travel agencies in various countries, including virtual agencies and other airlines. These notes and accounts receivable are short term in nature and are generally settled shortly after the sales are made through major credit card companies. Geographically there is no concentration of credit risk.

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There are no significant concentrations of credit risk at the Consolidated Statement of Financial Position date. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. See Note 21 for contractual cash flows.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

The Company enters into derivative contracts, and also incurs financial liabilities, in order to manage market risk. All such transactions are carried out within the guidelines set by the Risk Management Committee.

- (i) **Foreign currency risk**  
Most of the Company's transactions are in US dollars. Accordingly, exposure to foreign currency risk is minimal.
- (ii) **Interest rate risk**  
The Company incurs interest rate risk mainly on financial obligations with banks and aircraft lessors. Interest rate risk is managed through a mix of fixed and floating rates on loans and lease agreements, combined with interest rate swaps and options. Unrealized gains or losses included in the equity "Hedging reserve" are reclassified into interest expense as a yield adjustment in the same period in which the related interest payments on the LIBOR-based borrowings affect earnings.
- (iii) **Jet fuel prices**  
The Company utilizes crude oil and heating oil option contracts to hedge its exposure related to jet fuel price changes. Crude oil and heating oil option contracts are deemed to be a highly effective hedge because changes in their fair value are closely correlated with variations in jet fuel prices. The Company determines the fair value of option contracts by obtaining quotes from the counterparty. Unrealized gains or losses related to fuel hedge positions recorded in the equity "Hedging reserve" are expected to be realized mainly in 2010.

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**Capital management**

The Company's capital management policy is to maintain a sound capital base in order to safeguard the Company's ability to continue as a going concern, and in doing so, face its current and long-term obligations, provide returns for its shareholders, and maintain an optimal capital structure to reduce the cost of capital. The Company monitors capital on the basis of the debt-to-capital ratio.

Certain debt agreements require maintaining operating ratios and restrict the distribution of dividends. At December 31, 2009 and 2008, the Company was in compliance with these covenants.

There were no changes in the Company's approach to capital management during the year.

**(6) Cash and cash equivalents**

Cash and cash equivalents as of December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Cash on hand and bank deposits	19,307	17,127
Demand and time deposits	9,587	10,537
	<u>28,894</u>	<u>27,664</u>

The effective interest rate on demand and time deposits in 2009 is 1.12% (2008: 1.32%). The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is discussed in note 21.

**(7) Receivables, net**

Receivables as of December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Trade	11,381	20,917
Other	1,884	3,107
	<u>13,265</u>	<u>24,024</u>
Less allowance for doubtful receivables	(832)	(601)
	<u>12,433</u>	<u>23,423</u>

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Movement during the year in the allowance for doubtful receivables is as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	601	419
Bad debt expense	541	671
Write-offs against the allowance	(310)	(489)
Balance at end of year	<u>832</u>	<u>601</u>

**(8) Balances and transactions with related parties and personnel expenses**

Balances and transactions with related parties as of December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Balances with related parties:		
Short-term accounts receivable	<u>58,057</u>	<u>49,137</u>
Short-term accounts payable	<u>1,279</u>	<u>4,659</u>

The Company engaged in income and expense transactions with related parties for the subleasing of aircraft, maintenance, and administrative services for a total of US\$107,887 (2008: US\$129,507). These transactions are presented net in the Consolidated Statement of Operations.

Personnel expenses

Personnel expenses include regular and extraordinary compensation and social security taxes. For the years ended December 31, 2009 and 2008, those expenses amount to US\$35,506 and US\$37,220, respectively. For the year ended December 31, 2009 key management personnel compensation amounted to US\$2,454 (US\$2,064 in 2008).

**(9) Expendable spare parts and supplies, net**

Expendable spare parts and supplies as of December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Expendable spare parts	9,791	11,784
Less allowance for obsolescence	<u>3,356</u>	<u>4,058</u>
	6,435	7,726
Supplies	<u>1,875</u>	<u>2,156</u>
	<u>8,310</u>	<u>9,882</u>

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In 2009 and 2008, expendable spare parts and supplies in the amount of US\$5,736 and US\$7,459, respectively, were recognized as maintenance expenses.

Movement during the period in the allowance for obsolescence is as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	4,058	3,806
Expense for obsolete inventory	176	264
Write-offs against the allowance	(878)	(12)
Balance at end of year	<u>3,356</u>	<u>4,058</u>

**(10) Deposits and other assets**

Deposits and other assets as of December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Short term:		
Deposits with lessors	15,057	28,701
Collateral on derivative contracts	22,818	45,953
Others	2,424	2,940
	<u>40,299</u>	<u>77,594</u>
Long term:		
Deposits with lessors	67,384	46,198
Others	1,582	18,181
	<u>68,966</u>	<u>64,379</u>

As of December 31, 2009 and 2008, other short-term assets include restricted cash in the amount of US\$2,424 and US\$2,940, respectively to service the next quarterly payment of interest bearing liabilities.

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**(11) Prepaid expenses**

Prepaid expenses as of December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Prepaid commissions	1,859	2,060
Advance payments for future aircraft leases	3,344	4,972
Prepaid rent	5,350	5,644
Premiums for insurance policies	1,561	1,932
Other	511	401
	<u>12,625</u>	<u>15,009</u>

**(12) Investments**

Investments in equity shares as of December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
SITA	896	917
Other	88	87
Affiliated companies:		
Aviateca, S.A.	5,034	4,968
Nicaragüense de Aviación, S.A.	642	642
Líneas Aéreas Costarricenses, S.A.	5,695	5,695
Taca Honduras, S.A.	71	71
	<u>12,426</u>	<u>12,380</u>

The Company has less than 10% of the shares in the above mentioned companies. Those investments are carried at cost due to the absence of market quotations.

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**(13) Flight equipment, property and other equipment, net**

Flight equipment, property and other equipment as of December 31, 2009 and 2008 is as follows:

	<b>December 31, 2009</b>			
	<b><u>Flight equipment</u></b>	<b><u>Rotable spare parts</u></b>	<b><u>Other property and equipment</u></b>	<b><u>Total</u></b>
Cost:				
December 31, 2008	150,027	59,354	54,577	263,958
Additions	6,306	2,921	4,696	13,923
Disposals	(9,250)	(3,528)	(288)	(13,066)
Adjustments	-	(150)	(45)	(195)
December 31, 2009	<u>147,083</u>	<u>58,597</u>	<u>58,940</u>	<u>264,620</u>
Accumulated depreciation:				
December 31, 2008	72,970	30,556	18,064	121,590
Additions	4,859	4,153	4,691	13,703
Disposals	(2,404)	(2,106)	(300)	(4,810)
Impairment	-	667	-	667
December 31, 2009	<u>75,425</u>	<u>33,270</u>	<u>22,455</u>	<u>131,150</u>
Net balances:				
December 31, 2008	<u>77,057</u>	<u>28,798</u>	<u>36,513</u>	<u>142,368</u>
December 31, 2009	<u>71,658</u>	<u>25,327</u>	<u>36,485</u>	<u>133,470</u>

	<b>December 31, 2008</b>			
	<b><u>Flight equipment</u></b>	<b><u>Rotable spare parts</u></b>	<b><u>Other property and equipment</u></b>	<b><u>Total</u></b>
Cost:				
December 31, 2007	157,721	48,675	48,874	255,270
Additions	1,101	11,313	9,174	21,588
Disposals	(8,790)	(634)	(3,467)	(12,891)
Transfers	(11)	-	11	-
Adjustments	6	-	(15)	(9)
December 31, 2008	<u>150,027</u>	<u>59,354</u>	<u>54,577</u>	<u>263,958</u>
Accumulated depreciation:				
December 31, 2007	65,711	25,467	15,733	106,911
Additions	9,653	4,413	5,450	19,516
Disposals	(2,394)	(324)	(3,119)	(5,837)
Impairment	-	1,000	-	1,000
December 31, 2008	<u>72,970</u>	<u>30,556</u>	<u>18,064</u>	<u>121,590</u>
Net balances:				
December 31, 2007	<u>92,010</u>	<u>23,208</u>	<u>33,141</u>	<u>148,359</u>
December 31, 2008	<u>77,057</u>	<u>28,798</u>	<u>36,513</u>	<u>142,368</u>

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As of December 31, 2009, certain aircraft, rotatable spare parts, and other property with a net carrying value of \$85,010 (2008: US\$91,793) have been pledged to secure long-term debt.

In 2008, the Company recorded a \$10,126 gain resulting from the excess of insurance proceeds over the amortized cost of engines, as well as a compensation from the aircraft owner in consideration of all premium payments and other arrangements made by the Company to maintain insurance coverage in respect of the aircraft for amounts in excess of the insurance requirements under the applicable lease and financing agreements.

**(14) Intangible assets, net**

Intangible assets as of December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Cost:		
Opening balance	15,111	13,245
Additions	1,101	1,866
Ending balance	<u>16,212</u>	<u>15,111</u>
Accumulated amortization:		
Opening balance	14,655	11,654
Additions	1,274	3,001
Ending balance	<u>15,929</u>	<u>14,655</u>
Net balance	<u>283</u>	<u>456</u>

The amortization of intangible assets (software) is included as depreciation and amortization in the Consolidated Statement of Operations.

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**(15) Interest bearing liabilities**

Interest bearing liabilities which are measured at amortized cost, as of December 31, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Current:		
Bank loans	48,967	33,794
Long-term debt	11,652	15,626
Financial leases	5,407	5,125
	<u>66,026</u>	<u>54,545</u>
Non-Current:		
Long-term debt	19,212	30,684
Financial leases	37,677	43,083
	<u>56,889</u>	<u>73,767</u>

Terms and conditions of the Company's outstanding obligations for the years ended December 31, 2009 and 2008 were as follows:

	<u>Year of maturity</u>	<u>Weighted average interest rate</u>	<u>2009</u>		<u>2008</u>		
			<u>Face Value</u>	<u>Carrying Amount</u>	<u>Weighted average interest rate</u>	<u>Face Value</u>	<u>Carrying Amount</u>
Bank loans	2010	8.59%	48,967	48,967	7.05%	33,794	33,794
Long-term debt	2010 – 2018	2.43%	30,864	30,864	5.81%	46,310	46,310
Financial leases	2017	0.03%	44,435	43,084	2.96%	49,787	48,208
Total interest-bearing liabilities			<u>124,266</u>	<u>122,915</u>		<u>129,891</u>	<u>128,312</u>

All interest bearing liabilities are denominated in US dollars.

In 2009, the Company obtained loans amounting to US\$49,328 from different financial institutions for working capital purposes. These loans include fixed and floating interest rates. Available revolving lines of credit totaling US\$3,000 were also used for working capital.

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Future payments on long-term debt for the periods ended December 31, 2009 and 2008 are as follows:

	Years					Total
	One	Two	Three	Four	Five and thereafter	
2009	11,652	7,603	676	710	10,223	30,864
2008	15,626	11,472	7,603	676	10,933	46,310

Financial leases

Future payments of financial lease obligations for the years ended December 31, are as follows:

	December 31, 2009		
	Present value of minimum lease payments	Interest	Future minimum lease payments
Less than one year	5,407	139	5,546
Between one and five years	31,827	2,842	34,669
More than five years	5,850	129	5,979
	<u>43,084</u>	<u>3,110</u>	<u>46,194</u>
	December 31, 2008		
	Present value of minimum lease payments	Interest	Future minimum lease payments
Less than one year	5,125	630	5,755
Between one and five years	30,169	3,111	33,280
More than five years	12,914	462	13,376
	<u>48,208</u>	<u>4,203</u>	<u>52,411</u>

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**(16) Accounts payable and accrued expenses**

Accounts payable and accrued expenses as of December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Accounts payable	34,207	27,404
Employee benefit provisions	7,061	3,861
Other payables	2,156	9,543
Other accrued expenses	19,933	33,713
	<u>63,357</u>	<u>74,521</u>

**(17) Maintenance provisions**

Movement in maintenance provisions as of December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Balances at beginning of year	46,802	41,630
Provisions made	21,379	8,675
Provisions used	<u>(24,663)</u>	<u>(3,503)</u>
Balances at end of year	<u>43,518</u>	<u>46,802</u>
Current	13,987	23,678
Non – current	<u>29,531</u>	<u>23,124</u>
	<u>43,518</u>	<u>46,802</u>

A significant portion of the expected cash flows indicated above will be compensated with the aircraft lessor deposits at December 31, 2009 (see note 10).

**(18) Other operating income**

Other operating income as of December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Frequent flyer program	16,196	10,259
Ground operations	2,524	4,129
Other	<u>12,137</u>	<u>9,588</u>
	<u>30,857</u>	<u>23,976</u>

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**(19) Financial income and expense  
Recognized in the Consolidated Statement of Operations**

Net financial income and expense recognized in the Consolidated Statement of Operations as of December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Interest income on demand deposits and time deposits	1,613	4,539
Interest expense on financial liabilities measured at amortized cost	(4,570)	(5,974)
Net change in fair value of cash flow hedges transferred from equity	(9,594)	(7,137)
Net change in fair value of derivatives through income	400	(7,851)
Net foreign exchange loss	235	(1,901)
	<u>(11,916)</u>	<u>(18,324)</u>

As of December 31, 2009 a net loss of US\$4,564 (net gain of US\$30,658 in 2008) in fair value of cash flow hedges transferred from equity is included in the consolidated statement of operations within fuel expense.

**Recognized directly in equity**

Net finance income and expense recognized directly in equity for the years ended December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Net change in fair value of cash flow hedges recognized in hedging reserve	<u>17,975</u>	<u>(49,167)</u>

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**(20) Income taxes**

Income tax expense as of December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
<b>Current tax expense</b>		
Current period	(697)	(136)
Adjustment for prior periods	(10)	(17)
	<u>(707)</u>	<u>(153)</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	57	1,096
	<u>(650)</u>	<u>943</u>

For the years ended December 31, 2009 and 2008, expected taxes are reconciled to the provision for income taxes as follows:

	<u>2009</u>	<u>2008</u>
Loss before income tax	<u>(11,445)</u>	<u>(17,018)</u>
Income tax using the Companies domestic tax rate	-	-
Effect of tax rates in foreign jurisdictions	1,302	(1,090)
Non deductible expenses	186	788
Tax exempt income	(848)	(658)
Under provided in prior periods	10	17
	<u>650</u>	<u>(943)</u>

As a result of ratification of a reciprocal tax exemption by the governments of the United States of America and El Salvador, the Company is exempt from U.S. federal income taxes, except that some individual states have the right to tax entities operating within their jurisdiction.

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Significant components of deferred tax assets as of December 31, 2009 and 2008 are as follows:

	<b>Assets</b>	
	<b>2009</b>	<b>2008</b>
Receivables	33	20
Provisions	89	90
Frequent flyer	699	253
Loss carryforwards	728	1,129
	<u>1,549</u>	<u>1,492</u>

Movements in deferred tax items as of December 31, 2009 and 2008 are as follows:

	<b>2007</b>	<b>Income</b>	<b>2008</b>	<b>Income</b>	<b>2009</b>
Receivables	20	-	20	13	33
Provisions	66	24	90	(1)	89
Frequent flyer	310	(57)	253	446	699
Tax loss carryforwards	-	1,129	1,129	(401)	728
	<u>396</u>	<u>1,096</u>	<u>1,492</u>	<u>57</u>	<u>1,549</u>

**(21) Financial instruments**

(i) Liquidity risk

The following are the contractual maturities of non-derivative financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

**December 31, 2009**

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Years</b>				
			<b>One</b>	<b>Two</b>	<b>Three</b>	<b>Four</b>	<b>Five and thereafter</b>
Bank loans	48,967	48,967	48,967	-	-	-	-
Accounts payable and accrued expenses	63,357	63,357	63,357	-	-	-	-
Due to related parties	1,279	1,279	1,279	-	-	-	-
Long-term debt	30,864	34,929	12,266	8,071	1,126	1,220	12,246
Financial leases	43,084	46,194	5,546	6,137	6,685	7,065	20,761
	<u>187,551</u>	<u>194,726</u>	<u>131,415</u>	<u>14,208</u>	<u>7,811</u>	<u>8,285</u>	<u>33,007</u>

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**December 31, 2008**

	Carrying amount	Contractual cash flows	Years					Five and thereafter
			One	Two	Three	Four		
Bank loans	33,794	33,794	33,794	-	-	-	-	
Accounts payable and accrued expenses	74,521	74,521	74,521	-	-	-	-	
Due to related parties	4,659	4,659	4,659	-	-	-	-	
Long-term debt	46,310	51,891	17,053	12,376	8,235	1,166	13,061	
Financial leases	48,208	52,411	5,755	5,908	6,441	6,751	27,556	
	<u>207,492</u>	<u>217,276</u>	<u>135,782</u>	<u>18,284</u>	<u>14,676</u>	<u>7,917</u>	<u>40,617</u>	

The following table indicates the periods in which the cash flows associated with derivatives are expected to occur:

**December 31, 2009**

	Carrying amount	Expected cash flows	Years				Five and thereafter
			One	Two	Three	Four	
<b>Interest rate swaps</b>							
Liabilities	(25,652)	(21,434)	(9,653)	(7,341)	(3,285)	(1,209)	54
<b>Fuel options</b>							
Assets	130	130	130	-	-	-	-
Liabilities	(1,433)	(1,413)	(1,413)	-	-	-	-
	<u>(26,955)</u>	<u>(22,717)</u>	<u>(10,936)</u>	<u>(7,341)</u>	<u>(3,285)</u>	<u>(1,209)</u>	<u>54</u>

**December 31, 2008**

	Carrying amount	Expected cash flows	Years				Five and thereafter
			One	Two	Three	Four	
<b>Interest rate swaps</b>							
Liabilities	(30,836)	(36,762)	(7,492)	(10,528)	(8,245)	(5,128)	(5,369)
<b>Fuel options</b>							
Liabilities	(31,437)	(32,291)	(30,843)	(1,448)	-	-	-
	<u>(62,273)</u>	<u>(69,053)</u>	<u>(38,335)</u>	<u>(11,976)</u>	<u>(8,245)</u>	<u>(5,128)</u>	<u>(5,369)</u>

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The following table indicates the periods in which the impact on the Consolidated Statement of Operations associated with derivative liabilities are expected to occur:

**December 31, 2009**

	Carrying amount	Expected impact	Years				Five and thereafter
			One	Two	Three	Four	
<b>Interest rate swaps</b>	1,642	(1,614)	(991)	(624)	(41)	(2)	44

**December 31, 2008**

	Carrying amount	Expected impact	Years				Five and thereafter
			One	Two	Three	Four	
<b>Interest rate swaps</b>	29,687	29,687	5,740	6,915	6,778	5,650	4,604
<b>Fuel options</b>	24,292	24,292	24,292	-	-	-	-
	53,979	53,979	30,032	6,915	6,778	5,650	4,604

The 2009 expected cash flows indicated above will be settled with the collateral deposits at December 31, 2009 held by counterparties (see note 10).

Under its fuel hedging program, the Company enters into crude oil and heating oil option contracts with approved counterparties for a period generally not exceeding six months.

Due to the decline in fuel prices, the Company exited most of the open positions by terminating the contracts or entering into reverse contracts with the same counterparties for the same quantity and duration of the existing contracts with a notional amount of 645,000 barrels of crude oil and 19,320,000 gallons of heating oil. The cost of unwinding the derivative contracts amounted to \$36,694 which had been fully paid as of December 31, 2009.

As of December 31, 2009, the Company had entered into call Spread transactions hedging approximately 1.6% of the Company's projected 2010 fuel requirements, represented by open positions with a notional contract amount of 45,000 barrels of crude oil (Cap prices ranging between \$80.75 and \$82.00 per barrel with a cap spread of \$15).

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As of December 31, 2008, the Company had entered into collar transactions hedging approximately 8.69% of the Company's projected 2009 fuel requirements, represented by open positions with a notional contract amount of 180,000 barrels of crude oil (Cap prices ranging between \$80 and \$120 per barrel) and 2,520,000 gallons of heating oil (cap prices ranging between \$2.25 and \$4.99 per gallon).

The Company has derivative instruments to hedge its exposure to interest rate risk primarily on financial obligations to banks and aircraft lessors. As of December 31, 2009, the Company had the following open positions:

	Rate		Notional
	Min.	Max.	
Loans	3.55%	5.21%	\$ 146,858
Leases	4.36%	5.51%	187,649
			<u>\$ 334,507</u>

As of December 31, 2008, the Company had the following open positions:

	Rate		Notional
	Min.	Max.	
Loans	3.55%	5.21%	\$ 164,880
Leases	4.36%	5.51%	193,828
			<u>\$ 358,708</u>

*Sensitivity analysis*

As of December 31, 2009, a general increase of 100bps in interest rates on bank loans would be expected to increase the Company's loss by less than 7% (2008: less than 5%), taking into account interest rate swaps and options derivatives.

Interest rates and the repricing periods for interest-bearing financial obligations are as follows:

	December 31, 2009			
	Weighted average interest rate	Total	6 months or less	7-12 months
Bank loans	8.59%	48,967	48,967	-
Long-term debt	2.43%	30,864	28,624	2,240
Finance leases	0.03%	43,084	43,084	-
		<u>122,915</u>	<u>120,675</u>	<u>2,240</u>

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<b>December 31, 2008</b>				
	<b>Weighted average interest rate</b>	<b>Total</b>	<b>6 months or less</b>	<b>7-12 months</b>
Bank loans	7.05%	33,794	33,794	-
Long-term debt	5.81%	46,310	37,366	8,944
Finance leases	2.96%	48,208	48,208	-
		<u>128,312</u>	<u>119,368</u>	<u>8,944</u>

(ii) Interest rate risk

Maturities of interest rate swaps and options classified as hedges for the years ended December 31 are as follows:

<b>December 31, 2009</b>							
		<b>Years</b>					
	<b>Interest rates</b>	<b>One</b>	<b>Two</b>	<b>Three</b>	<b>Four</b>	<b>Five and thereafter</b>	<b>Total</b>
Loans	4.19%-5.21%	16,352	31,951	18,030	2,956	19,037	88,326
Leases	4.36%-5.51%	7,444	7,985	8,567	163,653	-	187,649

<b>December 31, 2008</b>							
		<b>Years</b>					
	<b>Interest rates</b>	<b>One</b>	<b>Two</b>	<b>Three</b>	<b>Four</b>	<b>Five and thereafter</b>	<b>Total</b>
Loans	4.10%-5.21%	14,759	16,352	31,951	18,030	21,993	103,085*
Leases	4.36%-5.51%	6,179	7,444	7,985	8,567	163,653	193,828

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Maturities of interest rate swaps that are not classified as hedges are as follows:

<b>December 31, 2009</b>							
<b>Years</b>							
	<b>Interest rates</b>	<b>One</b>	<b>Two</b>	<b>Three</b>	<b>Four</b>	<b>Five and thereafter</b>	<b>Total</b>
Loans	3.55%-4.80%	3,432	50,702	711	749	2,938	58,532

<b>December 31, 2008</b>							
<b>Years</b>							
	<b>Interest rates</b>	<b>One</b>	<b>Two</b>	<b>Three</b>	<b>Four</b>	<b>Five and thereafter</b>	<b>Total</b>
Loans	3.55%-4.40%	3,263	3,432	50,702	711	3,687	61,795**

\* Includes derivative contracts that were effective in 2009 with a notional amount of \$12,864.

\*\* Includes derivative contracts that were effective in 2009 with a notional amount of \$30,000.

The Consolidated Statement of Operations includes an unrealized gain on derivative instruments in the amount of US\$400 (2008: unrealized loss of US\$7,851).

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(iii) Fair value measurements

**Fair values versus carrying amounts**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

	Note	2009		2008	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets carried at fair value</b>					
Available-for-sale securities		-	-	2,491	2,491
Fuel hedge	21	130	130	-	-
		<u>130</u>	<u>130</u>	<u>2,491</u>	<u>2,491</u>
<b>Liabilities carried at fair value</b>					
Fuel hedge	21	1,433	1,433	31,437	31,437
Interest rate hedge	21	25,652	25,652	30,836	30,836
		<u>27,085</u>	<u>27,085</u>	<u>62,273</u>	<u>62,273</u>
	Note	2009		2008	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets carried at amortized cost</b>					
Cash and cash equivalents	6	28,894	28,894	27,664	27,664
Receivables, net	7	12,433	12,433	23,423	23,423
Related parties	8	58,057	58,057	49,137	49,137
Deposits	10	109,265	109,265	141,973	141,973
		<u>208,649</u>	<u>208,649</u>	<u>242,197</u>	<u>242,197</u>
<b>Liabilities carried at amortized cost</b>					
Accounts payable	16	34,207	34,207	27,404	27,404
Related parties	8	1,279	1,279	4,659	4,659
Bank loans and long-term debt	15	79,831	78,949	80,104	77,906
Finance lease	15	43,084	41,752	48,208	46,756
		<u>158,401</u>	<u>156,187</u>	<u>160,375</u>	<u>160,375</u>

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The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or
- Level 3** inputs are unobservable inputs for the asset or liability

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following is a listing of our assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy.

**December 31, 2009**

		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>					
Aircraft fuel derivatives	\$	<u>-</u>	<u>\$ 130</u>	<u>\$ -</u>	<u>\$ 130</u>
<b>Liabilities</b>					
Aircraft fuel derivatives		-	1,433	-	1,433
Interest rate swaps		-	25,652	-	25,652
	\$	<u>-</u>	<u>\$ 27,085</u>	<u>\$ -</u>	<u>\$ 27,085</u>

**December 31, 2008**

		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>					
Available-for-sale securities	\$	<u>2,491</u>	<u>-</u>	<u>-</u>	<u>\$ 2,491</u>
<b>Liabilities</b>					
Aircraft fuel derivatives		-	31,437	-	31,437
Interest rate swaps		-	30,836	-	30,836
	\$	<u>-</u>	<u>\$ 62,273</u>	<u>\$ -</u>	<u>\$ 62,273</u>

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**(22) Operating leases**

**(a) Operating lease agreements (as lessee)**

The Company leases certain aircraft and engines as well as airport terminal space, ground facilities, office space, and equipment under non-cancellable operating leases. At December 31, 2009 the Company leased 45 aircraft and seven spare engines, with initial lease terms and expiration dates ranging from 2010 to 2021. The Company's leases do not include residual value guarantees or purchase options. Some aircraft leases can be renewed at rates based on fair market value at the end of the lease term for 12 to 30 additional months.

Total lease expense for the years ended December 31, 2009 and 2008 was US\$59,188 and US\$59,589, respectively.

As of December 31, 2009, minimum future lease payments under all non-cancellable operating leases are as follows:

	<u>Aircraft</u>	<u>Non-aircraft</u>
Less than one year	126,238	3,139
Between one and five years	411,968	9,922
More than five years	308,969	2,245
	<u>847,175</u>	<u>15,306</u>

As of December 31, 2008, minimum future lease payments under all non-cancellable operating leases are as follows:

	<u>Aircraft</u>	<u>Non-aircraft</u>
Less than one year	66,862	2,618
Between one and five years	177,929	7,655
More than five years	41,980	4,028
	<u>286,771</u>	<u>14,301</u>

**(b) Operating lease agreements (as lessor)**

As of December 31, 2009, the Company has subleased one Airbus A-320 under a wet lease agreement (ACMI, aircraft, crew, maintenance and insurance). The wet lease agreement has a three-year term.

Total lease income for the years ended December 31, 2009 and 2008 is US\$20,420 and US\$20,374, respectively.

Minimum future projected income from the above operating lease is US\$7,425 (2008: US\$7,425). The wet lease contract expires in December 2010.