

CONSOLIDATED REPORT AND ACCOUNTS



**THERE IS SOMETHING
DIFFERENT IN THE AIR**
ANNUAL REPORT AND ACCOUNTS
2007

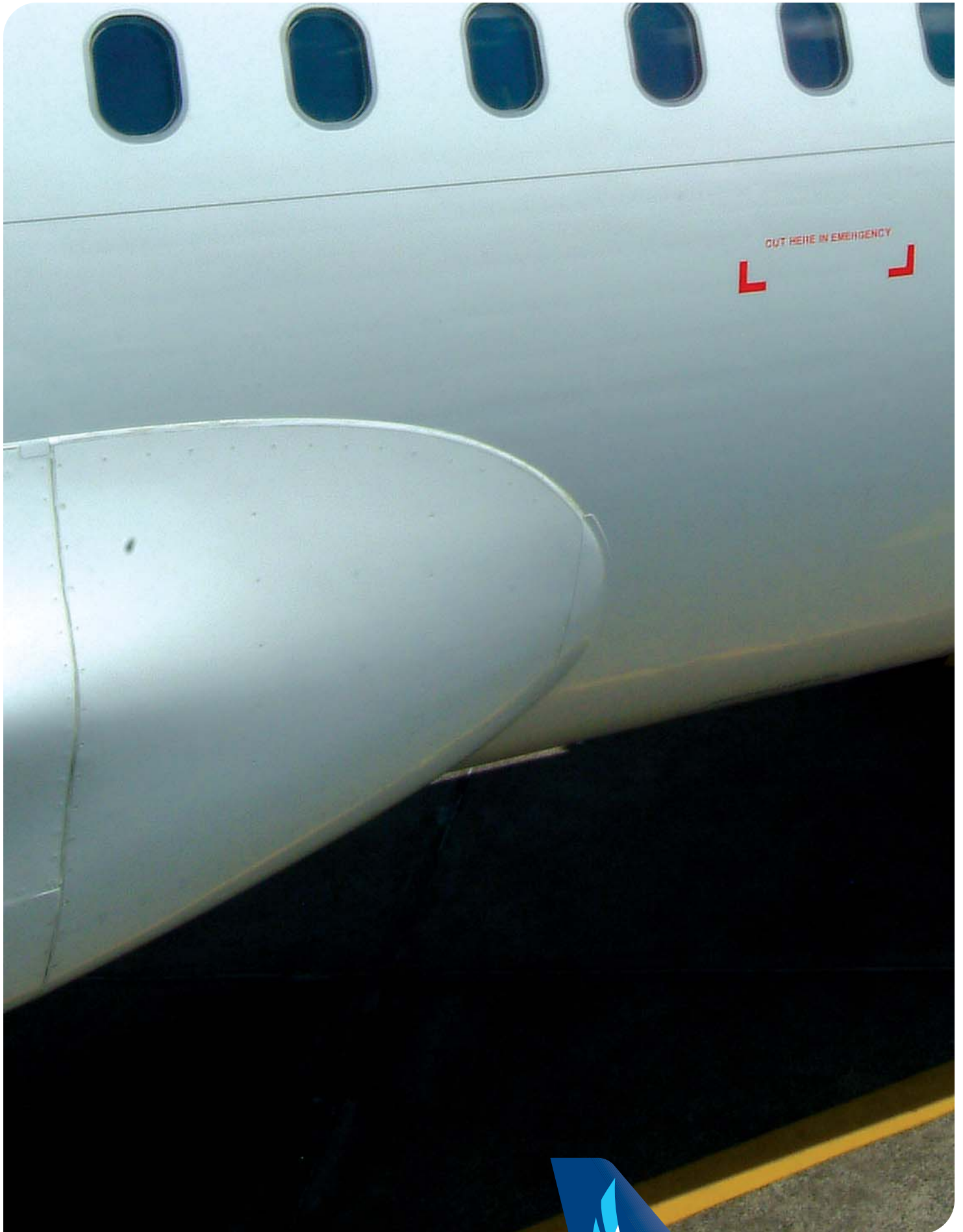
Grupo



SATA

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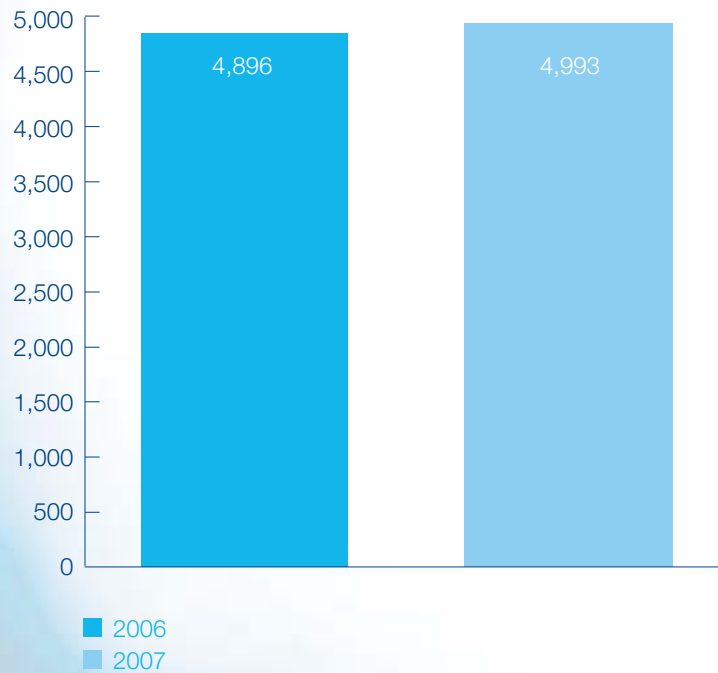


ECONOMIC SITUATION

Performance

The Net Profit for 2007 of the Consolidated SATA Group was €k 4,993, similar to the profit in 2006.

Net Profit (€k)



1947 | SATA IS BORN

SATA – Sociedade Açoreana de Transportes Aéreos is created and spreads its wings with a Beechcraft named 'Açor'. The Azores are now closer to the rest of the world.



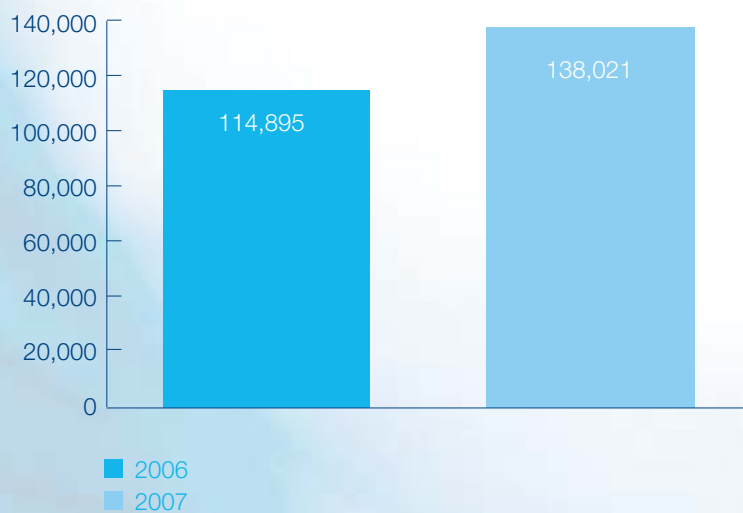


Unit: €k (thousand euros)	2006	2007
Operating income	201,766	233,283
Operating costs	-198,605	-231,278
Operating profit/loss	3,161	2,005
Financial profit/loss	-430	-232
Current profit/loss	2,732	1,773
Extraordinary profit	2,962	3,034
Income tax for the year	-798	186
Net profit for the year	4,896	4,993

FINANCIAL SITUATION

The Net Assets of the Group were €k 138,021, which represents an increase of €k 23,126 compared with the previous year.

Net Assets (€k)



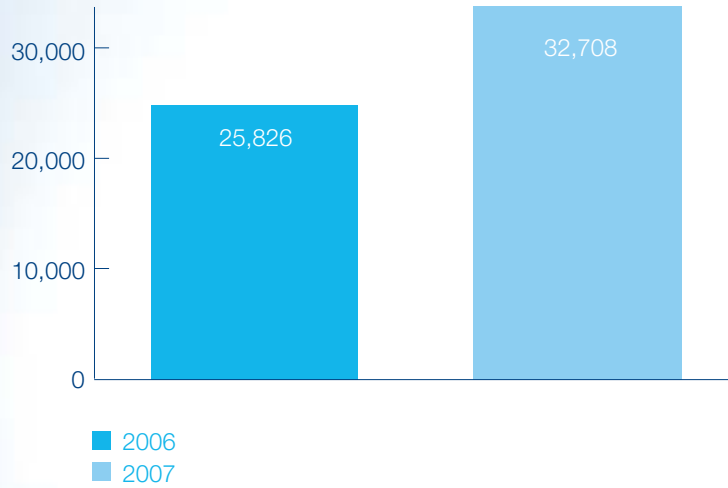
1957 | SATA HELPS VICTIMS OF THE CAPELINHOS TRAGEDY

SATA in partnership with Slick Airways provides travel assistance to victims of the Capelinhos Volcano tragedy, flying them from the Lajes air base to the United States.

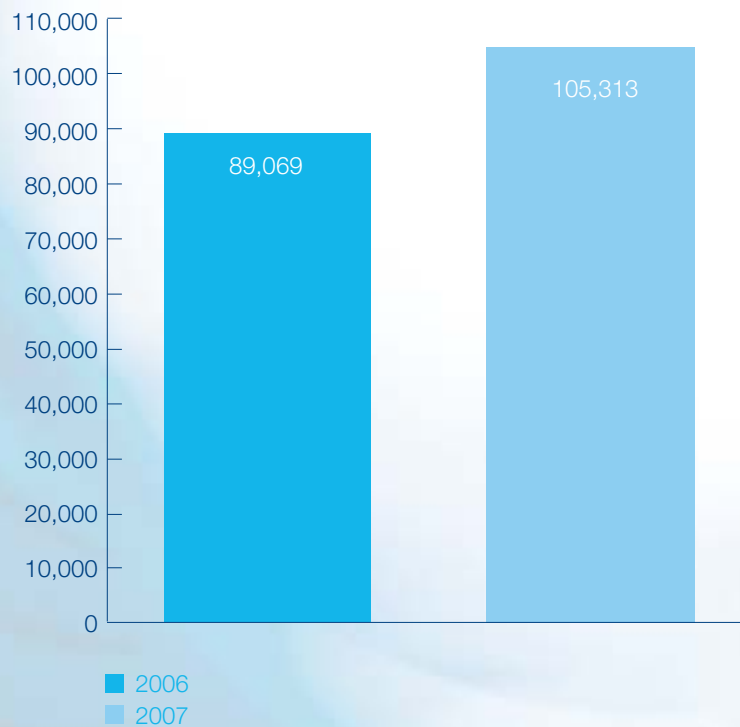




Net Worth (€k)



Liabilities (€k)



1959 | SATA PURCHASES TWA STRUCTURE IN SANTA MARIA

SATA acquires the TWA structure at the airport of Santa Maria, to realise its strategy of growth and expansion.





Proposal for Appropriation of Profit

In accordance with legal and statutory provisions, the Board of Directors of SATA Air Açores proposes the following appropriation of the net profit calculated in the year 2007, amounting to € 4,993,186.89.

- Legal Reserve	€ 249,659.34
- Retained Earnings	€ 4,743,527.55
	<hr/>
	€ 4,993,186.89

Ponta Delgada, 20 May 2008

THE BOARD OF DIRECTORS

António José Vasconcelos
Franco Gomes
de Menezes
(Chairman)

Luísa Maria Estrela Rego
Miranda Schanderl
(Director)

António Maurício do Couto
Tavares de Sousa
(Director)

Luís Filipe Soares Borges
da Silveira
(Director)

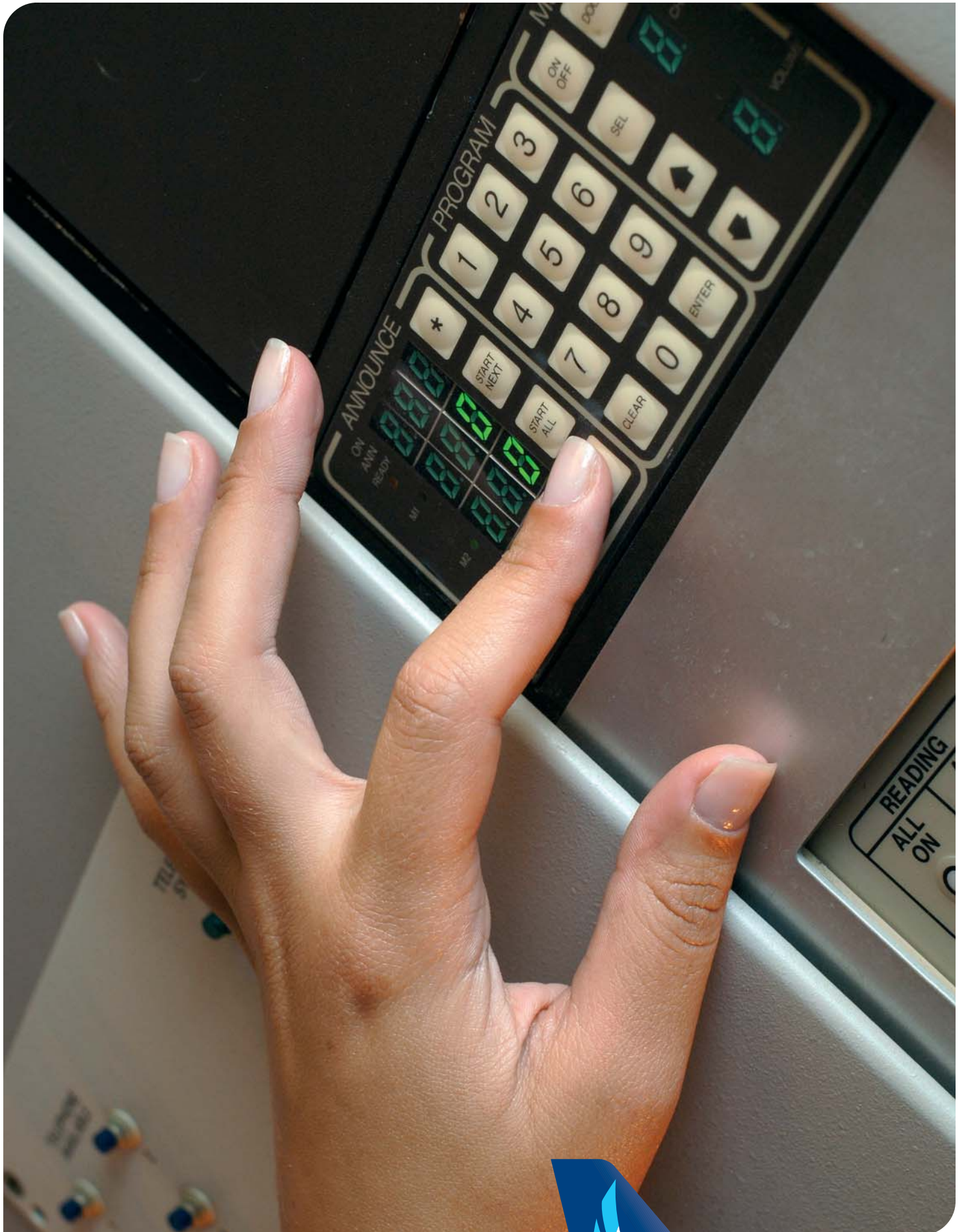


1963 | SATA PURCHASES ITS FIRST DC-3

SATA receives its first DC-3 aircraft, from the Irish company Aer Lingus.







**CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2007 AND 2006**

SATA - SOCIEDADE DE TRANSPORTES AÉREOS, SGPS, S.A. AND SUBSIDIARIES

(Amounts in euros)

Assets	Notes	Gross assets	Depreciation and adjustments	Net assets	2006
FIXED ASSETS:					
Tangible fixed assets:					
Land and natural resources	27	73,313	-	73,313	73,313
Buildings and other constructions	27	717,941	(188,235)	529,706	562,036
Plant and machinery	27	70,851,872	(46,702,978)	24,148,894	17,392,556
Vehicles	27	604,055	(396,474)	207,581	136,172
Tools and utensils	27	983,853	(880,792)	103,061	128,057
Fixtures and fittings	27	5,833,643	(4,121,023)	1,712,620	1,196,634
Other tangible fixed assets	27	6,198,756	(4,453,763)	1,744,993	2,132,622
Fixed assets in progress	27	12,400	-	12,400	12,400
Advances on tangible fixed assets	27	-	-	-	2,405,658
		<u>85,275,833</u>	<u>(56,743,265)</u>	<u>28,532,568</u>	<u>24,039,448</u>
Financial investments					
Holdings					
in subsidiary companies	27 e 46	138,246	(28,871)	109,375	109,375
Securities and other investments	27	18,594	-	18,594	18,594
		<u>156,840</u>	<u>(28,871)</u>	<u>127,969</u>	<u>127,969</u>
CURRENT ASSETS:					
Inventory:					
Raw materials and consumables	32 e 56	3,053,764	(1,103,636)	1,950,128	1,621,027
Accounts receivable - Short term:					
Trade debtors		18,168,761	-	18,168,761	13,363,193
Doubtful debts	32	309,277	(309,277)	-	-
Advances to suppliers		1,195,331	-	1,195,331	273,376
Taxes and contributions recoverable	51	865,336	-	865,336	3,804,853
Other debtors	55	35,686,849	-	35,686,849	33,736,182
		<u>56,225,554</u>	<u>(309,277)</u>	<u>55,916,277</u>	<u>51,177,604</u>
Banks and cash:					
Bank deposits	60	42,272,907	-	42,272,907	33,820,672
Cash in hand	60	98	-	98	11,224
		<u>42,273,005</u>	<u>-</u>	<u>42,273,005</u>	<u>33,831,896</u>
ACCRUALS AND DEFERRALS:					
Accrued income	52	695,723	-	695,723	327,441
Deferred costs	52	3,801,144	-	3,801,144	3,770,061
Deferred tax assets		4,723,943	-	4,723,943	-
		<u>9,220,810</u>	<u>-</u>	<u>9,220,810</u>	<u>4,097,502</u>
Total depreciation			(56,743,265)		
Total adjustments			(1,441,784)		
Total assets		<u>196,205,806</u>	<u>(58,185,049)</u>	<u>138,020,757</u>	<u>114,895,446</u>

The notes form an integral part of the consolidated balance sheet as at 31 December 2007.

THE CHARTERED ACCOUNTANT

António Jorge Ferreira da Silva

**CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2007 AND 2006**

SATA - SOCIEDADE DE TRANSPORTES AÉREOS, SGPS, S.A. AND SUBSIDIARIES

(Amounts in euros)

Equity and liabilities	Notes	2007	2006
EQUITY:			
Capital	53 e 54	18,000,000	18,000,000
Share premium	54	3,315,342	3,315,342
Adjustments to holdings in subsidiaries and associated companies	54	1,503,598	(384,625)
Legal reserves	54	244,786	-
Retained earnings	54	4,650,935	-
Consolidated net profit for the year	54	4,993,187	4,895,721
Total equity		<u>32,707,848</u>	<u>25,826,438</u>
LIABILITIES:			
PROVISIONS:			
Provisions for pensions	21.i) e 46	20,599,259	22,064,468
Other provisions	46	27,844,715	17,585,293
		<u>48,443,974</u>	<u>39,649,761</u>
Accounts payable - Medium and long term:			
Bank loans	50	-	1,346,755
Trade accounts payable, fixed assets	47	6,604,340	2,539,559
		<u>6,604,340</u>	<u>3,886,559</u>
Accounts payable - Short term:			
Bank loans	50	1,350,371	3,087,680
Trade creditors		16,652,258	16,045,322
Advances from customers (tickets to be used)	23.h)	2,295,303	2,566,098
Advances from customers		5,074,337	1,234,315
Trade accounts payable, fixed assets	47	6,162,064	5,017,505
Taxes and contributions payable	51	3,336,204	1,039,011
Other creditors	55	5,389,573	8,380,456
		<u>40,260,110</u>	<u>37,370,387</u>
ACCRUALS AND DEFERRALS:			
Accrued costs	52	7,101,960	6,394,972
Deferred income	52	2,902,525	1,767,574
		<u>10,004,485</u>	<u>8,162,546</u>
Total liabilities		<u>105,312,909</u>	<u>89,069,008</u>
Total equity and liabilities		<u>138,020,757</u>	<u>114,895,446</u>

The notes form an integral part of the consolidated balance sheet as at 31 December 2007.

THE CHARTERED ACCOUNTANT

António Vasconcelos
Franco Gomes
de Menezes
(Chairman)

Lúisa Maria
Estrela Miranda
Schanderl
(Director)

António Maurício
do Couto
Tavares de Sousa
(Director)

Luís Filipe
Soares Borges
da Silveira
(Director)


**PROFIT AND LOSS ACCOUNTS BY NATURE FOR THE YEARS
ENDED 31 DECEMBER 2007 AND 2006**

SATA - SOCIEDADE DE TRANSPORTES AÉREOS, SGPS, S.A. AND SUBSIDIARIES

(Amounts in euros)

COSTS AND LOSSES	Notes	2007	2006
Cost of materials consumed	56	2,341,009	1,935,769
External supplies and services	57	158,122,936	136,046,938
Personnel costs:			
Salaries		33,934,516	30,889,557
Pensions	21.i)	4,976,566	4,022,330
Social charges		<u>9,459,563</u>	<u>7,568,649</u>
		48,370,645	42,480,536
Depreciation of tangible fixed assets	27	8,240,623	7,172,629
Adjustments	32	8,838	45,123
Provisions	46	<u>14,071,026</u>	<u>10,811,152</u>
		22,320,487	18,028,904
Taxes		27,967	35,656
Other operating expenses		<u>94,787</u>	<u>77,235</u>
(A)		231,277,831	198,605,038
Interest payable and similar charges	44	<u>7,933,957</u>	<u>4,468,776</u>
(C)		239,211,788	203,073,814
Extraordinary expenses	45	<u>437,887</u>	<u>218,053</u>
(E)		239,463,506	203,073,814
Income tax for the year		<u>(186,169)</u>	<u>798,093</u>
(G)		239,463,506	204,089,960
Consolidated net profit for the year		<u>4,991,087</u>	<u>4,902,939</u>
		<u>244,456,693</u>	<u>208,985,681</u>

The notes form an integral part of the profit and loss account by nature as at 31 December 2007.

THE CHARTERED ACCOUNTANT

António Jorge Ferreira da Silva


**PROFIT AND LOSS ACCOUNTS BY NATURE FOR THE YEARS
ENDED 31 DECEMBER 2007 AND 2006**

SATA - SOCIEDADE DE TRANSPORTES AÉREOS, SGPS, S.A. AND SUBSIDIARIES

(Amounts in euros)

<u>INCOME AND GAINS</u>	<u>Notes</u>	<u>2007</u>	<u>2006</u>
Services rendered	36	209,897,597	180,236,343
Supplementary income		1,620,159	1,654,464
Operating subsidies	23.g) and 58	21,577,077	19,803,210
Other operating income		158,168	-
Reversals of depreciation and adjustments (B)	32	<u>30,188</u>	<u>72,368</u>
		23,385,592	21,530,042
		<u>233,283,189</u>	<u>201,766,385</u>
Interest receivable and similar income (D)	44	<u>7,701,515</u>	<u>4,039,218</u>
		240,984,704	205,805,603
Extraordinary income	45	3,471,989	3,180,078
(F)		<u>244,456,693</u>	<u>208,985,681</u>
Operating profit:	(B) - (A)	2,005,358	3,161,347
Financial profit:	(D-B) - (C-A)	(232,442)	(429,558)
Current profit:	(D) - (C)	1,772,916	2,731,789
Profit before taxes:	(F) - (E)	4,807,018	5,693,814
Net profit for the year:	(F) - (G)	4,993,187	4,895,721

The notes form an integral part of the profit and loss account by nature as at 31 December 2007.

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**PROFIT AND LOSS ACCOUNTS BY FUNCTION FOR THE YEARS
ENDED 31 DECEMBER 2007 AND 2006**

SATA - SOCIEDADE DE TRANSPORTES AÉREOS, SGPS, S.A. AND SUBSIDIARIES

(Amounts in euros)

	Notes	2007	2006
Goods sold and services rendered	36	209,897,597	180,236,343
Cost of goods sold and services rendered	61	<u>(178,715,957)</u>	<u>(142,962,792)</u>
Gross profit		31,181,640	37,273,551
Other operating income	61	26,857,581	24,736,646
Distribution charges	61	(20,622,624)	(26,472,779)
Administrative costs	61	(9,496,009)	(11,092,747)
Other operating expenses		<u>(23,664,524)</u>	<u>(18,365,892)</u>
Operating profit		4,256,064	6,078,779
Net interest		550,954	(384,965)
Current profit		4,807,018	5,693,814
Tax on current profit	38	186,169	(798,093)
Net profit		<u>4,993,187</u>	<u>4,895,721</u>
Earnings per share		<u>1,387</u>	<u>1,360</u>

The notes form an integral part of the profit and loss account by function as at 31 December 2007.

THE CHARTERED ACCOUNTANT

António Jorge Ferreira da Silva

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(Director)


**CASH FLOW STATEMENTS FOR THE YEARS ENDED
31 DECEMBER 2007 AND 2006**

SATA - SOCIEDADE DE TRANSPORTES AÉREOS, SGPS, S.A. AND SUBSIDIARIES

(Amounts in euros)

	Notes	2007	2006
OPERATING ACTIVITIES			
Net profit for the year	54	4,993,187	4,895,721
Depreciation	27	8,240,623	7,172,629
Changes in provisions and adjustments		8,758,964	10,813,981
Financial profit		979,798	431,480
Gains on sales of fixed assets	45	(11,050)	(15,815)
Losses on sales of fixed assets	45	20,569	26,416
Deferred taxes	38	(2,709,369)	-
Increase in accounts receivable		(4,703,424)	(10,905,348)
Increase in inventory		(329,101)	(398,660)
Increase in accounts payable		7,578,216	3,447,085
Reduction in deferred costs		(31,083)	105,629
Increase in deferred income		1,134,951	415,477
Increase in accrued income		(368,282)	(379,691)
Increase in accrued costs		706,988	1,149,634
Net cash from operating activities (1)		<u>24,260,987</u>	<u>16,758,538</u>
INVESTMENT ACTIVITIES			
Receipts relating to:			
Tangible fixed assets		46,841	34,103
Interest receivable and similar income		1,448,634	977,945
		<u>1,495,475</u>	<u>1,012,048</u>
Payments relating to:			
Tangible fixed assets		(4,918,228)	(5,080,131)
Net cash from investing activities (2)		<u>(3,422,753)</u>	<u>(4,068,083)</u>
FINANCING ACTIVITIES			
Payments relating to:			
Loans obtained		(2,693,509)	(2,693,509)
Depreciation of finance lease agreements		(6,758,279)	(5,585,720)
Interest payable and similar charges		(1,691,888)	(1,198,215)
Net cash from financing activities (3)		<u>(11,143,676)</u>	<u>(9,477,444)</u>
Change in cash and cash equivalents (4)=(1)+(2)+(3)		<u>9,694,558</u>	<u>3,213,011</u>
Effect of exchange differences		862,895	753,214
Cash and cash equivalents at the beginning of the period	60	33,437,725	-
Effect of consolidation of subsidiaries		-	30,977,928
Cash and cash equivalents at the end of the period	60	42,269,388	33,437,725

The accompanying notes form an integral part of the cash flow statement for the year ended 31 December 2007.

THE CHARTERED ACCOUNTANT

António Jorge Ferreira da Silva

THE BOARD OF DIRECTORS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2007 AND 2006

SATA - SOCIEDADE DE TRANSPORTES AÉREOS, SGPS, S.A. E SUBSIDIÁRIAS
(Amounts in euros)

INTRODUCTORY NOTE

The SATA Group ('Group'), consists of SATA - Sociedade de Transportes Aéreos, SGPS, S.A. ('SATA SGPS' or 'Company') and Subsidiaries (Note 1). The Company is a public limited company and its corporate purpose is the integrated management, in a corporate form, of the portfolio of holdings of the Autonomous Region of the Azores in the air transport sector and, through specialised subsidiary undertakings, the operation of passenger, cargo and mail air transport services, the operation of services related to travel and tourism, to aircraft maintenance and ground handling services and to the management of airport infrastructure.

SATA SGPS was incorporated on 7 April 2006, through Regional Legislative Decree 23/2005/A, in which its capital, of 18,000,000 Euros, was subscribed and paid up through the contribution of assets, in particular the financial holding that the Autonomous Region of the Azores held in SATA Air Açores – Sociedade Açoriana de Transportes Aéreos, S.A. ('SATA Air Açores'). The value attributed to this holding, reported on 1 January 2006, was 21,315,342 Euros, the surplus over the capital subscribed, amounting to 3,315,342 Euros (Note 54), having been recorded as a share premium.

SATA SGPS is governed by that law, by its Articles of Association and, in all matters not provided for therein, by the rules applicable to Public undertakings and to holding companies.

The subsidiary SATA Air Açores is a limited company and has as its corporate purpose the operation, both direct and through holdings in other companies or organisations, of air transport of passengers, cargo and mail, as well as the provision of services and the performance of commercial, industrial and financial operations, directly or indirectly related, in their entirety or in part, to said operation and liable to facilitate its implementation, including the handling of aircraft at airports, the training of technical staff and assistance for other companies in the sector, with the provision and supply of technical and human resources.



1968 | FRIENDLINESS IS IN THE AIR

The Azorean spirit of the SATA service rides the skies, when in 1968 the company's flights begin to employ air hostesses, who impress passengers with their attention and friendliness.



Scheduled air services within the Archipelago of the Azores have been regulated, since 1996, by the provisions of the public service contract signed on 24 May 1996 between SATA and the Autonomous Region of the Azores, the provisions of Article 19:2 of the Articles of Association of SATA, approved by Regional Legislative Decree 2/88/A, of 5 February and the provisions of Resolution No. 86/96, of 23 May. In 2006 an invitation to tender was issued for the operation of routes in the Azores archipelago, the Company having been awarded the contract for the period from 1 April 2006 to 31 March 2008.

On 14 August 2007 SATA Air Açores signed with the Portuguese State a concession agreement for scheduled airline services for the route to Funchal and Porto Santo, which will have a duration of 3 years from that date.

As at 31 December 2007, SATA Air Açores operated with five ATP aircraft and one Dornier, of which two ATPs and the Dornier were the property of the Company and the remaining three ATPs were operated by the Company under operating lease agreements.

The subsidiary SATA Internacional - Serviços e Transportes Aéreos, S.A. ('SATA Internacional') has ensured air links between Ponta Delgada and Mainland Portugal and Funchal since 1 January 1999, in an exclusive basis and through public tender procedures.

As at 31 December 2007, SATA Internacional operated with four Airbus A310-304 aircraft, three of which were owned by the Company under a finance lease system and another A310-304 under an operating lease, as well as three Airbus A320 aircraft under operating leases.

The corporate purpose of the subsidiary SATA - Gestão de Aeródromos, S.A. ('SATA Aeródromos') is the operation on a concession basis of the right to organise and execute the planning and operation of public service ground handling support for the aerodromes of Corvo, Graciosa, Pico and São Jorge and the Flores Air Terminal.

The Regional Government of the Azores, following an open tender procedure, awarded the Company the concession for public airport auxiliary services for civil aviation, for a period of 10 years by contract signed on 1 July 2005.

1969 | SATA REACHES FLORES

Slowly, SATA begins to interconnect the islands of the archipelago, and in 1969 starts scheduled flights to the island of Flores.



The subsidiaries SATA Express Canada ('SATA Canada') and SATA Express U.S.A. ('SATA USA') are tour operators created with the objective of marketing flights between the Azores and Canada and the Azores and the USA, respectively.

The notes that follow are in keeping with the sequential numbering as set forth in the Official Chart of Accounts (POC - Plano Oficial de Contabilidade) for the presentation of consolidated financial statements. The notes whose numbering is omitted here are not applicable to the Group or to its presentation and are not relevant to the understanding of the appended consolidated financial statements.

SCOPE OF CONSOLIDATION

The consolidated financial statements were prepared in accordance with the provisions applicable in Portugal and, therefore, in accordance with the accounting principles and consolidation standards set out in the Official Plan of Accounts, as amended by Portuguese Decree-Law 238/91, of 2 July, and with the accounting guidelines of the CNC.

1. COMPANIES INCLUDED IN THE CONSOLIDATION

companies included in the consolidation, their registered offices and proportion of capital held as at 31 December 2007, are the following:

Company Name	Registered Office	Percentage of capital held		
		Direct	Indirect	Total
Parent company:				
Sata - Sociedade de Transportes Aéreos, SGPS, S.A.		-	-	-
Subsidiaries:				
Sata Air Açores - Sociedade Açoriana de Transportes Aéreos S.A.	Ponta Delgada	100%	-	100%
Sata Internacional - Serviços e Transportes Aéreos S.A. ("Sata Internacional")	Ponta Delgada	-	100%	100%
Sata - Gestão de Aeródromos S.A. ("Sata Aeródromos")	Ponta Delgada	-	100%	100%
Sata Express Inc. ("Sata Canadá")	Canadá	-	100%	100%
Sata Express Inc. ("Sata EUA")	EUA	-	100%	100%

1969 | AIRPORT OPENED IN PONTA DELGADA

Nordela Airport, in Ponta Delgada, is opened, with a runway that is 1800 m long and 45 m wide.



These subsidiary companies were included in the consolidation by the full consolidation method, based on the provisions of Article 1(1)a of Decree-Law No. 238/91, of 2 July (majority of voting rights).

4. MATERIALLY IRRELEVANT HOLDINGS IN ASSOCIATED COMPANIES

The financial investments in associated companies whose holdings are materially irrelevant for obtaining a true and fair view of the financial situation and profit and loss of all the companies included in the consolidation, as well as the proportion of capital held in those Companies as at 31 December 2007, are as follows:

Company Name	Registered Office	Percentage of capital held		
		Direct	Indirect	Total
Banif Açor Pensões, S.A.	Ponta Delgada	2.7%	-	2.7%
Verdegolf, S.A.	Ponta Delgada	0.75%	-	0.75%
Associação de Turismo dos Açores	Ponta Delgada	nd	nd	-
Associação Açoriana de Turismo e Hotelaria	Ponta Delgada	nd	nd	-
Sociedade Ilhas de Valor, S.A.	Ponta Delgada	nd	nd	-
Golf Açores, S.A.	Ponta Delgada	33.33%	-	33.33%

7. AVERAGE NUMBER OF EMPLOYEES

In 2007 and 2006, the average number of employees working for the companies included in the consolidation was 1,199 and 1,130 respectively.

15. CONSISTENCY IN THE APPLICATION OF ACCOUNTING PRINCIPLES

The main accounting principles applied by the Group were used consistently between the companies included in the consolidation and are those described in Note 23.

1971 | FAIAL AIRPORT OPENED

Castelo Branco airport opens on the island of Faial, with the first scheduled flights by SATA arriving in 1972.



21. FINANCIAL COMMITMENTS ASSUMED AND NOT INCLUDED IN THE CONSOLIDATED BALANCE SHEET

i) Pension supplements

The subsidiary SATA Air Açores assumed the commitment of granting its employees hired before 31 December 2003 cash benefits as retirement and invalidity pension supplements. These payments consist of a percentage that increases with employee's years of service, applied to the pay scale negotiated each year.

On 29 December 1994, SATA Air Açores set up an Independent Pension Fund ("SATA Pension Fund") intended to finance the liabilities of the Company with employees in active employment as of that date.

On 1 January 2001, as referred to in Note 23 k), SATA Air Açores adopted the provisions of Accounting Directive No. 19 and began to record these liabilities on an accruals basis. During the year ended 31 December 2007, SATA Air Açores contributed € 5,401,636 to the Pension Fund (Note 46) having used the provision for pensions. In addition, SATA Air Açores reviewed the balance of the provision given the liabilities quantified by an actuarial study and the market value of the Pension Fund, increasing it by € 3,936,427 (Note 46). The justification for the increase in the fund liability for the current year is related to the application of legislation in force concerning the calculation of Social Security pensions.

Liabilities for past services of employees as at 31 December 2000, concerning the period before the adoption of the provisions of the Accounting Directive No. 19 in respect of retirement benefits, amounting to € 3,485,515, were recorded in 'Deferred costs' (Note 52) and were recognised in the remaining period of working life of those employed by the company on that date (twenty years).

1974 | SATA AND THE UNIONS

After the April Revolution in Portugal, all SATA employees become union members.



In accordance with actuarial studies performed by an independent entity, using the 'Projected Unit Credit' method and the following assumptions: TV 88/90 Mortality Table; EVK 80 Invalidity Table; 5% technical interest rate; 2% pension growth rate; 2.5% salary growth rate; 5% fund performance rate; and taking into consideration changes in the calculation of Social Security pensions established in Decree-Law 329/93, of 25 May, and the provisions of Rules 298/91 of 13 November and 21/96-R of 5 December of the Portuguese Institute of Insurance, the current value of the Company liabilities as at 31 December 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Liability:		
Retired Staff	29,873,516	29,299,388
Active Staff - Past Services	<u>8,972,052</u>	<u>6,079,366</u>
	<u>38,845,568</u>	<u>35,378,754</u>
Coverage of liabilities:		
Value of the Independent Fund	18,246,310	13,314,286
Provision made	<u>20,599,258</u>	<u>22,064,468</u>
	<u>38,845,568</u>	<u>35,378,754</u>

With regard to pension fund assets, changes for 2007 are detailed as follows:

	<u>2007</u>
Pension fund assets:	
Balance as at 31 December 2006	13,314,286
Contributions to the fund	5,401,636
Payment of pensions	-800,429
Fund performance	<u>330,817</u>
Balance as at 31 December 2007	<u>18,246,310</u>



1976 | SATA PROVIDES GROUND HANDLING FOR CONCORDE

The most advanced aircraft in the history of civil aviation, Concorde, makes a stopover at Santa Maria airport, with ground handling provided by SATA.



As at 31 December 2007 and 2006, the number of employees in active employment and retired staff was as follows:

	<u>2007</u>	<u>2006</u>
Active	469	488
Retired	146	136

Costs with pensions recorded in the profit and loss accounts for the years ended 31 December 2007 and 2006 in 'Personnel costs' include:

	<u>2007</u>	<u>2006</u>
Personnel costs:		
Increase in provision (Note 46)	3,936,427	3,011,188
Payments to retired staff recorded directly as cost and without using the provision	<u>1,040,139</u>	<u>1,011,142</u>
	<u>4,976,566</u>	<u>4,022,330</u>
Provisions:		
Increase in provision	-	624,309
	<u>4,976,566</u>	<u>4,646,639</u>

ii) Health insurance

SATA Air Açores offers its active staff and retired staff collective health insurance that grants access to subsidised medical services. These expenses are recorded in the profit and loss account for the year in which the insurance premiums are paid. In the year ended 31 December 2007, health expenses of € 95,346 were recorded corresponding to health insurance premiums paid in that year (€ 72,288 for active staff and € 23,058 for retired staff). In addition, the Company maintains a provision intended to cover liabilities with future payments of the insurance policy of current active staff when they retire, of € 249,399, in 'Provisions for risks and charges' (Note 46).

1977 | 1 MILLION PASSENGERS

An increasing number of people use SATA flights to link what the sea separates, and in 1977 SATA welcomes its 1 millionth passenger.



iii) OPERATING LEASE AGREEMENTS

The Group has liabilities with operating lease agreements not recognised in the balance sheet (Note 23.c) amounting to approximately USD 21,515,000 (€ 14,625,897), due as follows:

Year	ATP's	Airbus A310	Airbus A320	Total	Currency	Euros
Short term						
2008	1,152,000	2,220,000	9,000,000	12,372,000	USD	8,410,486
Medium and long term						
2009	768,000	1,850,000	5,325,000	7,943,000	USD	5,399,651
2010	160,000		1,040,000	1,200,000	USD	815,760
	<u>2,080,000</u>	<u>4,070,000</u>	<u>15,365,000</u>	<u>21,515,000</u>		<u>14,625,897</u>

22. GUARANTEES PROVIDED

As at 31 December 2007, the Group had assumed liabilities for guarantees provided, as follows:

Autonomous Region of the Azores	6,109,691	EUR	6,109,691
Regional Department of Economic Affairs	5,394,161	EUR	5,394,161
Portuguese State	4,383,378	EUR	5,085,182
FRAAE – Fundo Regional de Apoio às Actividades Económicas	4,800,000	EUR	4,800,000
Gie Tutak (Note 59)	1,560,000	USD	1,060,488
Kinsale Limited (Nota 59)	1,545,000	USD	1,050,291
Sata Express	1,415,000	CAD	982,576
ARC Airline Reporting Corporation	950,000	USD	645,810
Trident Aviation (Nota 27)	762,500	USD	518,348
Other			795,037
			<u>26,441,584</u>

1982 | PICO AIRPORT OPENED

Continuing the process of interconnecting all islands by air, Pico airport is opened.



As at 31 December 2007, the subsidiary SATA Aeródromos had assumed liabilities for guarantees provided to the Regional Department of Economic Affairs of 5,394,161 Euros under the agreement entered into by this institution and the Company (Note 55).

In December 2005, the subsidiary SATA Internacional was awarded the contract for the operation of public service routes between Mainland Portugal and the Autonomous Region of the Azores and between the Azores and the Autonomous Region of Madeira, on a code share basis with TAP for the period between 1 January and 31 December 2007.

A guarantee in favour of Portuguese State to the value of € 5,085,182 is related to:

(i) The concession of the operation of the scheduled air transport on the Ponta Delgada-Funchal and Ponta Delgada-Lisbon-Oporto routes for 2007, amounting to € 4,383,378;

(ii) the signing of the contract for airline services by SATA Air Açores for the Funchal - Porto Santo route, which is subsidised in the form of financial compensation and return on capital, in the amount of € 701,804.

The guarantees provided in favour of the entities GIE Tutack (USD 1,560,000) and Kinsale Limit (USD 1,545,000) respectively, are related to the lease agreements for the two Airbus A310-304 aircraft, through finance leasing (Note 59).

23. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of presentation

The attached consolidated financial statements have been drawn up, assuming the continuity of operations, from the books and accounting records of the companies included in the consolidation (Note 1), and kept in accordance with the generally accepted accounting principles in Portugal.

1983 | SÃO JORGE AIRPORT OPENED

Another step in bringing together the whole archipelago with the opening of São Jorge airport.



Principles of consolidation

The consolidation of the subsidiary companies referred to in Note 1 was done using the global integration method. Significant transactions and balances between companies have been eliminated in the consolidation process.

The financial investments representing holdings in subsidiary companies were stated at cost, or at their estimated realisation value, if lower.

Main accounting principles

The main accounting principles used in the preparation of the financial statements were the following:

a) Tangible fixed assets

Flight equipment

Flight equipment is reflected in the balance sheet at cost. Depreciations are calculated on cost less residual value (10% of the cost), on a straight-line basis and from the month of acquisition or commissioning, over the estimated useful life of the aircraft, engines, spare propellers and landing gear, and other spare parts.

Other tangible fixed assets

The other tangible fixed assets acquired up to 31 December 1991 are stated at cost, revalued in accordance with legal provisions (Note 41). Other tangible fixed assets acquired after that date are stated in the balance sheet at cost.

Depreciation is calculated on a straight-line basis, from the month of acquisition or commissioning, and determined based on the estimated useful life of the assets, as follows:



1987 | SATA RENAMED SATA AIR AÇORES

SATA is renamed SATA Air Açores and in the same year it is awarded the silver medal for tourism merit.



	<u>Years of useful life</u>
Buildings and other constructions	50
Plant and machinery	4-16
Vehicles	5-7
Tools and utensils	5-12
Fixtures and fittings	4-10
Other tangible fixed assets	3-20

Repairs and routine maintenance costs are recorded as costs of the financial year to which they refer. Major aircraft maintenance is recorded on an accruals basis, as described in f) below.

b) Finance leases

Assets acquired by means of finance lease agreements as well as the corresponding liabilities are recorded using the financial method. According to this method the cost of the asset is recorded in tangible assets, the corresponding liability is recorded under liabilities and the interest included in the value of the lease instalments and the depreciation of the assets are recorded as costs in the profit and loss account for the year to which they refer.

c) Operating lease assets

Lease payments in respect of operating lease agreements are stated as a cost as incurred.

Repairs and routine maintenance costs in respect of equipment under operating leases are recorded as costs in the year in which they are incurred.

d) Inventory

Raw materials and consumables are valued according to the following criteria, which are below their market value:



1989 | ATPs ARRIVE IN THE AZORES

SATA acquires its first ATPs, which continue to guarantee air connections within the archipelago today.



ATP material: Acquisition cost, adopting the FIFO costing method for disbursements;

Other materials: Average cost.

An adjustment to inventory was made to reflect the difference in value between inventory cost and its realisable value, in cases in which the latter is lower than the cost on the balance sheet date (Note 32).

e) Provision for flight hours

The Group records on an accruals basis expenses to be incurred in the future with general overhauls of aircraft, these being recorded in the profit and loss account of the year on the basis of estimated costs and the flight hours of each aircraft, against 'Provisions for risks and charges' (Note 46).

f) Accruals basis

The Group records revenue and expenditure on an accruals basis whereby revenue and expenditure are recorded when generated, regardless of when they are received or paid. The differences between the amounts received and paid and the corresponding income and expenses are recorded in accruals and deferrals (Note 52).

g) Subsidies awarded to finance tangible fixed assets

Grants to finance tangible fixed assets are recorded as deferred income in 'Accruals and deferrals' (Note 52), and recognised in the profit and loss account in proportion to the depreciation of the tangible fixed assets subsidised.



1990 | CHANGE AND EXPANSION

SATA experiences a historical occasion: the era of the AVRO HS 748 comes to an end, twenty years later; it joins the International Air Transport Association – IATA – and the European Regional Airlines Association – ERA; it acquires the Canadian Pacific Airlines offices in Lisbon; and receives two ATP aircraft.



h) Recognition of transport revenue

Revenue from the sale of passenger transport is recorded as a liability at the time of sale in 'Advances from customers (Tickets to be used)'. When the transport is made, the sale revenue is transferred from 'Advances from customers (Tickets to be used)' to revenue for the year, if provided by the Company, or transferred to Accounts payable, if the transport is made by another airline company.

i) Recognition of revenue from ground handling and fees

Revenue from ground handling of aircraft belonging to other airlines is accounted for as revenue for the year in which the service is provided. The revenue from fees received is recorded when entitlement occurs.

j) Financial compensation received for public services

The financial compensation attributed to the Company by the Regional Government of the Azores for public services is recorded in the period when entitlement thereto occurs. This compensation is calculated under the terms envisaged and as a result of the public tender awarded to the Company and which shall be effective until 31 March 2008.

The compensatory payments awarded by the Portuguese State to the subsidiary SATA Internacional are recognised in the period in which they are incurred and reported in Operating subsidies (Note 58). This financial compensation is calculated in accordance with the concession contracts for the scheduled airline services between Ponta Delgada and Lisbon, between Ponta Delgada and Oporto and between Ponta Delgada and Funchal (Introductory Note), by reference to the number of passengers transported who are resident in the Autonomous Regions.



1994 | SATA AIR AÇORES AWARDED MEDAL OF HONOUR

As recognition for the quality of its flights and its operating method, SATA Air Açores is awarded a coveted medal of honour by the International Civil Aviation Organization (ICAO).



k) Pensions

As described in detail in Note 21, under the terms of the Works Council Agreement ('Acordo de Empresa') in force, the Group assumed responsibility for payment to employees hired by SATA Air Açores until 31 December 2003 of supplements to the retirement pensions paid by Social Security. In the year ended 31 December 2000, the Group adopted the provisions of Accounting Directive No. 19, starting to record these liabilities in the balance sheet. The Group conducts each year an actuarial evaluation study to quantify its liabilities on the balance sheet date and the cost of pensions recorded that year. The liabilities thus estimated are compared to the market value of the assets of the pension fund created for this purpose and to the accounting records of the Group, in order to determine the amount of the differences to be recorded. The gains and losses with retirement pensions are recorded in 'Personnel costs' based on the values determined by that actuarial study.

l) Maintenance expenses

The Group records as costs for the year expenses to be incurred in the future with general overhauls of aircraft, which are recorded in the profit and loss account for the years by reference to the flight hour costs of each aircraft, under the maintenance agreement, which establishes the payment of a fixed amount per flight hour for each aircraft.

m) Assets and liabilities in foreign currencies

All assets and liabilities expressed in foreign currencies have been converted into euros at the exchange rates prevailing at 31 December 2007 (Note 24).

Exchange rate differences, both favourable and unfavourable, resulting from differences between exchange rates applicable at the transaction date and those at the date of collection, payment or on the balance sheet date, were recorded as income and costs in the profit and loss account.

1995 | SATA CONTINUES TO GROW

SATA takes another step towards internationalisation, with its first charter flight outside Portugal.



n) Deferred taxes assets

Deferred taxes refer to temporary differences between the values of assets and liabilities for accounting purposes and their respective values for taxation purposes.

Deferred tax assets and liabilities are calculated and evaluated annually using the taxation rates that are expected to be applicable on the date of the reversion of the temporary differences.

Deferred tax assets are recorded exclusively when there are reasonable expectations of sufficient future taxable profit against which they can be utilised. At the end of each reporting period, a review is made of the temporary differences underlying deferred tax assets with a view to recognising deferred tax assets not previously recorded because the conditions to do so were not then extant and/or to reduce the amount of deferred tax assets recorded in the light of present expectations for their future recovery.

The main temporary differences and their effect on the financial statements for the year ended 31 December 2007 are described in Note 38.

24. EXCHANGE RATES USED FOR CONVERSION INTO EUROS

The following exchange rates were used to convert to Euros assets and liabilities expressed in foreign currency:

USD	0.6798
GBP	1.3578
CAD	0.6944



1998 | SATA AWARDED AOC

SATA Internacional, with a Boeing 737, begins to diversify SATA destinations and is awarded its AOC (Air Operator's Certificate), finally entering the competitive world of civil aviation.



27. CHANGES IN FIXED ASSETS

During the year ending 31 December 2007, changes in the values of intangible and tangible fixed assets and financial investments, as well as in their accumulated depreciation and in provisions were as follows:

Headings	Gross assets				
	Opening balance	Increases	Disposals	Transfers and write-offs	Closing balance
Tangible fixed assets:					
Land and natural resources	73,313	-	-	-	73,313
Buildings and other constructions	741,910	-	(23,969)	-	717,941
Plant and machinery	57,365,861	11,176,073	(88,820)	2,398,758	70,851,872
Vehicles	528,674	96,656	(21,275)	-	604,055
Tools and utensils	962,423	21,430	-	-	983,853
Fixtures and fittings	5,081,706	1,010,529	(258,592)	-	5,833,643
Other tangible fixed assets	5,713,311	485,415	(6,870)	6,900	6,198,756
Fixed assets in progress	12,400	-	-	-	12,400
Advances on tangible fixed assets	2,405,658	-	-	(2,405,658)	-
	<u>72,885,256</u>	<u>12,790,103</u>	<u>(399,526)</u>	<u>-</u>	<u>85,275,833</u>
Financial investments:					
Holdings in subsidiary companies	138,246	-	-	-	138,246
Securities and other investments	18,594	-	-	-	18,594
	<u>156,840</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>156,840</u>
	<u>73,042,096</u>	<u>12,790,103</u>	<u>(399,526)</u>	<u>-</u>	<u>85,432,673</u>

Headings	Depreciation and accumulated adjustments			
	Opening balance	Increases	Disposals and write-offs	Closing balance
Tangible fixed assets:				
Buildings and other constructions	179,874	20,795	(12,434)	188,235
Plant and machinery	39,973,305	6,779,628	(49,955)	46,702,978
Vehicles	392,502	22,609	(18,637)	396,474
Tools and utensils	834,366	46,426	-	880,792
Fixtures and fittings	3,885,072	491,221	(255,270)	4,121,023
Other tangible fixed assets	3,580,689	879,944	(6,870)	4,453,763
	<u>48,845,808</u>	<u>8,240,623</u>	<u>(343,166)</u>	<u>56,743,265</u>



The aircraft fleet recorded in the Group books comprises two ATP aircraft, acquired in 1990, and their spare equipment, one Dornier aircraft, acquired in 2005 and three Airbus A310-304 aircraft acquired under a finance lease and which were previously used by the Group through an operating lease.

In addition, the Group operates three other ATP aircraft under a charter agreement. These charters are treated in the accounts as operating leases for which reason the lease payments resulting from their lease agreements are recorded as costs in the year in which they are incurred.

The operating lease agreement for the two ATP aircraft entered into effect on 23 June 2000 and ended on 31 December 2003 having been subsequently renewed until March 2006. During the year ended 31 December 2006, as a result of SATA Air Açores having been awarded the tender for the three-year period between April 2006 and March 2008, the operating lease agreement was extended for the same period. This agreement establishes the payment of monthly lease instalments, with no purchase option at the end of the agreement. To guarantee these agreements, the Company presented an irrevocable letter of credit for USD 762,500 (corresponding to € 518,348 (Note 22)), for the three aircraft.

The increase in 'Plant and machinery' of € 13,574,831, which includes additions for the year and transfers of fixed assets in progress of € 11,176,073 and € 2,398,758, respectively, refers essentially to the acquisition of an Airbus A 310-325 aircraft through a lease agreement, for the amount of € 9,488,570 (Note 47) and major repairs to TGU and TGV aircraft engines, of approximately € 2,630,000.

In addition, the increases in 'Plant and machinery', 'Vehicles' and 'Fixtures and Fittings' include the amounts € 1,003,978, € 82,069 and € 619,900, respectively, referring to the acquisition of equipment and other resources necessary for normal operation and development of the concession infrastructure at the aerodromes on the islands of Pico, São Jorge, Flores, Corvo and Graciosa, as provided for in the concession contract for public airport auxiliary services for civil aviation.



1999 | SATA GUARANTEES NEW ROUTES

SATA Internacional wins the concession for routes between Ponta Delgada and the cities of Lisbon, Oporto and Funchal, with a Boeing 737 and, subsequently, the new A310.



The increase in 'Other tangible fixed assets' corresponds essentially to the implementation of the SAP system.

As at 31 December 2007, the Group held financial investments totalling € 138,246, in respect of financial investments in Verdegolf, S.A. (0.75% of the capital), in Banif Açor Pensões - Sociedade Gestora de Fundos de Pensões, S.A. (2.7% of the capital) and in Golf Açores, Lda. (33.33%), of € 28,871 (fully provisioned for), € 49,880 and € 1,995, respectively. In addition, it holds an interest in Associação Açoreana de Turismo e Hotelaria, of € 12,500, in Associação de Turismo dos Açores of € 20,000 and of € 25,000 in Sociedade Ilhas de Valor, S.A. All these investments were recorded at cost (Note 4).

30. MARKET VALUES OF CURRENT ASSETS

As at 31 December 2007, there were no significant differences that were not covered by adjustments made by the Group between the values of current assets, calculated according to the accounting principles adopted by the Group (Mark 23) and their market value.

32. EXTRAORDINARY PROVISIONS FOR CURRENT ASSETS

In the year ended 31 December 2007, the following changes in Adjustment to Current Assets occurred:

	Opening balance	Increase	Reversal	Utilised	Closing balance
Adjustments to trade accounts receivable	344,526	8,838	(30,188)	(13,899)	309,277
Inventory adjustments	1,103,636	-	-	-	1,103,636
	<u>1,448,162</u>	<u>8,838</u>	<u>(30,188)</u>	<u>(13,899)</u>	<u>1,412,913</u>



2000 | FLIGHTS TO NORTH AMERICA

SATA starts scheduled flights to the United States of America and Canada, strengthening ties with the Azores Diaspora.



36. SALES AND SERVICES RENDERED BY ACTIVITY AND GEOGRAPHICAL MARKET

In the year ended 31 December 2007, the provisions of services were as follows:

	2007			2006		
	Internal Market	External Market	Total Value	Internal Market	External Market	Total Value
Scheduled flights	96,026,683	-	96,026,683	95,631,828	-	95,631,828
Charter operations	-	89,386,636	89,386,636	-	66,047,467	66,047,467
Ground handling of third party aircraft	8,651,878	-	8,651,878	8,215,293	-	8,215,293
Airport/terminal charges	1,882,320	-	1,882,320	1,537,289	-	1,537,289
Management Services	1,414,500	-	1,414,500	1,661,036	-	1,661,036
Other	12,535,580	-	12,535,580	7,143,430	-	7,143,430
	<u>120,510,961</u>	<u>89,386,636</u>	<u>209,897,597</u>	<u>114,188,876</u>	<u>66,047,467</u>	<u>180,236,343</u>

As at 31 December 2007 and 2006, scheduled flights include the amounts of € 4,998,084 and € 4,785,356, respectively, concerning financial compensation for re-routing.

The provisions of services in the external market essentially concern flights to the United States and Canada.

The increase in 'Other' essentially involves the charging of security and fuel charges.

38. TAXES

In keeping with prevailing legislation, tax returns are subject to review and correction by the tax authorities during a period of four years (ten years for social security until 2000, and five years from 2001 onwards), except when fiscal losses occurred, fiscal benefits have been granted, or any inspections, claims or objections are in progress, in which cases, depending on the circumstances, the deadlines are extended or suspended. Therefore, the Group companies' tax returns for 2004 to 2007 may still be subject to review.



Airbus A320-200

2004 | NEW EQUIPMENT

SATA receives two new Airbus A320 with which it will increase flights to Europe.



According to Law 18/82, of 8 June, SATA Air Açores benefitted from complete exemption from taxes and contributions to the State or to local authorities on its profit, with the exception of transactions subject to autonomous taxation (taxation based on expenses).

Since the coming into effect of Law 53-A/2006, of 29 December, which revoked Law 18/82, the Company has been subject to general tax regulations, with effects since 1 January 2007, and SATA Air Açores is now subject to the normal rate of Corporation Tax applicable in the Autonomous Region of the Azores, plus the corresponding municipal surcharge ('Derrama').

In October 2004, SATA Air Açores received notification from the tax authorities concerning the draft conclusions of the tax inspection report based on analysis of corporation tax ('IRC') for the years 2000, 2001, 2002 and 2003 and which concludes that the Company did not enjoy a definitive exemption from IRC, and should thus pay IRC on the taxable profit for those years.

In December 2004 and April 2005, SATA Air Açores received revised assessments concerning corporation tax for 2000 and corporation tax from 2001 to 2003, respectively, which it contested in court. At the beginning of 2006, and in response to the legal proceedings, SATA Air Açores received notification from the Administrative and Tax Court of Ponta Delgada, which found in the Company's favour, due to the right to assessment of IRC for 2000 and 2001 having expired. In addition, in May 2007, and also in response to the aforementioned legal proceedings, SATA Air Açores received notification from the Administrative and Tax Court of Ponta Delgada, which found in the Company's favour and annulled the revised assessments regarding IRC for 2002 and 2003 considering that SATA Air Açores enjoyed, for those years, complete exemption from IRC.

The Board of Directors believe that any corrections due to reviews/inspections by tax authorities of other tax returns will not have a significant effect on the financial statements as at 31 December 2007.



2005 | NEW ROUTES

SATA launches new routes to Europe. London and Madrid are the airline company's new commitments for the IATA summer season.



As mentioned in Note 23.n), in 2007 the Company began to recognise the tax effects of temporary differences between assets and liabilities for accounting and tax purposes, and they were recognised as at 31 December 2007 based on an aggregate tax rate of 19%.

Under the new law of local finances, effective from 1 January 2007, the municipal surcharge ('derrama') began to be calculated, from then on, based on 1.5% on the taxable profit subject to and not exempt from corporation tax (IRC), when previously it has corresponded to 10% of the corporation tax liability.

With respect to this last amendment, it should be noted that any practical effects are associated with the fact that all entities subject to corporation tax with a non-exempt taxable profit, irrespective, for example, of whether they have tax losses carried forward in its sphere, are subject to payment of municipal surcharge and can hence only recover those losses based on a rate of 17.5%.

The major differences between the accounting and taxable values as at 31 December 2007 and the corresponding deferred tax assets and their effects in 2007 were as follows:

Description	2007		Increase / (decrease)	
	Base	Deferred tax	Profit for the year	Retained earnings (Note 43)
Non-tax deductible adjustments	250,000	47,500	-	47,500 a)
Non-tax deductible provisions	24,612,858	4,676,443	2,709,369	1,967,074 a)
	<u>24,862,858</u>	<u>4,723,943</u>	<u>2,709,369</u>	<u>2,014,574</u>

a) Corresponding to balances of adjustments and provisions reported in previous years, by SATA Air Açores.

As at 31 December 2007, the amount recorded in income tax is as follows:

2005 | SATA AERÓDROMOS CREATED

The latest SATA group company, SATA Aeródromos, is set up to manage and maintain 4 of the 9 aerodromes in the Azores.

SATA Aeródromos designs and implements the new Aerodromes on the islands of Pico, Flores, São Jorge and Graciosa.



Current tax (Note 51)	2,523,200
Deferred tax	(2,709,369)
	<u>(186,169)</u>

39. REMUNERATION OF BOARD MEMBERS

The remuneration of board members (for the performance of their duties in this company and its subsidiaries companies) in the 2007 and 2006 was:

	<u>2007</u>	<u>2006</u>
Corporate Boards	<u>332,926</u>	<u>305,610</u>

41. REVALUATION OF TANGIBLE FIXED ASSETS AND OF FINANCIAL INVESTMENTS

In previous years, the Group has revalued its fixed assets in accordance with the applicable legislation as follows:

- Decree-Law 430/78, of 28 December
- Decree-Law 219/82, of 2 June
- Decree-Law 399-G/84, of 28 December
- Decree-Law 118-B/86, of 27 May
- Decree-Law 111/88, of 2 April
- Decree-Law 49/91, of 25 January
- Decree-Law 264/92, of 24 November

43. ACCOUNTS NOT COMPARABLE WITH THE PREVIOUS YEAR

According to Law 18/82, of 8 June, SATA Air Açores benefitted from complete exemption from taxes and contributions to the State or to local authorities on its profit, with the exception of transactions subject to autonomous taxation (taxation based on expenses).

2007 | SATA AND THE ARCHIPELAGO OF MADEIRA

At the request of the Portuguese Government, SATA Air Açores increases the scope of its role in the Atlantic islands, ensuring the Funchal – Porto Santo route. It will also offer charter flights to Las Palmas during the IATA summer season.



Since the coming into effect of Law 53-A/2006, of 29 December, which revoked Law 18/82, SATA Air Açores has been subject to general tax regulations, with effects since 1 January 2007. Thus, SATA Air Açores began to record estimated current taxes for the year 2007 for Corporation Income Tax and adopted the accounting policy of recording deferred taxes (Note 23.n), whose impact on the profit/loss for the year and retained earnings were 879,555 Euros and 2,014,574 Euros (Note 54), respectively.

44. CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

The financial performance for the years ended 31 December 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Costs and losses		
Interest paid	759,833	580,630
Foreign exchange losses	6,018,662	2,957,832
Cash discounts granted	46,852	25,960
Other financial expenses	<u>1,108,610</u>	<u>903,354</u>
	7,933,957	4,467,776
Financial profit	<u>(232,442)</u>	<u>(428,558)</u>
	<u>7,701,515</u>	<u>4,039,218</u>
Income and gains:		
Interest earned	1,176,657	806,765
Foreign exchange gains	5,282,118	2,911,270
Other financial income	<u>1,242,740</u>	<u>321,183</u>
	<u>7,701,515</u>	<u>4,039,218</u>



2007 | SATA ACQUIRES TWO NEW AIRCRAFT

A British Aerospace ATP and one new Airbus A310 arrive at São Miguel and are named on 15 June, the day the company celebrates its 60th anniversary.



45. CONSOLIDATED STATEMENT OF EXTRAORDINARY PROFIT OR LOSS

The extraordinary profit or loss for the years ended 31 December 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Costs and losses:		
Donations	12,000	2,000
Inventory losses	51,765	13,238
Losses on fixed assets	20,569	26,416
Fines and penalties	48,979	12,910
Adjustments in respect of previous years	261,904	162,754
Other extraordinary expenses	42,670	735
	<u>437,887</u>	<u>218,053</u>
Extraordinary profit	3,034,102	2,962,025
	<u>3,471,989</u>	<u>3,180,078</u>
Income and gains:		
Inventory gains	51,290	258,944
Gains on fixed assets	11,050	15,815
Reduction of provisions (Note 46)	141,025	1,330,009
Adjustments in respect of previous years	2,223,224	737,647
Other extraordinary income	1,045,400	837,663
	<u>3,471,989</u>	<u>3,180,078</u>

'Extraordinary income - Adjustments in respect of previous years' as at 31 December 2007 includes the amount of € 1,807,384, in respect of settlement of the credit balance of a supplier for the years 2003 and 2004.

As at 31 December 2007, 'Other extraordinary income' includes the amounts of € 588,991 and € 141,973, related to recognition of the bonus received from Airbus on the signing of the finance lease agreements for two aircraft A310-304 (Note 52) and to the recognition of the EU subsidy granted by the Specific Plan for the Development of the Autonomous Region of the Azores to bear the costs of SATA Air Açores in the context of the Strategic Plan (Notes 23.g and 52).



2007 | SHUTTLE SERVICE TO EUROPE

Increase in the frequency of flights to London and new routes to Dublin and Paris. SATA Internacional links the Archipelagos of Madeira and Azores to Europe.



46. MOVEMENTS IN PROVISIONS

During the year the following movements occurred in provisions:

	Opening balance	Increases	Utilised	Deductions (Note 45)	Transfers	Closing balance
Provisions for financial investments	28,871	-	-	-	-	28,871
Provisions:						
Provision for pensions (Note 21)	22,064,468	3,936,427	(5,401,636)	-	-	20,599,259
Other provisions:						
Provision for flight hours (Note 23.e))	2,858,116	3,263,342	(3,647,588)	-	-	2,473,870
Phase out and maintenance of aircraft	2,113,712	-	-	-	(1,204,006)	909,706
Provision for legal disputes in progress	49,879	-	-	-	-	49,879
Health insurance (Note 21)	249,399	-	-	-	-	249,399
Frequent flyer	476,000	562,602	-	-	-	1,038,602
Losses on salvage value of flight equipment	668,042	-	-	-	-	668,042
Other	11,170,145	10,245,082	(22,991)	(141,025)	1,204,006	22,455,217
	17,585,293	14,071,026	(3,670,579)	(141,025)	-	27,844,715
	39,649,761	18,007,453	(9,072,215)	(141,025)	-	48,443,974

The increase in provisions of € 18,007,453 was recorded against 'Personnel costs' and 'Provisions', amounting to € 3,936,427 (Note 21) and € 14,071,026, respectively.

'Phase out and maintenance of aircraft' refers to the estimated costs to be incurred by the Group on the preparation of the aircraft for delivery to their lessor entities and the cost of the next major aircraft overhauls. This amount was calculated based on the flight hours of each aircraft and taking into account an estimated average cost per flight hour for each aircraft. During the year ended 31 December 2005 the Company transferred this cost estimate from Accrued costs to Provisions.

2007 | SATA TODAY

The SATA Group is today an air transport group comprising two companies: SATA Air Açores and SATA Internacional, two tour operators and a company that manages several aerodromes. It operates more than 18,000 flights a year, and takes the Atlantic spirit to 50 destinations throughout the world ...

This is the result of the dedication of more than 1200 employees who work every day so that with SATA There is Something Different in the Air.



'Frequent flyer' refers to estimated expenses with the accumulation of points on 'Club SATA' passenger cards, which allow holders to accumulate points for each journey made.

Other provisions for liabilities and charges amounting to € 22,455,217 are intended to provide for contingencies resulting from the Group's operations.

47. FINANCE LEASES

As at 31 December 2007, the company held the following leased assets:

Description	Cost	Depreciation	Net
Avião A310-304 (TGU)	12,239,775	7,240,413	4,999,362
Avião A310-304 (TGV)	9,484,338	4,733,369	4,750,969
Avião A310-325 (TKN)	9,488,570	1,423,285	8,065,285
	<u>31,212,683</u>	<u>13,397,067</u>	<u>17,815,616</u>

As disclosed in Note 23.b), the Group uses the financial method to record finance lease agreements. As at 31 December 2007, the liabilities of the Group as lessee were as follows:

	Capital	Interest due	Total
Short term:			
2008	<u>3,175,880</u>	<u>336,641</u>	<u>3,512,521</u>
Medium and long term:			
2009	922,992	278,267	1,201,259
2010	965,346	235,913	1,201,259
2011	1,009,644	191,615	1,201,259
2012 and following	<u>3,706,358</u>	<u>258,726</u>	<u>3,965,084</u>
	<u>6,604,340</u>	<u>964,521</u>	<u>7,568,861</u>
	<u>9,780,220</u>	<u>1,301,162</u>	<u>11,081,382</u>



50. BANK LOANS

As at 31 December 2007, the details of bank loans were as follows:

	Short term	Medium and long term	Total
Loans:			
Caixa Geral de Depósitos ("CGD")	1,346,754	-	1,346,754
Bank overdrafts (Note 60)	3,617	-	3,617
	<u>1,350,371</u>	<u>-</u>	<u>1,350,371</u>

The amount of € 1,346,754 was intended to refinance the acquisition of the ATP aircraft having been taken out in 1998, with a duration of 10 years and to be repaid in equal half-yearly instalments over the years of 2003 to 2008, subject to half-yearly and end-of-period interest at the 6-month Euribor rate plus a spread of 0.5%.

51. TAXES AND CONTRIBUTIONS PAYABLE / RECOVERABLE

As at 31 December 2007, the balances of these headings were as follows:

	<u>2007</u>
Debit balances:	
Corporation Tax	
Value Added Tax	859,316
Other	6,020
	<u>865,336</u>
Credit balances:	
Value Added Tax	111,105
Corporation Tax – IRC:	
Current tax	2,523,200
Minimum corporation tax	(429,043)
Tax deducted at source	(57,384)
Personal Income Tax:	
Tax deducted at source	393,673
Social Security Contributions	729,985
Other	64,668
	<u>3,336,204</u>



52. ACCRUALS AND DEFERRALS

As at 31 December 2007 and 2006, the balances of these headings were as follows:

	<u>2007</u>	<u>2006</u>
Accrued income:		
Interest	482,796	150,003
Services to be invoiced	18,466	115,520
Other	194,461	61,918
	<u>695,723</u>	<u>327,441</u>
Deferred costs:		
Pension benefits	2,091,310	2,265,586
Expenditure related to the AMSYS project	14,481	55,235
Construction and maintenance	222,933	139,211
Insurance paid in advance	661,336	908,725
Rents and leases	424,465	339,976
Other	386,619	61,328
	<u>3,801,144</u>	<u>3,770,061</u>
Accrued costs:		
Holiday pay and holiday bonuses	4,740,458	4,685,879
Insurance	146,264	160,480
Interest	9,692	14,495
Agent commissions	891,667	770,077
Other	1,313,879	764,041
	<u>7,101,960</u>	<u>6,394,972</u>
Deferred income:		
EU subsidies	125,556	274,659
Bonuses received from equipment manufacturers	170,330	775,799
Aerodrome concessions	1,991,059	559,876
Invoicing of Charters	615,580	157,240
	<u>2,902,525</u>	<u>1,767,574</u>



As at 31 December 2000, SATA Air Açores decided to record in the balance sheet all liabilities not covered by the Pension Fund and by the provisions set aside, while those concerning assets, of € 3,485,515 as at 1 January 2000, were recorded in 'Pension benefits' and are being depreciated throughout the remaining working life of employees, currently 20 years (Note 21).

The heading 'Accrued costs - Other', amounting to € 1,313,879, essentially involves: (i) third-party services to be invoiced, amounting to € 642,574; and (ii) Airport charges not invoiced, amounting to € 643,950.

'Bonuses received from equipment manufacturers' of € 170,330 includes a bonus received from Airbus under the signing of the finance lease agreements for two A310-304 aircraft which is recognised as income in accordance with the estimated remaining useful life of those aircraft.

'Aerodrome concessions' amounting to 1,991,059 Euros refers to deferral of the subsidies for the total acquired value of equipment and other resources necessary for normal operation and development of the concession infrastructures as provided for in the concession contract for public airport auxiliary services for civil aviation, the Group recognising income for the same period of useful life of the allocated assets. During the year ended 31 December 2007, the Group recognised as extraordinary income for the year the amount of 302,852 Euros (Note 45).

53. CAPITAL STRUCTURE

As at 31 December 2007, the company capital, fully subscribed and paid up, was € 18,000,000 and comprised 3,600,000 shares with a par value of € 5, which were held by:

Name	%	Euros
Autonomous Region of the Azores	100	18,000,000



54. CHANGES IN SHAREHOLDER'S EQUITY HEADINGS

Changes in shareholders' equity during the year ended 31 December 2007 were the following:

Heading	Opening balance	Increases	Decreases	Appropriation of Profit	Closing balance
Capital	18,000,000	-	-	-	18,000,000
Share premium	3,315,342	-	-	-	3,315,342
Adjustments to holdings in subsidiaries and associated companies	(384,625)	2,014,574	(126,351)	-	1,503,598
Legal Reserve	-	-	-	244,786	244,786
Retained Earnings	-	-	-	4,650,935	4,650,935
Consolidated net profit for the year	4,895,721	4,993,187	-	(4,895,721)	4,993,187
	<u>25,826,438</u>	<u>7,007,761</u>	<u>(126,351)</u>	<u>-</u>	<u>32,707,848</u>

The variation in 'Adjustments to holdings in subsidiaries and associated companies', of € 1,888,223, corresponds: (i) to initial recording of deferred taxes by SATA Air Açores, amounting to € 2,014,574; ii) to the variation in equity capital of subsidiaries and associated companies, resulting from the effect of conversion to euros of the financial statements of SATA Canada and SATA EUA in foreign currencies, amounting to € 126,351.

Adjustments to holdings in subsidiaries and associated companies: The variation in this heading results from the variation in the equity of subsidiaries and associated companies, resulting from the effect of conversion to Euros of the financial statements of subsidiaries expressed in foreign currency.



55. OTHER DEBTORS AND CREDITORS

As at 31 December 2007 and 2006, the balances of these headings were as follows:

	2007	2006
Other debtors:		
Directorate General of the Treasury	20,637,155	19,767,616
Regional Government of the Azores - other	7,045,189	6,811,893
Regional Department of Economic Affairs	2,488,688	1,887,230
IATA Clearing House	1,605,232	1,029,111
ILFC	1,406,229	1,610,439
FRAAE - Fundo Regional de Apoio às Act. Económicas	178,702	178,702
Intracommunity VAT	158,995	134,999
Community Funds	99,523	151,403
Canadian VAT	6,020	50,416
Other	2,061,116	2,114,373
	<u>35,686,849</u>	<u>33,736,182</u>
Other creditors:		
Regional Department of Economic Affairs	2,657,120	4,090,260
Airport taxes payable	990,083	246,058
Handling	356,011	-
Passenger fees	271,068	758,692
Gecas	-	1,807,384
Other	1,115,291	1,478,062
	<u>5,389,573</u>	<u>8,380,456</u>

As at 31 December 2007, the amount to be received from the Directorate-General of the Treasury was as follows:

Financial compensation related to 2007	
Re-routings (Note 36)	4,998,084
Re-routing correction	(75,500)
Scheduled flights (Note 58)	6,753,981
Code Share – TAP	883,452
Madeira Ticket Subsidy	750,044
	<u>13,310,061</u>
Financial compensation related to 2005 and 2006	
Re-routings	4,785,356
Scheduled flights	693,409
Code Share – TAP	1,848,329
	<u>7,327,094</u>
	<u>20,637,155</u>



Regional Department of Economic Affairs, of € 7,045,189, concerns financial compensation for the public service in the Autonomous Region of the Azores concerning the third and fourth quarters of 2007. The amount of compensation is calculated under the terms envisaged and as a result of the contract awarded to the Company by public tender (Note 23.j). According to the calculation formula defined in that contract, the Group calculated compensation concerning the public service for the year 2007 of € 13,533,052, which was recorded in the profit and loss account in 'Operating subsidies'.

During 2007, SATA Air Açores received the amount of € 13,839,756, of which € 6,803,183 represented financial compensation for the year 2006 and € 7,036,573 for the year 2007.

The heading 'ILFC' refers essentially to costs with major repairs made to aircraft, owned by these entities, paid by the Group on their behalf.

The credit amount in 'Regional Department of Economic Affairs' concerns advances of funds to the Group to perform improvements and to acquire equipment for aerodromes and air terminals on behalf of the Regional Government of the Azores.

56. COST OF GOODS SOLD AND MATERIALS CONSUMED

The cost of goods sold and materials consumed in the year ended 31 December 2007 was determined as follows:

	2007
Opening inventory	2,724,663
Purchases	2,670,110
Closing inventory	(3,053,764)
	<u>2,341,009</u>



57. EXTERNAL SUPPLIES AND SERVICES

External supplies and services for the years ended 31 December 2007 and 2006 were as follows:

Heading	2007	2006
Fuel and lubricants	47,497,177	40,445,675
Maintenance reserve per flight hours	13,972,289	11,792,444
Flight fees	13,630,286	13,053,349
Handling	13,218,159	12,200,798
Rents and leases	10,535,134	11,401,311
Maintenance and repair	6,866,613	8,373,384
Commissions	6,214,455	5,691,872
Catering	5,464,503	4,514,358
Other Fees	5,170,079	5,841,184
Communication	3,545,623	2,575,635
Advertising	2,644,703	1,968,665
Insurance	747,339	934,894
Other	28,616,576	17,253,369
	158,122,936	136,046,938

The heading 'Rents and leases' includes values concerning the operating lease agreements for the ATPs, the three Airbus A320 and an A310-304 (Note 27).

'Commissions' concerns the commissions awarded essentially to Company agents for sales of SATA tickets.

'Maintenance and repair' essentially represents the costs incurred by the Company in the maintenance of aircraft engines, propellers and landing gear.

58. OPERATING SUBSIDIES

As at 31 December 2007 this heading was € 21,577,077 (Note 55) and corresponded to the compensation attributed by the Government of the Portuguese Republic in respect of scheduled flights for the year 2007.



59. FLEET - OPERATING AND FINANCE LEASES

As at 31 December 2007, the Group operated with aircraft under operating and finance leases under the terms of the agreements described below:

In 2005, the subsidiary SATA Internacional introduced an addendum to the initial operational lease agreement for an Air Airbus A310-304 ('CS-TGU'), being granted under that amendment the right to a purchase option over that aircraft, which at the present configures this new lease as a finance lease and will terminate in August 2008 (Note 47). To guarantee this agreement the Group presented an irrevocable letter of credit for USD 1,560,000 (Note 22).

In 2005, the subsidiary SATA Internacional introduced an addendum to the initial operational lease agreement for an Air Airbus A310-304 ('CS-TGU'), being granted under that amendment the right to a purchase option over that aircraft, which at the present configures this new lease as a finance lease and will terminate in July 2008 (Note 47). To guarantee this agreement the Group presented an irrevocable letter of credit for USD 1,545,000 (Note 22).

The operating lease agreement for the aircraft A320 ('CS-TKJ') commenced on 4 May 2004 and was due to terminate in May 2008. In 2007, the extension of the agreement to May 2010 was negotiated. The agreement sets out the payment of monthly lease instalments plus a maintenance reserve per flight hour, with no purchase option at the end of the agreement. To guarantee this agreement the Group lodged a security deposit in favour of ILFC for USD 540,000 (Note 55).

In March 2004, the Group signed an operating lease agreement for two new A320 aircraft ('CS-TKK and CS-TKL') to replace the two Boeings in the fleet at that time, which went into operation in April 2005. To guarantee these agreements the Group lodged a security deposit in favour of ILFC for USD 1,200,000 (Note 55).

In May 2005 the Group signed an operating lease agreement for an A310-304 aircraft ('CS-TKM') which was due to terminate in May 2008. In 2007, the extension of the agreement to November 2009 was negotiated. The agreement sets out the payment of monthly lease instalments plus a maintenance reserve per flight hour, with no purchase option at the end of the agreement. To guarantee this agreement the Group lodged a security deposit in favour of ILFC for USD 360,000 (Note 55).



In May 2007, the Company acquired from Austrian Airlines an Airbus A310-325 ('CS-TKN'), which it immediately sold and re-leased with the institution Totta Leasing, an operation that did not generate any gain for the Company. The lease agreement signed with Totta Leasing terminates in May 2015, and the Company recorded it as a finance lease. The Group has not provided any guarantee or security deposit on signing this agreement.

60. CASH FLOW STATEMENTS

The breakdown of cash and cash equivalents, reconciling the amounts shown in the cash flow statement with the balance sheet headings, is as follows:

	2007	2006
Cash	98	11,224
Bank deposits repayable on demand	42,272,907	33,820,672
Bank overdrafts (Note 50)	(3,617)	(394,171)
Banks and cash as per balance sheet	<u>42,269,388</u>	<u>33,437,725</u>

61. PROFIT AND LOSS ACCOUNT BY FUNCTION

The profit and loss account by function was drawn up taking into consideration the provisions of Accounting Directive No. 20 and the following aspects should be noted:

- (a) 'Cost of goods sold and services rendered' includes essentially the values of the profit and loss account by nature recorded in: 'Cost of materials consumed'; 'External supplies and services' - Fuel and lubricants, Rents and leases, Maintenance reserves per flight hours, Handling, Flight and other charges, Charters, Catering and Other (Note 57); 'Personnel costs' - in respect of on-board staff.
- (b) 'Other operating income' includes essentially the values of the profit and loss account by nature recorded in: 'Operating subsidies'; 'Supplementary income' and part of 'Extraordinary income'.



(c) 'Distribution charges' includes essentially the values of the profit and loss account by nature recorded in: 'External supplies and services' - Commissions, Advertising and other external services and supplies; and 'Personnel costs' - concerning sales department staff.

(d) 'Administrative costs' includes essentially the values of the profit and loss account by nature recorded in: 'External supplies and services' - Rents and leases and other external services and supplies' and 'Personnel costs' - concerning administrative staff'.

O TÉCNICO OFICIAL DE CONTAS

António Jorge Ferreira da Silva

O CONSELHO DE ADMINISTRAÇÃO

António Vasconcelos
Franco Gomes
de Menezes
(Chairman)

Luísa Maria
Estrela Miranda
Schanderl
(Director)

António Maurício
do Couto
Tavares de Sousa
(Director)

Luís Filipe
Soares Borges
da Silveira
(Director)