

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F/A
(Amendment No. 2)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

Commission File Number: 1-14728

Lan Airlines S.A.

(Exact name of registrant as specified in its charter)

Lan Airlines S.A.
(Translation of registrant's name into English)

Republic of Chile
(Jurisdiction of incorporation or organization)

Presidente Riesco 5711, 20th Floor
Las Condes
Santiago, Chile
(Address of principal executive offices)

Gisela Escobar Koch
Tel.: 56-2-565-3944 • E-mail: gisela.escobar@lan.com
Presidente Riesco 5711, 20th Floor
Las Condes
Santiago, Chile

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:
American Depositary Shares (as evidenced by
American Depositary Receipts), each representing
one share of Common Stock, without par value

Name of each exchange on which registered:
New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:
338,790,909.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Yes ☐ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer x Accelerated filer ☐ Non-Accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:
U.S. GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board x Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:
Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

EXPLANATORY NOTE

We filed our annual report on Form 20-F for the fiscal year ended December 31, 2010 (which we refer to as the “20-F”) on May 5, 2011, which was amended on November 29, 2011 (“Amendment No. 1”). This Amendment No. 2 to our 20-F (which we refer to as Amendment No. 2) is being filed solely for purposes of amending and refiling the cover page, the signature page and exhibits 12.1, 12.2, 13.1 and 15.1 to Amendment No. 1, which inadvertently omitted the filing date. This Amendment No. 2 also restates, but does not amend, Items 4, 18 and 19 and Exhibit 8.1, in each case as set forth in Amendment No. 1.

We believe that these corrections are not material to our financial condition, operations or prospects.

Except as described above, no other change has been made to our 20-F. The filing of this Amendment No. 2 does not, and does not purport to, amend, update or restate the information in any other item, or exhibits to, the Form 20-F, as amended, and should not be understood to mean that any other statements contained therein are true or complete as of any date subsequent to May 5, 2011.

ITEM 4. INFORMATION ON THE COMPANY

BUSINESS

Overview

We are one of the leading passenger airlines in Latin America and the main air cargo operator in the region. We currently provide domestic and international passenger services in Chile, Peru, Ecuador, Argentina and Colombia. We carry out our cargo operations through the use of belly space on our passenger flights and dedicated cargo operations using freighter aircraft through our cargo airlines in Chile, Brazil, Colombia and Mexico. In 2007, we initiated a strategy for stimulating demand for air travel in our domestic markets by offering lower-fare options to travelers, lowering our costs and increasing the aircraft utilization rates and efficiency of operations. For more information about our short-haul operations see “—Business of the Company— Passenger Operations—Business Model for Domestic Operations” below.

As of February 28, 2011, we serviced 15 destinations in Chile, 14 destinations in Peru, 4 destinations in Ecuador, 14 destinations in Argentina, 24 destinations in Colombia, 14 destinations in other Latin American countries and the Caribbean, 5 destinations in the United States, 1 destination in Canada, 3 destinations in Europe and 4 destinations in the South Pacific. In addition, as of February 28, 2011, through our various code-share agreements, we offer service to 25 additional destinations in North America, 16 additional destinations in Europe, 25 additional destinations in Latin America and the Caribbean (including Mexico) and 2 destinations in Asia. We provide cargo service to all our passenger destinations and to approximately 20 additional destinations served only by freighter aircraft. We also offer other services, such as ground handling, courier, logistics, and maintenance.

Lan Airlines S.A. is a publicly-held stock corporation (*sociedad anónima abierta*) incorporated under the laws of Chile. Our principal executive offices are located at Presidente Riesco 5711, 20th floor, Las Condes, Santiago, Chile and our general telephone number at this location is (56-2) 565-2525.

History of the Company

The Chilean government founded Lan Airlines (formerly Lan Chile S.A.) in 1929. Lan Airlines was a government-owned company from 1929 until its incorporation in 1983. Lan Airlines began international service to Buenos Aires, Argentina in 1946, to the United States in 1958 and to Europe in 1970. In 1989, the Chilean government sold 51% of Lan Airlines’ capital stock to Chilean investors and to Scandinavian Airlines System. In 1994, our controlling shareholders together with other major shareholders acquired 98.7% of Lan Airlines’ stock, including the remaining stock held by the Chilean government, in a series of transactions. As of February 28, 2011, the controlling shareholders held 34.01% of our capital stock. For more information about our controlling shareholders, see “Controlling Shareholders” and “Related Party Transactions” under Item 7.

In 1997 LAN was listed on the New York Stock Exchange, becoming the first Latin American airline to trade its ADRs on this financial market.

Since this acquisition of our capital stock in 1994 and the appointment of our current management, we have grown our revenue base and maintained our profitability every year despite significant challenges. Additionally, we have created a comprehensive network across the region by forming, together with local partners, or acquiring, passenger affiliates in Peru, Ecuador, Argentina and Colombia, and cargo affiliates in Brazil, Mexico and Colombia. In early 2004, we changed our corporate image and started using the “LAN” brand in order to better reflect the common values and attributes present in all the companies forming our network. We have complemented our own network with a set of bilateral alliances with carriers such as American Airlines, Iberia and Qantas, and have been a member of the *oneworld*[®] alliance since 2000.

Organizational Structure

LAN is a company primarily involved in the transportation of passengers and cargo. Our operations are carried out principally by Lan Airlines and also by a number of different subsidiaries. As of February 28, 2011, in the passenger business we operated through six main airlines: Lan Airlines, Transporte Aéreo S.A. (which does business under the name “Lan Express”), Lan Perú S.A. (“Lan Peru”), Aerolane Líneas Aéreas Nacionales del Ecuador S.A. (“Lan Ecuador”), Lan Argentina S.A. (“Lan Argentina,” previously Aero 2000 S.A.) and the recently acquired Aerovías de Integración Regional, Aires S.A. (“Aires”).

In the passenger business we market our sales primarily under the “LAN” brand, except for Aires, which is working towards being rebranded to “LAN”. As of February 28, 2011 we held a 99.9% stake in Lan Express through direct and indirect interests, a 70.0% stake in Lan Peru through direct and indirect interests, a 71.9% indirect stake in Lan Ecuador, a 99.0% indirect stake in Lan Argentina and a 94.99% indirect stake in Aires (a Colombian entity which was acquired on November 26, 2010).

Our cargo operations are carried out by a number of companies, including Lan Airlines and Lan Cargo. As of February 28, 2011, Lan Airlines and Lan Cargo were complemented by the operations of certain related companies, such as Aero Transportes Mas de Carga S.A. de C.V. (“MasAir”), in Mexico, Aerolinhas Brasileiras S.A. (“ABSA”), in Brazil and Linea Aérea Carguera de Colombia S.A. (“Lanco”), in Colombia. As of February 28, 2011, we held a 69.2% stake in MasAir through direct and indirect participations, a 73.3% stake in ABSA through direct and indirect participations, and a 90.0% stake in LANCO through direct and indirect participations. In the cargo business, we market ourselves primarily under the Lan Cargo brand.

In addition to our air transportation activities, we provide a series of ancillary services. We offer handling services, courier services and logistics, small package and express door-to-door services through Lan Airlines and various subsidiaries.

Proposed Combination with TAM

On August 13, 2010, we jointly announced with TAM that we had entered into a non-binding Memorandum of Understanding relating to the proposed all-stock transaction that would combine the holdings of LAN and TAM under a single parent entity.

On January 18, 2011, we and Costa Verde Aeronáutica and Mineras del Cantábrico (we refer to these entities together as the “LAN controlling shareholders”) entered into an implementation agreement and an exchange offer agreement (we refer to these agreements together as the “transaction agreements”) with TAM S.A., TAM Empreendimentos e Participações S.A. (we refer to this entity as the “TAM controlling shareholder”) and Maria Cláudia Oliveira Amaro, Maurício Rolim Amaro, Noemy Almeida Oliveira Amaro and João Francisco Amaro (we refer to these individuals together as the “Amaro family”), which set forth the terms and conditions of a proposed business combination of LAN and TAM.

On the terms and subject to the conditions set forth in the transaction agreements (including the minimum conditions discussed in this section below), all or substantially all of the outstanding voting common shares of TAM will be acquired by a new Chilean corporation (which we refer to as “Holdco 1”) and all or substantially all of the outstanding non-voting preferred shares of TAM will be acquired by LAN if the series of transactions and corporate restructurings described below are successfully completed:

- The Amaro family will create a new Chilean corporation (which we refer to as “TEP Chile”) that will be wholly owned by them;
 - TEP Chile will acquire and hold at least 80% of the voting stock of Holdco 1, which will have no economic rights in Holdco 1 (other than nominal dividend rights);
 - LAN will acquire no more than 20% of the voting stock of Holdco 1;
 - LAN will acquire and hold 100% of the non-voting stock of Holdco 1, which will have all of the economic rights in Holdco 1 (other than the nominal dividend rights of the voting stock of Holdco 1);
 - Holdco 1 will acquire and hold all or substantially all of the voting common shares of TAM;
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- LAN will acquire and hold all or substantially all of the non-voting preferred shares of TAM; and
- LAN, TAM, TEP Chile, Holdco 1 and the LAN controlling shareholders will enter into the shareholder agreements described below under “—Shareholders Agreements,” relating to the holding of shares in, and the governance of, and relationships between, LAN, Holdco 1, TAM and their respective subsidiaries.

Pursuant to and subject to the terms of the transaction agreements, the parties will form a new Chilean corporation (which we refer to as “Holdco 2”) that will commence a delisting exchange offer to acquire all of the voting common shares of TAM and all of the non-voting preferred shares of TAM (in each case other than any such shares owned indirectly by the Amaro family) in exchange for the same number of shares of common stock of Holdco 2 (which we refer to as the “exchange offer”).

At or prior to the completion of the exchange offer:

- the Amaro family will contribute to TEP Chile all of the voting common shares of TAM and non-voting preferred shares of TAM beneficially owned by them;
- TEP Chile will pay nominal consideration for all of the voting shares of Holdco 1 and will contribute all of the voting common shares of TAM it receives from the Amaro family to Holdco 1 in exchange for all of the non-voting shares of Holdco 1;
- TEP Chile will contribute (i) all of the non-voting shares of Holdco 1, (ii) 6.2% of the voting shares of Holdco 1 and (iii) all of the non-voting preferred shares of TAM it receives from the Amaro family to a new Chilean corporation (which we refer to as “Sister Holdco”) in exchange for all of the shares of common stock of Sister Holdco (other than one share held by a nominee of TEP Chile);
- each of Holdco 2 and Sister Holdco will merge with and into LAN (we refer to these mergers together as the “mergers,” and individually as the “Holdco 2 Merger” and the “Sister Holdco Merger,” respectively), with LAN being the surviving company of each such merger; and
- in the mergers, each share of common stock of Holdco 2 and each share of common stock of Sister Holdco will be converted into the right to receive 0.9 of a LAN common share.

As a result of the exchange offer and Holdco 2 merger, each holder of a voting common share of TAM and each holder of a non-voting preferred share of TAM that sells such shares in the exchange offer will ultimately receive 0.9 of a LAN common share for each share they sell. Similarly, as a result of the foregoing transactions and the Sister Holdco merger, the Amaro family will ultimately receive 0.9 of a LAN common share for each voting common share of TAM and each non-voting preferred share of TAM that they own.

The commencement of the exchange offer is subject to certain conditions set forth in the transaction agreements as described under “Key Information—The Transaction Agreements—Conditions to Commencement of the Exchange Offer,” under Item 4, including receipt of all required regulatory approvals, approval of the proposed combination by the holders of LAN common shares and the condition that the holders of no more than 2.5% of the outstanding LAN common shares exercise their appraisal rights under Chilean law. The completion of the exchange offer is also subject to certain conditions set forth in the transaction agreements as described under “Key Information—The Transaction Agreements—Conditions to Completion of the Exchange Offer,” under Item 4, including minimum tender conditions and conditions to the Amaro family’s obligation to contribute their TAM shares as described above. As a result, no assurance can be given that the proposed combination will be completed.

If the proposed combination is completed, then:

- LAN’s common shares will be listed in Brazil on the Bovespa in the form of BDRs;

- LAN's common shares will continue to be listed in Chile on the SSE and in the United States on the NYSE in the form of ADRs;
- subject to satisfaction of the minimum tender conditions described above, all TAM shares (whether voting common shares or non-voting preferred shares) will be delisted from the from the Bovespa in Brazil and the NYSE in the United States; and
- LAN will change its name to "LATAM Airlines Group S.A."

On January 28, 2011, in response to a petition filed by a Chilean consumer association, Conadecus, the TDLC, determined to submit the proposed combination between LAN and TAM to a voluntary review procedure that is available under the Chilean antitrust laws upon the request of the *Fiscalía Nacional Económica* or someone with a legitimate interest. This voluntary review procedure could delay the implementation of the proposed combination because LAN and TAM cannot complete the proposed combination until the TDLC renders its final decision at the end of this process. On April 5, 2011, LAN, together with TAM, submitted a presentation in support the proposed combination.

On March 1, 2011, the Brazilian *Agencia Nacional de Aviação Civil* (the Brazilian National Civil Aviation Agency or "ANAC") authorized the transfers of the shares of TAM and its subsidiaries that are necessary to implement the proposed combination. However, the proposed combination remains subject to other regulatory and shareholder approvals.

Competitive Strengths

Our strategy is to maximize shareholder value by increasing revenues and profitability through leveraging the operational efficiencies between our cargo and passenger divisions, thoroughly planning for our expansion efforts and carefully controlling costs. We plan to accomplish these goals by both focusing on our existing competitive strengths and implementing new strategies to fuel our future growth. We believe our most important competitive strengths are:

Leading Presence in Key South American Markets

We are one of the main international and domestic passenger airlines in Latin America, as well as the largest cargo operator in Chile and most of the South American markets that we serve. We hold the largest market share of passenger traffic to and from Chile, Peru and Ecuador, as well as the largest market share of domestic passenger traffic in both Chile and Peru. More recently, we have also achieved a solid and growing position in the Argentine domestic market through Lan Argentina and in the Argentine international market through Lan Argentina and our other passenger airlines. We are also strengthening our presence in the Ecuadorian market, where we began domestic passenger operations on April 6, 2009. We entered the Colombian domestic and international market through the acquisition of Aires on November 26, 2010. We are also the leading air cargo operator within, to and from South America, and we are consolidating our leadership through new cargo operations in Colombia and in the Brazilian domestic market, as well as through an increased presence in routes between South America and Europe. Our international and domestic passenger and cargo operations have increased substantially over the past four years in terms of capacity, traffic and revenue. Between 2005 and 2010, our passenger capacity grew 78.8% and our cargo capacity grew 28.2%.

Diversified Revenue Base from both Passenger and Cargo Operations

We believe that one of our distinct competitive advantages is our ability to profitably integrate our scheduled passenger and cargo operations. We take into account potential cargo services when planning passenger routes, and also serve certain dedicated cargo routes using our freight aircraft, when needed. By adding cargo revenues to our existing passenger service, we are able to increase the productivity of our assets and maximize revenue, which has historically covered fixed operating expenses per flight, lowered break-even load factors and enhanced per flight profitability. Additionally, this revenue diversification helps offset seasonal revenue fluctuations and reduces the volatility of our business over time. As of December 2010, passenger revenues accounted for 68.8% of total revenues and cargo revenues accounted for 28.3% of total revenues.

Attractive Cost Structure with High Utilization of our Assets and Productive Personnel

We believe that we have a highly competitive cost structure with a cost per ATK of 43.6 cents in 2010. Our cost advantage arises mainly from our productive and committed employees, high aircraft utilization, modern and fuel-efficient fleet and cost-conscious culture. Our wages and labor costs accounted for approximately 20.4% of total costs in 2010, which we believe is a lower percentage than that of many other U.S. and European carriers.

Furthermore, our itineraries and aircraft rotations are designed to maximize aircraft utilization. During 2010, our long-haul aircraft (Boeing 767-300 passenger and Airbus A340-300s) operated an average of approximately fourteen hours per day. We also implemented a new business model for short-haul operations in 2007; as a result, by the end of 2010 we increased the utilization of our narrow body aircraft to reach 9.5 hours per day. In May 2008, we completed the phase out of the Boeing B737-200 from our fleet. Our short haul fleet is now entirely composed of Airbus A320-Family Aircraft with the exception of the recently acquired Aires fleet.

In addition, during 2009 we continued with the implementation of LEAN, a system that seeks to improve our processes by eliminating activities that do not add value (thus increasing the value of each activity and suppressing those that are superfluous), which reduces costs, improves efficiency and increases customer satisfaction. The adoption of this system constituted a redesigning of processes that permits solving problems that may occur during the execution of any process, such as aircraft maintenance. The foregoing renders the daily tasks and processes carried out within the Company more efficient. Due to its implementation, during 2010 we achieved a 30% reduction in the time that an aircraft remains in the hangar and we were also able to reduce the period needed to install winglets from 58 to 18 days. LEAN also allowed us in 2011 to support the Company's high growth, by streamlining the pilot training process, which resulted in more pilots trained during that year. Finally, it allowed the Company to reduce CO2 emissions, by redesigning processes in various areas that result in fuel consumption. In addition, by establishing clear roles, challenges and achievements, the implementation of LEAN has had an important benefit in terms of employee motivation. See Item 4. "Information on the Company—Business of the Company—Maintenance."

Strong Brand Teamed with Key Global Strategic Alliances

In March 2004 we launched the "LAN" brand, under which we operate all of our international passenger airlines (except for Aires, which is working towards being rebranded to "LAN"). Brand uniformity enables our customers to better identify us with the high standards of service and safety that are common to all of our airlines. This corporate image has also improved the cost effectiveness and efficiency of our marketing efforts as we continue to expand in our existing and new markets. Additionally, LAN and our entire passenger affiliates (with the exception of Aires) are a member of the *oneworld*[®] alliance. We have also entered into bilateral agreements with strategic partners such as American Airlines, Iberia and Qantas, among others, whose leading presence in their respective markets creates a truly global reach for our passengers. Our passenger alliances and commercial agreements provide our customers with approximately 750 travel destinations, a combined reservations system, itinerary flexibility and various other benefits, which substantially enhance our competitive position within the Latin American market.

Optimized Fleet Strategy

We make optimal use of our fleet structure through a combination of minimal aircraft types, modern aircraft and staggered lease maturities. We carefully select our aircraft based on their ability to effectively and efficiently serve our short- and long-haul flight needs, while still striving to minimize the number of aircraft types we operate. For short-haul flights we operate the Airbus A320-Family Aircraft and the recently acquired Aires fleet in the Colombian market. As of May 18, 2008, we stopped using Boeing 737-200 aircraft in our Chilean domestic operations. For long-haul passenger flights we operate the Boeing 767-300 passenger aircraft and for long-haul cargo flights we operate the Boeing 767-300 Freighters. For ultra long-haul service, such as between Santiago and Madrid and between Santiago and Auckland, we use the Airbus A340-300 aircraft. Having a fleet with minimal aircraft types reduces inventory costs, as fewer spare parts are required, and reduces the need to train our pilots to operate different types of aircraft. LAN's strategic fleet renewal plan involves the sale of five Airbus A318 aircraft in 2011, five in 2012 and five in 2013.

The average age of our fleet as of February 28, 2011 was 6.1 years (excluding the recently acquired Aires fleet), making our fleet one of the most modern in Latin America. The phasing out of our Boeing 737-200s, our oldest aircraft, which was completed in May 2008, contributed to reducing the average age of our fleet. Additionally, we expect that our purchase of additional aircraft, to be delivered between 2011 and 2018 will further reduce the average age of our fleet. Having a younger fleet makes us more cost competitive because it reduces fuel consumption and maintenance costs, and enables us to enjoy a high degree of performance reliability. In addition, a modern and fuel efficient fleet reflects our strong commitment to the environment as new aircraft incorporate the industry's latest technology, allowing for a substantial reduction in emissions, while also decreasing noise levels.

Additionally, our leased fleet is structured with staggered lease maturities over time to create the strategic flexibility to expand or reduce capacity according to market conditions. We believe that our aircraft and the flexibility of our fleet allow us to maximize aircraft utilization by adapting rapidly to changes in passenger and cargo demand in the markets that we serve.

Strong Financial Position with Track Record of Growth and Profitability

We have historically managed our business to maintain financial flexibility and a strong balance sheet in order to accommodate our growth objectives while being able to respond to changing market conditions. We are one of the few investment-grade rated airlines in the world and we maintained this status during 2010. We have built our strong financial position by preserving our financial liquidity and continuing to structure long-term financing for newly acquired aircraft. Our financial flexibility has allowed us to secure large aircraft orders, including an important part of our current re-fleeting program at attractive financing rates. We also monitor and seek opportunities to reduce financial risks associated with currency, interest rate and jet fuel price fluctuations. Over the last five years, while much of the airline industry has faced significant competitive and liquidity crises, we have remained consistently profitable.

Business Strategy

The principal areas in which we plan to focus our efforts going forward are as follows:

Continue to Grow Both our Passenger and Cargo Networks

We currently intend to continue to expand our capacity over the next several years to accommodate robust long-term growth in both passenger and cargo demand in the markets we target. We plan on expanding our operations not only in the markets we currently serve but also into new South American markets where we believe demand exists for our combination of passenger and cargo services. To meet this growth,

- as of February 28, 2011, we had an order book of 82 latest generation Airbus A320-Family Aircraft to be delivered between 2011 and 2016 and nine Boeing 767-300 wide body passenger aircraft to be delivered between 2011 and 2012;
- as of February 28, 2011, we had orders for two Boeing 777-200 Freighter aircraft to be delivered in 2012; and
- we also have outstanding orders for 32 Boeing 787 Dreamliner passenger aircraft, currently expected to start to be delivered in 2012.

We will continue to leverage the benefits of combining our passenger and cargo operations. Our passenger and cargo operations are equally important aspects of our business, and we dedicate the necessary resources, employees, facilities, management and fleet to enable both operations to provide high-quality service and to compete effectively in their respective markets.

Enhance the Profitability of our Short-Haul Operations

We plan to continue implementing the business model launched in 2007 to increase the efficiency of our domestic and short-haul operations, specifically in the domestic markets in Chile and Peru. This model is also being applied in the domestic markets in Ecuador and Argentina, as well as in our recently acquired passenger operations in Colombia. In Argentina, the implementation of the model is subject to certain regulatory restrictions as a result of the fare bands in place in the Argentinean domestic market. In addition, we are evaluating the application of these initiatives on certain regional routes within Latin America. A key objective of this program has been to increase the utilization of our fleet through modified itineraries that include more point-to-point and overnight flights and faster turnaround times. Our Boeing 737-200 fleet was completely phased out in May 2008 in favor of the new Airbus A320-Family Aircraft, which we currently operate on all domestic and regional routes except those served by Aires. These initiatives have increased efficiency and improved the margins of our short-haul operations. In addition, our modern fleet allows for lower unscheduled maintenance costs, lower fuel consumption, and operational and cost efficiencies achieved through operating fewer fleet types. Other key objectives of this business model include a reduction in sales and distribution costs through increased Internet penetration, reduced agency commissions, and increased self check-in service through web check-in and airport kiosks. We expect that these initiatives, together with simplifications in back-office and support functions, will continue to help us expand operations while controlling fixed costs, spurring a reduction in overhead costs per ASK. We have begun to pass on a portion of these operating efficiencies to consumers through fare reductions, which has stimulated additional demand and enhanced our overall profitability.

Maintain Excellent Customer Satisfaction

In both our passenger and cargo businesses, we focus on delivering high quality services that are valued by our customers. In our passenger businesses we strive to achieve high on-time performance, world-class on-board service on long-haul flights, attractive and convenient pricing and quick check-in for short-haul flights, and the comfort afforded by a modern fleet. During the first half of 2009 we completed the reconfiguration of the cabins of all our long-haul aircraft, including both the Boeing 767 and the Airbus A340 passenger aircraft, in order to incorporate our new Premium Business Class including full-flat seats, as well as improvements in economy class which include a state-of-the-art on-board entertainment system. Our frequent flyer program, LANPASS, provides travel benefits and rewards to almost 4.3 million loyal customers in Chile, Argentina, Peru and Ecuador as well as in other countries where we operate. In the cargo business, we focus on providing reliable service, taking advantage of our ability to handle different types of cargo as well as significant cargo volumes, and leveraging our facilities in key gateways, such as Miami, to ensure optimal handling of our customers' needs. We continually assess opportunities to incorporate service improvements in order to respond effectively to our customers' needs.

Continued Emphasis on Safety

Our top priority is safety, and we have structured our operations and maintenance to focus on safe flying. Our main maintenance facilities are certified by the Federal Aviation Administration ("FAA"), DGAC and other civil aviation authorities. Our flight and maintenance safety procedures are certified under ISO 9001-2000 standards. We have programs in place to train our crews and mechanics to world-class standards both at facilities abroad or at our training centers, which we have developed in association with high-quality partners.

Focus on Efficiency and Sustainability

We are increasingly concerned with improving efficiency through a series of fleet initiatives that seek to reduce fuel consumption. The most significant is our ongoing fleet renewal and growth plan, through which we expect to incorporate 125 new aircraft between 2011 and 2018. As an example, we estimate that the Boeing 787 Dreamliner operates with costs per ASK that are approximately 12% lower than other long haul passenger aircraft, while the new Boeing 777 freighter is approximately 17% more efficient in terms of costs per ASK than the Boeing 767 freighter. In addition, during the second half of 2010 we finalized the installation of winglets on all of our Boeing 767 aircraft, achieving fuel efficiencies of approximately 5% per aircraft. In order to mitigate the environmental impact of our operations we seek to operate in a sustainable manner by reducing our fuel consumption and related emissions. We also continue to focus on adjusting the configuration of our aircraft to market demand by, for example, adjusting the configuration of four Boeing 767s that operate on long-haul routes from Ecuador by reducing the number of Premium Business seats and increasing the number of Economy class seats. Other long-term projects that aim at improving our cost structure include implementing the LEAN operating processes in our maintenance operations, as well as investing in new inventory and reservations systems provided by Sabre.

BUSINESS OF THE COMPANY

Airline Operations and Route Network

We are one of the main air transport operators in Latin America. As of February 28, 2011, we operated passenger airlines in Chile, Peru, Ecuador, Argentina and Colombia. We are also the largest air cargo operator in the region.

The following table sets forth our operating revenues by activity for the periods indicated:

	Year ended December 31,		
	2010	2009	2008
	(in US\$ millions)		
The Company⁽¹⁾			
Total passenger revenues	3,109.8	2,623.6	2,820.8
Total cargo revenues	1,280.7	895.6	1,319.4
Total traffic revenues	4,309.5	3,519.2	4,140.2

⁽¹⁾ Consolidated information for the Company.

Passenger Operations

General

As of February 28, 2011, our passenger operations were performed through airlines in Chile, Peru, Ecuador, Argentina and Colombia where we operate both domestic and international services.

As of February 28, 2011, our network consisted of 15 destinations in Chile, 14 destinations in Peru, 4 destinations in Ecuador, 14 destinations in Argentina, 24 destinations in Colombia, 14 destinations in other Latin American countries and the Caribbean, 5 destinations in the United States, 1 destination in Canada, 3 destinations in Europe and 4 destinations in the South Pacific. Within Latin America, we have routes to and from Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, the Dominican Republic, Ecuador, Mexico, Peru, Uruguay and Venezuela. We also fly to a variety of international destinations outside Latin America, including Auckland, Fort Lauderdale, Frankfurt, Los Angeles, Madrid, Miami, Mount Pleasant (Falkland Islands), New York, Toronto, Papeete (Tahiti), Paris, San Francisco, and Sydney. In addition, as of February 28, 2011, through our various code-share agreements, we offer service to 25 additional destinations in North America, 16 additional destinations in Europe, 25 additional destinations in Latin America and the Caribbean (including Mexico), and 2 destinations in Asia.

The following table sets forth certain of our passenger operating statistics for international and domestic routes for the periods indicated.

	Year ended December 31,		
	2010	2009	2008
The Company^{(1) (2)}			
ASKs (million)			
International	29,582.8	26,797.10	25,378.3
Domestic	12,772.4	11,979.10	9,797.8
Total	42,355.2	38,776.20	35,176.1
RPKs (million)			
International	23,226.4	20,861.20	19,507.2
Domestic	9,921.2	8,975.00	7,444.5
Total	33,147.5	29,836.20	26,951.7
Passengers (thousands)			
International	6,302	5,676	5,194
Domestic	10,991	9,730	8,046
Total	17,293	15,406	13,240
Passenger yield (passenger revenues/RPKs, in US cents)			
International	US¢ 8.7	8.0	9.6
Domestic	US¢ 10.8	10.4	12.2
Combined yield ⁽³⁾	US¢ 9.4	8.8	10.5
Passenger load factor (%)			
International	78.5%	77.8%	76.9%
Domestic	77.7%	74.9%	76.0%
Combined load factor ⁽⁴⁾	78.3%	76.9%	76.6%

(1) Information provided for the Company consolidates Lan Ecuador, Lan Argentina and Lan Perú.

(2) Domestic passenger operations include domestic operations in Chile, Peru, Argentina and Ecuador. These figures do not include operating statistics from Aires, which shall be included starting on January 2011.

(3) Aggregate international and domestic passenger yield.

(4) Aggregate international and domestic passenger load factor.

International Passenger Operations

As of February 28, 2011, we operated scheduled international services from Chile, Peru, Ecuador and Argentina through Lan Airlines; Lan Express in Chile; Lan Peru in Peru; Lan Ecuador in Ecuador; Lan Argentina in Argentina and Aires in Colombia. International passenger traffic has grown significantly in the past couple of years due to demand growth, market share gains, increased connecting traffic to and from other Latin American countries, the launch of new routes and additional frequencies on existing routes, and expansion into new markets.

Our international network combines our Chilean, Peruvian, Ecuadorian, Argentinean and Colombian affiliates. We have operated international services out of Chile since 1946, and we greatly expanded our flights out of Peru with the creation of Lan Peru in 1999 and out of Ecuador through Lan Ecuador in 2003. In August 2006, we expanded our international operations through Lan Argentina, which until then had only been offering domestic flights. The international operations of Aires, however, are being reduced since its acquisition in 2010. This strategy to generally expand our international network is aimed at enhancing our value proposition by offering customers more destinations and routing alternatives, maximizing aircraft utilization, increasing load factors, leveraging complementary seasonal patterns, and optimizing our commercial efforts. We provide long-haul services out of our four main hubs in Santiago, Lima, Guayaquil and Buenos Aires. We also provide regional services from Chile, Peru, Ecuador and Argentina. Since 2004, we have grown our intra-Latin American operations out of Lima to position it as our main regional hub.

The following table sets forth the destinations served from each of the aforementioned countries as of February 28, 2011:

Country of Origin	Destination	Number of Destinations
Chile	Argentina	7
	Bolivia	2
	Brazil	3
	Colombia	1
	Cuba	1
	Ecuador	1
	Peru	1
	Uruguay	2
	Venezuela	1
	Dominican Republic	1
	Mexico	2
	United States	3
	Canada	1
	Spain	1
	Germany	1
	New Zealand	1
	Falkland Islands	1
	French Polynesia	1
	Australia	2
Peru	Argentina	2
	Bolivia	2
	Brazil	1
	Chile	1
	Colombia	4
	Ecuador	2
	Venezuela	1
	Mexico	1
	United States	3
	Dominican Republic	1
	Spain	1
Ecuador	Argentina	1
	Chile	1
	United States	2
	Spain	1
	United States	1
Argentina	Brazil	1
	Chile	1
	Dominican Republic	1
	Peru	1
	Chile	1
Colombia	Perú	1
	Ecuador	1
	United States	2

In line with our long-standing commitment to provide customers with superior service and the best products on the market, in May 2009 LAN completed the retrofit of all its long-haul fleet (including its Boeing 767 and Airbus A340 passenger aircraft) with the new Premium Business class and improved Economy class. Combining the best features of the traditional First and Business classes, the new Premium Business includes 180 degrees recline full-flat seats which allow passengers to sleep with the maximum comfort and privacy. Premium Business also includes top-level personalized in-flight service. Changes in Economy class include new seats with a greater recline angle, a cushion that slides forward for increased comfort and convenience, and larger individual video monitors for each seat.

LAN's sustained development of its coverage has been a crucial factor in its growth and 2010 was no exception. New routes were added along with flight increases in some key existing routes in order to offer more and better alternatives to both business and tourist travelers. In 2010, the Company continued to consolidate its hub in Lima, which serves as the center of its Latin American network and also complements its intercontinental network, by opening new routes and increasing flights on existing routes.

As part of its mission, LAN seeks to promote tourism to South America. Due to its large network of services, visitors from around the world can experience world renowned destinations such as Cusco, Easter Island, the Galapagos Islands, or Patagonia in Chile and Argentina, including the cities of Punta Arenas, Ushuaia, El Calafate and Bariloche.

According to JAC data, Chilean international air passenger traffic increased 9.4% from 2009 to 2010 approximately 5.1 million passengers. We had a 52.8% market share in 2010, based on RPKs, compared to 52.4% in 2009. Our international operations out of Chile can be divided into four main segments, to: North America, Europe, the rest of Latin America, and the Pacific. As of February 28, 2011, the other principal carriers that transported passengers between Chile and North America with direct flights included American Airlines, Delta Airlines, Air Canada and Aeromexico. TACA and COPA also participated in the Chile-North American markets with stopovers in their respective Central American hubs. Our main competitors on routes between Chile and Europe were Air France-KLM and Iberia. On regional routes our main competitors were Aerolíneas Argentinas, Air Canada, Avianca, GOL, TACA and TAM. We were the only airline operating between Chile and the South Pacific during this time.

Based on the information provided by the Peruvian DGAC, we flew approximately 5.0 million passengers on international flights to and from Peru in 2010. That year, we had 45.4% of the international market share in Peru, which was an increase from our 41.7% market share in 2009. Our Peruvian international operations can be divided into three main segments, based on the destination: North America, Europe and the rest of Latin America. As of February 28, 2011, our main competitors on direct routes to North America included American Airlines, Continental Airlines, Delta Airlines, Spirit Airlines, Air Canada and Aeromexico. TACA and COPA also participated in the Peru-North American markets with stopovers in their respective Central American hubs. On routes to Europe, our main competitors were Iberia, Air Europa and Air France-KLM. The other principal carriers operating between Peru and the rest of Latin America as of that date included Aerolíneas Argentinas, TACA, TAM, Avianca and GOL.

The Ecuadorian international market increased 4.1% to approximately 2.8 million passengers between 2009 and 2010. According to travel agency statistics ("BSP") and our estimates, we had a 28.9% market share of the Ecuadorian international market in 2010 compared to 24.5% in 2009. Our Ecuadorian international operations can be divided into three main segments, to: North America, Europe and the rest of Latin America. As of February 28, 2011, on direct routes to North America, our main competitors were American Airlines, Continental Airlines, Delta Airlines and Aerogal. TACA and COPA also participate in the Ecuador-North American markets with stopovers in their respective Central American hubs. On routes to Europe, our main competitors were Air Comet, Iberia, and Air France-KLM. On regional routes, our main competitors were TACA, COPA and Avianca.

Based on our internal estimates, the Argentinean international market increased 18.0% to approximately 9.1 million passengers between 2009 and 2010. Our estimated market share of the Argentinean international market was 16.5% in 2010 compared to 17.3% in 2009. Our Argentinean international operations can be divided into two main segments, based on destination to: North America and the rest of Latin America. As of February 28, 2011, on the Buenos Aires-Miami route, our main competitors were American Airlines and Aerolíneas Argentinas. TAM, TACA and COPA also participated in the Argentina-North American markets with stopovers in their respective hubs. On the Buenos Aires-Dominican Republic route, our main competitors were COPA and American Airlines. On the Buenos Aires-Sao Paulo route, our main competitors were TAM, GOL and Aerolíneas Argentinas. On the Buenos Aires-Lima route, our main competitors were TACA and Aerolíneas Argentinas. On the Buenos Aires-Santiago route, our main competitors were Aerolíneas Argentinas and Air Canada.

Business Model for Domestic Operations

In 2007 we initiated an important project to redesign our domestic business operations with the goal of increasing efficiency and improving the margins of LAN's short-haul operations, specifically with respect to our domestic operations in Chile and Peru. The new business model was first tested in the last quarter of 2006. A key element of this project has been to significantly increase the utilization of our narrow body fleet, which we have been successfully achieving through modified itineraries including more point-to-point and overnight flights. We removed the Boeing 737-200 aircraft from our fleet in favor of the new more efficient Airbus A320-Family Aircraft. The Airbus A320-Family Aircraft fleet utilization reached approximately 10.9 block hours per day in 2010. The transition to a newer fleet allows for lower unscheduled maintenance costs as well as cost efficiencies achieved through operating fewer fleet types and operational efficiencies, including lower fuel consumption.

Other key elements of our new business model are the reduction in sales and distribution costs through higher Internet penetration and reduced agency commissions, a faster turnaround time, and increased self-check-in service through web check-in and kiosks at airports. These initiatives, together with simplifications in back-office and support functions, will continue to allow us to expand operations while controlling fixed costs, spurring a reduction in overhead costs. We have begun to pass on these operating efficiencies to consumers through significant fare reductions, which we expect will have a strong effect of stimulating new demand.

In 2007, we implemented all aspects of this new business model in the Chilean and Peruvian domestic markets. We launched our new short-haul business model on all domestic routes in Chile in April 2007, after a marketing campaign that began in March 2007. We launched the new model in all domestic Peruvian routes in January 2007.

As a result of the implementation of this model, we increased the number of passengers transported in all domestic markets. Between 2006 and 2010, the number of passengers transported increased significantly:

- 83% (from 2.5 million to 4.6 million) in Chile,
- 123% (from 1.7 million to 3.8 million) in Peru,
- 200% (from 0.6 million to 1.9 million) in Argentina, and
- with a minor effect in Ecuador as we just started domestic operations during 2009.

Over the past three years we have sustained constant growth in each of our domestic passenger operations, and between 2009 and 2010 we achieved an increase in domestic transported passengers at 13%.

On November 26, 2010, LAN acquired Colombian airline Aerovías de Integración Regional S.A. (“Aires”) for US\$12 million in cash, in addition to assuming net liabilities of US\$87 million. The Colombian market is the second largest market in South America with over 13 million annual domestic passengers and represents a key market in LAN’s consolidation as a leading airline within the region. Aires is currently the second largest operator in Colombia’s domestic market with approximately a 20% market share as of December 2010. The Aires fleet consists of 9 B737-700s, 11 Q200 and 4 Q400, all of which are operating leases.

We plan to continue with the implementation of this business model during 2011 and we are evaluating its implementation in some regional routes, as we look for ways to increase operational efficiency, encourage direct sales and self check-in, and implement new sales strategies aimed at stimulating demand.

Operations within Chile

Through Lan Airlines and Lan Express we are the leading domestic passenger airline in Chile. We have operated domestic flights in Chile since the Company’s creation in 1929. As of February 28, 2011, we flew to 13 destinations within Chile (including Santiago, but not including Easter Island, which we consider an international destination even though it is a part of Chile, because we serve it with long-haul aircraft) as well as some seasonal destinations. Lan Airlines and Lan Express have integrated passenger operations, including operations under the same two-letter “designator reservation code,” and have coordinated fare structures, scheduling and other commercial matters in order to maximize cooperative benefits and revenues for the two carriers. Our strategy is based on providing frequent service to Chile’s main destinations, offering a reliable and high quality service, and leveraging our strong brand position in Chile and abroad. We evaluate our network of domestic routes on an ongoing basis in order to achieve optimal operational efficiency and profitability. Our strategic objective is to maintain our leadership position in our domestic routes.

LAN’s flexibility and broad passenger network also allowed us to manage the negative impact of the catastrophic earthquake that struck Chile in February 2010, causing significant damage to the terminal building at the Santiago International Airport and affecting all air travel in and out of the country. With no alternative airport in the Santiago Metropolitan Region, commercial passenger operations were suspended for three days, and were re-launched on March 2, 2010 with provisional facilities. LAN operated with reduced capacity out of Santiago until the terminal building was fully operational on March 28, 2010. LAN estimates the net impact of decreased passenger operations due to the earthquake were approximately US\$30 million in 2010. Cargo operations were not materially affected by the earthquake, nor were the passenger operations of LAN or its subsidiaries in Peru, Ecuador and Argentina.

During 2010 we operated an average fleet of 18 Airbus A320-Family Aircraft in the Chilean domestic market, and we plan to operate an average fleet of 21 Airbus A320-Family Aircraft in 2011. Domestic operations in Chile were positively affected by the greater utilization of the latest-generation Airbus fleet and the retirement of the Boeing 737-200s. The new business model was launched nationwide within Chile in April 2007. We reduced sales costs by increasing direct sales from 78% in 2009 to 80% in 2010 (with 63% of our 2010 sales done through the Internet) and by reducing agency commissions from 6% to 1% in February 2007. We also increased fleet utilization, crew productivity and the average flight leg through schedule changes. Additionally, we simplified our processes, which helped to increase the self check-in rate from 77% in 2009 to 80% in 2010. Finally, we utilized the greater efficiency of the Airbus aircraft to reach operational efficiencies such as reducing the turn-around time, increasing our punctuality (which reached 94% in 2009 and 87% in 2010) and lowering fuel consumption. As of February 28, 2011, we operated 100% of our ASKs with our Airbus A320-Family Aircraft fleet

According to JAC data, the Chilean domestic market as a whole transported approximately 6.0 million passengers in 2010 and it had an increase of 17% in terms of RPK. Our domestic market share in Chile was 78.4% for 2010 and 79% as of January 31, 2011. During 2010, our main competitors in the domestic market were Sky Airlines and PAL Airlines, which began operations in June 2009. Sky Airlines currently operates a fleet of 13 Boeing 737-200 aircraft and flies to 12 destinations. PAL Airlines currently operates a fleet of 4 Boeing 737-200 aircraft and flies to 5 destinations.

There are currently no foreign airlines participating in the Chilean domestic market. Chile permits foreign airlines to operate in Chile if the airline's home country gives similar treatment to Chilean airlines. Additionally, there are no regulatory barriers that prevent a foreign airline from creating a Chilean subsidiary and entering the Chilean domestic market using that subsidiary.

Operations within Peru

Lan Peru started operations in 1999 with domestic and international flights from Lima. During the past ten years, Lan Peru has expanded consistently, consolidating its domestic operations and coverage of relevant markets.

Regarding the domestic market, Peru has tremendous potential compared to other Latin American markets based on per capita travel ratios. In 2010 the domestic market reached 5.0 million passengers and 6.4 million passengers are expected for 2011.

LAN Peru has one of the most modern fleets in Latin America, operating 19 Airbus A319 aircraft, with twelve for domestic operations and seven for regional operations. This fleet is ideal for Peruvian routes, as it maximizes available payload in high-altitude airports with tail wind conditions. This uniform fleet also allows for low maintenance costs, high crew productivity and operational flexibility.

Compared to 2009, Lan Peru's domestic operations in Peru showed an expansion of 8.9% during 2010, due to an increase in the number of flights to existing destinations. According to data provided by the Corporación Peruana de Aeropuertos y Aviación Comercial S.A. (the Peruvian Airport and Commercial Aviation Corporation, or "CORPAC"), our domestic market share in Peru was 62% for 2007, 73% for 2008, 80% for 2009 and 70% for 2010.

A total of 3,836,134 passengers traveled on LAN Peru's domestic Peruvian routes in 2010, which represented an increase of 13% compared to 2009. As of February 28, 2011, competitors included Star Peru, Peruvian Airlines and TACA (which has increased its operations in the domestic market by adding new frequencies to Cusco, Juliaca, Tarapoto and Trujillo).

LAN Peru expects to increase the connections between cities within the country. Cusco, the country's most important tourist destination, accounts for most of LAN Peru's domestic operations and is served by 16 (and even 21 during certain periods) flights each day. LAN Peru flies at least two times daily to each of its 13 destinations from Lima with Tumbes as an exception (10 flights a week).

Regarding airport services, LAN Peru has over 141 domestic daily arrivals and departures. Self-check in levels have grown steadily in the past years, reaching 83% for domestic routes at the end of 2010.

In 2010, LAN Peru was awarded the “Gran Marca Moderna” by the Effie Awards (a Marketing Hall of Fame distinction), and was the first airline in the country to receive this honor.

Operations within Argentina

Lan Argentina initiated services in June 2005, covering two Argentine domestic destinations from Buenos Aires, Cordoba and Mendoza. Between 2005 and 2007, Lan Argentina increased the number of Argentine domestic destinations to nine adding Bariloche, Iguazu, Comodoro Rivadavia, Rio Gallegos, Ushuaia, Calafate and Salta. In June 2008, Lan Argentina initiated services to Neuquen and in September 2008 to San Juan. In April 2009, Lan Argentina initiated services to Tucuman.

From June to November 2006, Lan Argentina replaced its Boeing B737-200 fleet, which consisted of five aircraft, four of which were Airbus A320 aircraft. We use these aircraft in both domestic and regional operations. The replacement of these aircraft enabled Lan Argentina to increase the scope, size and efficiency of its operations. By the end of December 2010, we operated a fleet of eight Airbus A320 aircraft in our domestic operations.

In the domestic Argentine market, Lan Argentina operates in a regulated environment in which fares sold to Argentine passengers are subject to minimum and maximum prices that vary per route. In August 2006, by presidential decree, both the floor and ceiling of the regulated price range were increased by 20%. The decree liberalized foreign ownership of Argentinean airlines, previously capped at 49%. Since this decree, the floor and ceiling of the regulated price range have been consistently increased as follows: by 18% in April 2008, by 18% in May 2008, by 20% in 2009, by 15% in June 2010 and by 10% in November 2010.

Our domestic market share in Argentina, based on our internal estimates for December 2010 amounted to 30%. Our competitors in the Argentinean market during 2010 were Aerolíneas Argentinas and its affiliate Austral Líneas Aéreas. Together, these two companies held substantially the entire remaining share of the domestic Argentine market.

Operations within Ecuador

At the end of 2008, the Civil Aviation National Board authorized us to operate domestic flights in Ecuador. In April 2009, we initiated the operations between Quito and Guayaquil.

In December 2009, LAN Ecuador operated 49 weekly flights between Quito and Guayaquil, one of Latin America’s major routes. The company also began daily flights between Cuenca and Quito. As of February 28, 2011, LAN Ecuador operated 63 flights between Quito and Guayaquil. In September 2010, the company incorporated daily flights to the Galapagos Islands.

In 2010, LAN Ecuador transported 623,104 passengers in the domestic passenger market, achieving a load factor of 75% with a growth of 70% in passengers in respect with 2009 and a national market of 25%.

In Ecuador, the company’s principal competitors are TAME, Aerogal and Icaro.

Operations within Colombia (Acquisition of AIRES)

On November 26, 2010, LAN acquired Colombian airline Aerovías de Integración Regional S.A., (“Aires”) for US\$12 million in cash, in addition to assuming net liabilities of US\$87 million. The Colombian market is the second largest market in South America with over 13 million annual domestic passengers and represents a key market in LAN’s consolidation as a leading airline within the region. Aires is currently the second largest operator in Colombia’s domestic market with approximately a 20% market share as of December 2010. The Aires fleet consists of 9 B737-700s, 11 Q200 and 4 Q400, all of which are operating leases.

The company will replicate LAN’s “low cost” model already operating in the domestic markets of Argentina, Chile, Ecuador and Peru, stimulating demand on domestic flights by providing more Colombian citizens the opportunity to use air transportation. In the medium term, Aires will evaluate the expansion of international passenger operations and the advantages of any synergies it may obtain from LAN Cargo’s affiliate in Colombia, Lanco, launched in March 2009.

LAN will dedicate its maximum efforts to ensure that the safety, on time performance and service quality standards of its new affiliate are consistent with LAN's own high standards. The integration process may involve certain operational changes such as itinerary modifications and efficiency improvements. This process will not interfere with the continuity of current operations of Aires.

Prior to the acquisition of Aires, since May 6, 2010, LAN had an agreement to provide technical support and service consultancy to Colombian airline Aeroasis S.A. ("Aeroasis") while Aeroasis completed the process of obtaining an operating permit from the Colombian civil aviation authority (*Unidad Administrativa Especial de Aeronáutica Civil*), within the established deadline of February 2011. This process included the hiring of personnel and development of technical materials, as well as the selection and acquisition of equipment, all in compliance with the applicable legal and regulatory frameworks. On February, 2011 LAN acquired the parent companies of Aeroasis with the purpose to merge with Aires operations.

Passenger Alliances and Commercial Agreements

The following are our passenger alliances and partnerships as of February 28, 2011:

- *oneworld*®. In June 2000, Lan Airlines and Lan Peru were officially incorporated into the *oneworld*® alliance along with Aer Lingus. At the time, *oneworld*® was a global marketing alliance consisting of American Airlines, British Airways, Cathay Pacific Airlines, Qantas, Iberia and Finnair, that, among other benefits, offered improved service to its customers. In April 2007, JAL from Japan, Royal Jordanian from Jordan and Malev from Hungary, together with Lan Ecuador and Lan Argentina, joined the alliance, while AerLingus withdrew from the alliance. In November 2009, Mexicana joined the alliance. In November 2010, S7 Airlines joined *oneworld*® adding 55 destinations in Russia to the alliance. Last November 2010, S7 Airlines joined *oneworld*® adding 55 destinations in Russia to the alliance. Together, these airlines are able to offer customers travel advantages, such as approximately 750 worldwide destinations, schedule flexibility and reciprocal frequent flyer program benefits. Additionally, *oneworld*® is the first alliance to deploy full interline e-ticketing between its partners.
 - *American Airlines*. Since 1997, Lan Airlines has had an agreement with American Airlines, which enables Lan Airlines and American Airlines to share carrier codes for certain flights on global reservations systems, thereby enabling American Airlines passengers to purchase seats on Lan Airlines flights and vice-versa. The Department of Transportation, or DOT, granted antitrust immunity to our arrangement with American Airlines in October 1999. The antitrust immunity encompasses cooperation in commercial and operational areas such as pricing, scheduling, joint marketing efforts and reductions of airport and purchasing costs, as well as further implementation of cargo synergies in areas such as handling and other airport services. For more information see "—Regulation—U.S. Aeronautical Regulation—Regulatory Authorizations in Connection With Strategic Alliances" below. Through this alliance, we currently offer service to thirty additional destinations in the United States and Canada. In 2005, the DOT granted antitrust immunity to a similar agreement between Lan Peru and American Airlines. This antitrust immunity allows enhanced coordination between Lan Peru and American Airlines, and both companies established in 2007 code-share operations between Peru and the U.S. with additional destinations in both countries.
 - *Iberia*. In January 2001, Lan Airlines initiated a code-share agreement with Iberia, pursuant to which we offer passengers between ten and fourteen non-stop frequencies per week between Santiago and Madrid. In subsequent years, other destinations were added to the agreement, such as Alicante, Amsterdam, Barcelona, Bilbao, Brussels, London (Heathrow), Malaga, Milan, Paris, Rome and Zurich. In 2007, Lan Ecuador and Lan Peru set up code-share agreements with Iberia for routes between Ecuador, Peru and Spain; as well as four additional European destinations with Lan Peru and seven destinations with Lan Ecuador.
 - *Qantas*. In July 2002, Lan Airlines initiated a code-share agreement with Qantas to operate between Santiago, Chile and Sydney, Australia with a stopover in Auckland, New Zealand. As of February 28, 2011, this code-share agreement includes daily flights operated by Lan Airlines.
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- *British Airways.* In 2007, Lan Airlines initiated a code-share agreement with British Airways on Lan Airlines flights between Sao Paulo and Santiago to provide service for British Airways passengers traveling from London to Santiago through a connection in Sao Paulo. This code-share agreement also includes British Airways' flights between Madrid and London.
- *Aeromexico.* In 2004, we expanded our previous alliance with Aeromexico. The new agreement includes all of our passenger airlines. Under this alliance, we code-share in flights to Mexico from Chile and Peru, as well as to eighteen domestic destinations in Mexico. Additionally, it provides our passengers with benefits such as easier connections and reciprocal accrual and redemption of frequent flyer program rewards.
- *TAM.* In 2007, Lan Airlines and Lan Peru, established regional code-share agreements with TAM Linhas Aéreas. Through this agreement, LAN offers twelve additional destinations in Brazil. LAN also code shares with Transportes Aéreos del Mercosur S.A. ("TAM Mercosur") with respect to flights from Santiago to Asunción, Paraguay, that are operated by TAM Mercosur. These arrangements provide our passengers with reciprocal accrual and redemption of frequent flyer program rewards. In 2008, Lan Argentina established a code-share agreement with TAM from Buenos Aires to Sao Paulo and vice versa, which includes eight domestic destinations in Argentina and twelve domestic destinations in Brazil.
- *Cathay Pacific.* In May 2010, Lan Airlines initiated a code-share agreement with Cathay Pacific to operate between Santiago, Chile and Hong Kong, China, through connections in Los Angeles, California, New York and Auckland, and in November 2010, Lan Peru initiated a code-share agreement with Cathay Pacific to operate between Lima, Peru and Hong Kong, China, through connections in Los Angeles and San Francisco.
- *Jetstar Airways.* In November 2010, LAN signed an Interline Agreement and a Special Prorate Agreement with Jetstar Airways in order to broaden the destinations offered to LAN's customers, particularly in the domestic markets of New Zealand, Australia, and South East Asia.
- *JetBlue.* During March 2011, LAN signed an Interline Agreement and a Special Prorate Agreement with JetBlue increasing the connection opportunities between New York and Boston, Washington, Chicago, Pittsburgh and many other US cities through JetBlue's HUB in JFK.
- *Other alliances and partnerships:* Since 2005, we have had a code-share agreement with Korean Air. Under this agreement we place our code on Korean Air flights between Los Angeles and Seoul, while Korean Air places its code on our flights from Los Angeles to Santiago. In 2004, LAN and Mexicana signed a frequent flyer program that allows for reciprocal accrual and allowance of frequent flyer benefits. Since 1999, Lan Airlines has been in an alliance with Alaska Airlines, which permits us to provide customers with service between Chile and three destinations in the west coast of the U.S. and Canada. Reciprocal accrual and redemption of frequent flyer program rewards is also available for LAN customers flying on Alaska Airlines flights and vice versa.

Passenger Marketing and Sales

Even though we market our services under the common "LAN" brand, we differentiate our marketing strategies between our long-haul and short-haul services.

Our long-haul marketing strategy emphasizes attributes valued by our international customers, including reliability, high quality on-board and ground service, comfort, comprehensive coverage of key South American markets and frequent service to major overseas gateways such as New York, Los Angeles, San Francisco, Miami, Madrid and Sydney. In order to strengthen our market position, we have continued improving our passenger cabins and service and constantly monitor our corporate image. As such, in December 2008 and May 2009 we completed a retrofit program for our Boeing 767-300 and for our Airbus A340-300 fleet respectively, merging the Business and First Classes cabins into a Premium Business Class featuring full-flat seats, new entertainment units for both Premium Business and Economy cabins, together with a new on-board service. We invested US\$124 million in this retrofit program for all our long haul passenger aircraft, which aims to give our passengers a sense of a "shorter" and more pleasant flight. For our Business passengers, our cabin features an on-board service aimed at providing the passenger with more time to rest, and for our Economy Class passengers, our upgraded entertainment units aim to make the flight a more enjoyable one.

Our long-haul fleet plan includes the incorporation of the new Boeing 787 in 2012. LAN will be the first airline in Latin America, and one of the first in the world, to receive this model whose latest-generation technology and cabin innovations represent a revolution in the airline industry. Passengers will experience the 787's advantages in the form of higher cabin humidity and increased comfort. These acquisitions will allow us to reach new destinations and boost LAN's existing services while also continuing to increase the efficiency of our operations and reduce our carbon footprint.

Our short-haul operations are designed to better match the customers' needs in those routes, which are punctuality, reliability, higher frequencies, modern aircraft and efficient operations. As such, these routes now feature modern planes, with leather seats, increased frequencies with more point-to-point flights, improved punctuality and streamlined processes including Internet sales, web check-in and airport self-check-in. We completed the phase-out of our Boeing B737-200 fleet in 2008 and replaced it with modern Airbus Family Aircraft such as A320, A319 and A318.

We are constantly focused on delivering the services and flight items valued by customers in order to maintain high levels of customer satisfaction and we continuously monitor our customers' preferences through surveys and perception studies. As a result, we created the new Premium Economy class on some regional routes in response to comments made by our business travelers. The Premium Economy program grants our customers preferential check-in and boarding, access to our VIP lounges, priority baggage claim, exclusive cabins with only twelve passengers, and personalized attention by our cabin attendants, among other benefits.

As mentioned above, we have been implementing a new business model in all our domestic operations (Argentina, Chile, Peru and Ecuador) that seeks to make air travel accessible to more people through low fares supported by a low-cost operation based on the efficient use of our resources. During 2010 LAN received several awards solidifying the Company's market position. These awards included Best Airline in South America (Skytrax) and Airline Staff Service Excellence in South America (Skytrax).

Branding

In March 2004, we launched our new "LAN" brand to bring together, under one strong international name, all our local brands such as "LAN Chile," "LAN Peru," "LAN Argentina" and "LAN Ecuador." We developed our new brand and corporate image after an extensive process supported by a leading global branding agency.

Our corporate image is based on two core concepts: reliability and warmth, which support our promise of the best travel experience to, from and within South America. We are also committed to offer our customers with the best coverage to, from and within South America, and to promote sustainable tourism, helping develop the regions where we operate.

During 2005 and 2006, we focused on advancing the transition to our new brand image. This included the gradual repainting of our fleet, which was completed in the second quarter of 2006. Our commercial strategy, centered on exploiting the LAN alliance concept, has been widely recognized, as exemplified by Airline Business magazine's recognition of us in 2004 with its "Airline Strategy Award, Marketing."

Using a single brand enabled our customers to better understand the common service and operating standards among our airlines, and our new image improved our visibility, which enhanced flexibility and increased the efficiency of our marketing efforts. It also provided a platform for the strategic use in mature markets of the following three powerful sub-brands, all related to the LAN root:

- the www.lan.com website for the convenience of our web booking engine and services platform;
 - LANPASS for our frequent flyer program; and
 - LANTOURS, a sub-brand through which we offer travel packages, hotels and other ancillary products, as well as promote tourism activities to and from the regions in which we operate. LANTOURS took hold first in Chile and is gradually being introduced into other key markets.
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Our regular brand tracking and marketing effectiveness measurements show outstanding results in brand consistency and recognition, improving year after year, with marketing investments managed at healthily stable rates. As the corporate values behind our umbrella brand encompass attributes applicable to both operations, long haul and short haul, a single brand strategy has resulted in significant savings, as we only have to promote one master brand, thereby increasing the efficiency of our marketing efforts.

Distribution Channels

We use direct and indirect distribution channels. In the past few years, we have focused on streamlining our distribution strategy in order to reduce costs and enhance the effectiveness of our commercial efforts. This effort has resulted in efficiency gains, and we believe it should lead to further benefits in the future.

Travel agents conduct indirect sales that accounted for approximately 38% of passengers during 2010. We paid these travel agents standard commissions ranging from 0% to 6% depending on the market and the ticket region type (domestic / international). Consistent with our efforts to reduce commission costs, and in line with current market practices, in recent years we have reduced standard commissions in several markets. However, we are now charging a fee to customers for sales done through our own ticket offices or call centers in most countries, leaving the Internet as the only free-of-charge distribution channel.

Travel agents obtain airline travel information and issue airline tickets through Global Distribution Systems, or GDSs, that enable them to make reservations on flights from a large number of airlines. We participate actively in all major international GDSs, including Sabre, Amadeus, Galileo and Worldspan. In return for access to these systems, we pay transaction fees that are generally based on the number of reservations booked through each system. As part of its continued commitment to its passengers, in late 2009, LAN signed a series of agreements with Sabre, one of the major suppliers of IT solutions in the global airline industry. Through these agreements, Sabre will provide the Company with the most advanced technology in reservation and distribution systems, optimization of routes and operational planning. The process of implementing the new system platforms comprises a period of adjustment and migration that will last between two and three years until its full implementation. These agreements represent a major step in terms of innovation by implementing the industry's most advanced technology to streamline business and operational processes involved in the service the Company provides to its customers. These agreements will serve to provide itineraries that best fit the needs of passengers and to provide simpler, agile and efficient services in airports and in the sales and distribution channels, improving LAN's services in each of the stages of the travel experience.

Direct channels refer to sales by our own ticket offices, contact-centers and website. In 2010, direct bookings accounted for approximately 62% of all our passengers.

We have an extensive sales and marketing network in over thirty countries consisting of more than 155 domestic and international points-of-sale owned by us and approximately 37 general sales agents.

Our contact-centers support the growth of our operations constituting a sales and a multi-service channel. During 2010, we continued to grow and develop new services to match the increasing expectations of our clients and the growth of our direct sales channels, in particular the www.lan.com website. Our main contact-center located in Santiago accounts for 700 agents (of which 270 are home-based) and 230 agents in Lima. We complement our contact-center's operations with third-party service providers that add approximately 400 agents who are located in Santiago, Lima and Buenos Aires. In total, all the centers handle more than 28,000 calls/contacts per day, which mainly originate from the regions where we fly (South America, North America, Europe and Australasia) and cover four languages (Spanish, English, Portuguese, French and German). We have continually upgraded our systems by incorporating technological advances to enhance efficiency and customer service.

Our website, www.lan.com, is an integral part of our commercial, marketing and service efforts. Together with other direct sales initiatives, our website provides us with an important tool to reduce our distribution costs. Our Internet-related sales have increased significantly in recent years, by 21.9% in 2009 compared to 2008, and 22.0% in 2010 compared to 2009, which amounted to US\$646 million in 2010. We are continually improving our website, a key element of our new short-haul model, so that the technological platform can support the expected future growth.

Besides serving as a sales channel, we have utilized our website as a tool to provide value-added services and enhance communications. We send weekly promotional e-mails to more than 3.8 million subscribers. Members of our frequent flyer program receive their monthly balances and other information by e-mail and can access the data and redeem awards through our website. We have an active online marketing program which brings visitors to the website from search engines and travel-related websites.

During 2009 we improved several services on the website. We introduced the flexible award redemption service, which enables LANPASS members to obtain flights with their kilometers at any time of year. We also updated our Flight Information System to ensure accurate, real time information. In addition, we continued to promote our web-based check-in service for domestic and international flights. This system allows those passengers who are not checking-in bags, to go directly to the gate, and the remaining checked-in passengers, to leave their bags at a special bag drop counter and proceed to the gate. In addition to web-based check-in, we have self-check kiosks in 13 airports in Chile, seven airports in Peru, two airports in Argentina and three airports in Ecuador. As of December 31, 2010, the kiosk and web check-in utilization rate increased to 81% for domestic routes in Chile, 82% for domestic routes in Peru, 52% for domestic routes in Argentina and 39% for domestic routes in Ecuador. Also in 2010 we launched our LAN.com Mobile service, enabling our customers to check-in, verify their flight status and other itineraries using their internet-enabled mobile phones.

In 2010 LAN was recognized as the “Latin American e-commerce Company of the Year” by the Latin American e-Commerce Institute.

Electronic Ticketing

In 1997, we introduced electronic tickets, commonly referred to as e-tickets, and have since worked to increase their use. E-tickets are a key element of our sales efforts through the Internet and our call centers and they also produce important simplifications in our back-office, enabling us to significantly reduce distribution costs. Since 2008, the Company has reached a 100% penetration of e-ticketing on all LAN routes.

Also, during 2010 we completed the implementation of interline e-ticketing with all of our *oneworld*® partners.

Advertising and Promotional Activities

Our advertisement and promotional efforts are aimed at enhancing our brand positioning and supporting specific aspects of our commercial efforts. These activities include the use of television, print, outdoors and radio advertisements as well as direct and online marketing.

During 2010, our campaigns were mainly focused on continuing stimulating demand by implementing a pricing strategy that has made flying more accessible to those traveling especially for tourism. Our various promotional efforts have allowed us to reach new customers and to promote local and regional tourism in the markets where we operate. This is supported by the unique coverage and travel experience that we offer to those passengers traveling to, from and within South America.

On a country-specific level, we carried out a TV campaign in Chile to promote sustainable tourism within the country, inviting people to discover and take care of the wonders of Chile, travelling in an environmentally conscious way. This was also leveraged by a second TV campaign launched by SERNATUR, Chile’s National Tourism Agency, in partnership with LAN and other members, aimed at promoting local tourism among Chilean citizens. These efforts show LAN’s ongoing commitment with the development of local communities through the promotion of sustainable tourism.

In Peru, we carried out a campaign aimed at communicating LAN’s extensive international coverage through its unique South American network and the oneworld alliance. The campaign also focused on attributes such as quality of service and travel experience.

In Argentina, we launched a campaign aimed at communicating the main reasons why LAN has become the airline of choice, focusing on attributes such as unique service and flight experience, reliability, punctuality and domestic coverage.

In April 2009, LAN Ecuador launched its domestic operations, which constituted a turning point in Ecuador's domestic market by broadening access to air travel, as a result of lower prices and LAN Ecuador's world-class service. In 2010, we launched a campaign to communicate the new daily route to the wonderful and exotic Galápagos Islands, as well as the new direct flight from Guayaquil to Miami, offered four times a week.

LAN has built a comprehensive database that includes valuable information such as flying preferences, demographic and other relevant customer information, which is used for passenger revenue management (including targeted promotions to different customer segments), thereby reducing dilution and maximizing response rates. This type of information is also a source for customer metrics and monitoring and provides significant management information. During the past years, the skills involved in profitably exploiting these resources were strengthened with the incorporation of key teams to act locally in Peru, Argentina, Ecuador, the United States and Europe, in close collaboration with the head office.

Frequent Flyer Program

Our frequent flyer program is called LANPASS. The objective of LANPASS is to generate incremental revenue and customer retention through customer loyalty and targeted marketing. Worldwide, as of December 2010 LANPASS has approximately 4.3 million members.

Customers earn kilometers in their LANPASS accounts based on distance flown and class of ticket purchased, or by using services of other participants in the LANPASS program. Based on an award schedule, customers can redeem kilometers for free tickets, upgrades or other products. Under our current frequent flyer program, our passengers are grouped into one standard level and three different elite levels based on each passenger's flying behavior. These different groups determine which benefits customers are eligible to receive, such as free upgrades on a space-available basis, VIP lounge access and preferred boarding and check-in.

Aiming to increase redemptions and broaden redemption alternatives, in 2010 LANPASS offered new redemption options such as an online product catalogue and special wine events where top tier members were invited to redeem their kilometers for the wine offered in LAN's Premium Business menu. These new offerings along with the traditional rewards already offered resulted in an increase of 25% in kilometers redeemed by LANPASS' members in 2010.

LANPASS has highly rated partners, including other airlines, hotels, car rental agencies, retailers, and credit card issuers from the main financial institutions in Chile, Peru, Ecuador, Argentina and beginning in 2010 in the United States. These partnerships give our customers the opportunity to accrue additional kilometers for using their services.

Through the incorporation of additional partners in 2010, LAN customers accrued 48% more kilometers than in 2009, by using other services different from the services offered by LAN and other airlines. In the banking segment, LANPASS renewed its partnership with Santander Chile for another five years, spreading LANPASS accrual from credit/debit card to all retail banking offering. LANPASS also launched a new partnership with BBVA, a leading bank in Argentina, began to issue credit cards in the United States with US Bank, and increased our offering in redemption catalogs in Brazil with Banco Itau.

In the non banking segment, LANPASS continues to leverage its member's purchase behavior to partner with leading players in the markets and become the most attractive loyalty program in the home markets. Last year, LANPASS enter in new industries, such as Automotive, Real Estate, Drugstores and Health Care Centers.

As an active member of the *oneworld*[®] alliance, we have reciprocal frequent-flyer agreements with all *oneworld*[®] carriers. In addition, we have reciprocal agreements with other carriers, such as Alaska Airlines, Aeromexico, Mexicana and TAM, which allow us to benefit from the loyalty of their customers, as they can accrue points under their frequent flyer program when traveling on LAN's flights.

The LANPASS frequent flyer program aims to be the leading loyalty program in all of LAN's home markets. In the past couple of years, we have implemented a number of marketing initiatives to increase customer's engagement with the program outside Chile. In 2010, membership in LANPASS grew 36% in Peru, 42% in Ecuador and 32% in Argentina.

Cargo Operations

General

The following table sets forth certain of our cargo operating statistics for domestic and international routes for the periods indicated:

	Year ended December 31,		
	2010	2009	2008
The Company			
ATKs (millions)			
Total	4,628.7	3,848.9	4,071.9
RTKs (millions)			
Total	3,245.3	2,627.4	2,906.2
Weight of cargo carried (thousands of tons)			
Total	780.8	649.3	661.5
Total cargo yield (cargo revenues/RTKs, in US cents)	39.5	34.1	45.4
Total cargo load factor (%)	70.1%	68.3%	71.4%

Our cargo business generated revenues of US\$895.6 million in 2009 and US\$1,280.7 million in 2010. This represented 24.5% and 28.3% of our operating revenues, respectively. Cargo revenues declined 32.1% between 2008 and 2009 primarily due to the global economic crisis that affected the industry and the decline in salmon exports from Chile due to the ISA virus. Nevertheless, during 2010 revenues increased 43.0% on a year-over-year basis as we took advantage of the recovery of world cargo markets.

Our cargo business generally operates on the same route network used by our passenger airline business, which is supplemented by freighter-only operations. Overall, it includes approximately 86 destinations (over 66 are operated by passenger and/or freighter aircraft and approximately 20 operated only by freighter aircraft). We complement our own international operations through coordination with our regional affiliates, MasAir in Mexico, ABSA in Brazil and Lanco in Colombia. ABSA also operates in the Brazilian domestic market since March 2009. We carry cargo for a variety of customers, including other international air carriers, freight-forwarding companies, export oriented companies and individual consumers. For information about our fleet, see “—Fleet—General” below.

We transport cargo in four ways: (i) in the bellies of our passenger aircraft, (ii) in our own dedicated freighter fleet, (iii) in belly space that we purchase from other airlines and, (iv) in aircraft that we charter or lease pursuant to ACMI contracts (Aircraft, Crew, Maintenance and Insurance). Under the latter, which are also known as “wet-leases,” the lessor operates the aircraft and provides the aircraft, crew, maintenance and insurance pursuant to short- and medium-term contracts.

Our international cargo operations are headquartered in Miami, whose geographical location positions it as the natural gateway for Latin American imports and exports to and from the United States. Since 2001 we have operated in our 380,000 square-foot facilities within the Miami International Airport. In 2010 we upgraded this facility to enhance our ability to handle perishables and we leased an additional 117,000 square-foot warehouse close to our main facilities. The United States accounts for the majority of the cargo traffic to and from Latin America. Besides being the main market for Latin American exports by air, the United States is also the main supplier of goods, such as high-tech equipment or spare parts, transported by air to Latin American countries. To complement our own cargo operations to the United States, we have negotiated commercial agreements with American Airlines on some routes from Miami to Brazil.

We operate to three destinations in Europe: to Madrid, which we serve via passenger aircraft (using our flights from Santiago, Lima and Guayaquil), Frankfurt (through both passenger flights and freighter operations since October 2002, when we signed our partnership with Lufthansa Cargo (for more information on this agreement see “—Cargo Agreements” below), and Amsterdam (through freighter operations since October 2005).

In Latin America, the principal origins of our cargo are Colombia, Chile, Ecuador, Peru, Argentina and Brazil, which represent a large part of our northbound traffic. And for our southbound flights, Brazil is the main import market.

In general terms, cargo flows are unidirectional. This characteristic is a key determinant in the structure of cargo operations as well as in the commercial conditions in the cargo business. This is especially relevant in markets featuring structural imbalances between inbound and outbound flows or during specific periods of such disequilibrium. Lack of demand in one particular direction may force airlines to rely on different markets in order to maximize loads on return flights. Furthermore, demand weakness in one direction may limit the capacity that is profitable to allocate to some routes, therefore creating pressure on fares in order to compensate for weaker revenues in one particular direction. The evolution of our international cargo operations has always been affected by the flow imbalances of the Latin American cargo markets, resulting in a dramatic shift in the relative weight of southbound and northbound cargo flows throughout the years. For example, from 2002 to 2003 our international operations were characterized by very strong export traffic out of Latin America, but gradual increases in import demand, as well as the deceleration of export growth, led to more balanced cargo flows during 2004. Further extension of this trend led to excess demand on southbound routes since 2005.

We have designed our operations, route network and commercial strategies with the flexibility required to respond to changing conditions. As such, during 2003 we allocated additional capacity to northbound routes and adjusted fares on northbound routes in response to excess demand. During 2004 we gradually adjusted our operations to leverage a more balanced demand environment by performing an increased number of direct roundtrips between key export and import markets. However, weakness in exports since 2005 has driven us to support the northbound segment of certain routes with stopovers in additional export markets, to reduce northbound fares to stimulate demand and to raise southbound fares.

The flexibility that this business model allows based on adaptation to changes in market trends was key for LAN's operations in 2009 when the business was affected by the contraction of import and export markets in response to the global economic crisis. In addition LAN Cargo saw a sharp drop in salmon exports from Chile as a result of an outbreak of the ISA virus. Such flexibility has also been a key element in the recuperation and growth experienced by LAN Cargo during 2010.

Our cargo traffic increased 23.5% between 2009 and 2010, from 2,623 million cargo revenue ton kilometers in 2009 to 3,239 million cargo revenue ton kilometers in 2010. This increase was above the 20.6% growth experienced by cargo traffic of the international airline industry. The company increased its capacity by approximately 20.5%, resulting in a 1.7 point increase in its load factor to 70.1% in December 2010. The increase in capacity was mainly driven by the incorporation of additional freighters, in particular two Boeing 777 freighters received between April and May 2009, as well as higher utilization of the freighter fleet. LAN Cargo transported 779,509 tons of freight in 2010, up by 20.1% compared to 2009.

In 2010, LAN's cargo revenues increased by 43.0% to US\$1,280.7 million, representing 28.3% of the Company's total annual revenues, from US\$895.6 million in 2009, when cargo represented 24.5% of annual revenues. The increase in revenues also reflected the 15.8% increase in cargo yields.

The sharp contraction of LAN's traditional markets in 2009 - imports into the region and exports from the region – followed by the rapid recovery of demand in 2010 required the Company to fully lever the flexibility of its business model. During 2009 the Company implemented a series of measures such as the adjustment of its capacity through a reduction in the number of planes rented under Aircraft, Crew, Maintenance & Insurance ("ACMI") agreements and adjustments in the operations of its own cargo fleet of Boeing 767F freighters. This process was also reinforced by the incorporation of two new Boeing 777-200F, the most modern and efficient cargo aircraft of their type in the world, with a capacity of 104tons of freight and a range of 9,045 kilometers when carrying its maximum payload. This significant investment allowed LAN to consolidate its regional competitiveness by positioning it as the first airline in the region, and only the second internationally, to use these latest-generation cargo planes.

The Company also achieved a significant regional expansion in 2009. In March, LAN Cargo launched Lanco, a subsidiary in Colombia, which began operations after successfully obtaining the necessary operational and technical certification. It launched its services with two Boeing 767-300Fs, with a capacity for 54 tons of freight, connecting the cities of Bogotá and Medellín with Miami. It is important to note that Colombia is Latin America's largest market for exports by air to the United States reaching an estimated 200,000 tons annually.

In addition, in March 2009, the Company's cargo subsidiary in Brazil, ABSA, began operations in that country's domestic market, with one flight daily, from Monday through Friday, between the cities of Sao Paulo and Manaus. On this route, ABSA operates an advanced-technology Boeing 767-300F with a capacity of 54 tons. This route accounts for a large part of Brazil's airfreight traffic. Manaus is the country's fourth largest city in terms of GDP, with a large number of companies, principally part of the electronics sector, in its industrial pole. The special tax incentives offered by the Amazon capital of Manaus as part of efforts to promote the area's development, make it an attractive alternative for exporter and importer clients.

During 2010, revenue growth in the cargo business continued to reflect the Company's ability to exploit the expansion in global cargo flows, as well as the development of key strategic initiatives. Active capacity management, with the purpose of optimizing capacity assignment coupled with new revenue management tools to manage cargo rates in response to demand, enabled LAN Cargo to benefit from the growth trends seen in import markets to Latin America, especially to Brazil. The expansion of operations to Europe utilizing the new Boeing 777-200 freighter fleet strengthened the Company's competitive position and further diversified its revenue base. Additionally, through its Brazilian affiliate, ABSA, the Company continued to strengthen domestic cargo operations in Brazil. During 2010, ABSA launched operations from Sao Paulo to Recife and Fortaleza and added a second daily flight from Sao Paulo to Manaus. The Company also added capacity by securing three leased Boeing 767-300F, two of which were incorporated in late 2010 and one in early 2011. Furthermore, the Company continues to successfully optimize capacity in the bellies of passenger aircraft, maximizing the synergies of the Company's integrated passenger and cargo operation.

During the last five years, we also improved our competitive position as key operators reduced their operations, and competitors such as UPS and FedEx either downsized their operations or exited some markets. Since mid-2004, competition increased as regional carriers added capacity, but despite this increase in competition, we have been able to maintain solid market shares in large part because of the efficient utilization of our fleet and network. Today, on Latin America-United States routes, our main competitors are Centurion, Transportes Aéreos Mercantiles Panamericanos S.A., or TAMPA, and Polar Air, and on the Latin American-Europe routes, our main competitors are Cargolux, Lufthansa Cargo, Martinair and Air France-KLM.

Cargo Agreements

Since 2002, Lan Cargo and Lufthansa Cargo have had a block space agreement between Europe and Latin America. As part of this agreement, Lan Cargo allocates space to Lufthansa Cargo on its flights between selected cities in Latin America and Europe, and Lufthansa Cargo allocates space to Lan Cargo on its flights between Europe and Brazil and Argentina.

We also have agreements with Asian carriers such as Korean Airlines, JAL, China Airlines, Air China and Cathay Pacific through which Lan Cargo receives space allocations from these airlines to move our cargo from Seoul, Tokyo, Taipei, Shanghai and Hong Kong to Los Angeles and Miami connecting with our network. In exchange, Lan Cargo provides them with space from these same two hubs in the United States to all Latin American destinations and also feeds them with westbound cargo.

Marketing and Sales

Our sales and marketing efforts are carried out either directly when we have a local office or through general sales agents. In Latin America we have our own offices in all key markets. In the United States we have our own offices in Miami, New York and Los Angeles, and work with representatives in various other cities. In Europe we have offices in Frankfurt and Madrid and use agents in other key cities. Finally, in Asia all our sales efforts are done through general sales agents. In total, we maintain a network of more than forty independent cargo sales agencies domestically and internationally.

Our cargo marketing strategy emphasizes our combination of freighter and passenger aircraft cargo capacity, which allows customers to ship large, bulky freight, as well as smaller, high-density cargo, fresh products, express shipments, and other types of cargo. Our cargo marketing strategy also emphasizes our high-quality services, scheduling flexibility and punctuality. On some routes, Lan Cargo offers special, value-added products such as Positive Flight Specific or FS, which enables the customer to choose a specific passenger flight to transport its goods. During 2010 we also launched the first phase of a new revenue management project aimed at optimizing yields.

Cargo-Related Investigations

In February 2006 the European Commission (“EC”), in conjunction with the Department of Justice of the United States (“DOJ”), initiated a global investigation of a large number of international cargo airlines (among them Lan Cargo, LAN’s cargo subsidiary) for possible price fixing of cargo fuel surcharges and other fees in the European and United States air cargo markets. On December 26, 2007, the European competition authorities notified Lan Cargo and LAN of the initiation of proceedings against twenty-five cargo airlines, among them Lan Cargo, for allegations of anti-competitive behavior in the airfreight business. On January 21, 2009, Lan Cargo announced that it had reached a plea agreement with the DOJ in relation to the DOJ’s ongoing investigation regarding price fixing of fuel surcharges and other fees for cargo shipments. Under the plea agreement, Lan Cargo agreed to pay a fine of US\$88 million. In addition, ABSA also reached a plea agreement with the DOJ and agreed to pay a fine of US\$21 million. These amounts were stipulated to be paid over a five-year payment schedule starting in 2009. As of December 31, 2010, the pending amount to be paid during the next four years is approximately US\$72 million and has been recorded within “Other Accounts Payable.”

On November 9, 2010 the EC imposed fines to 11 air carriers for a total amount of €800 million (equivalent to approximately US\$1.1 billion). The fine imposed against Lan Cargo and its parent company, LAN Airlines, totaled €8.2 million (equivalent to approximately US\$ 10.9 million). The Company provisioned US\$25 million during the fourth quarter of 2007 for such fines, and maintained this provision until the fine was imposed in 2010. This was the lowest fine applied by the EC, which includes a significant reduction due to the Company’s cooperation with the Commission during the course of the investigation. In accordance with European Union law, on January 24, 2011 this administrative decision was appealed by Lan Cargo and Lan Airlines to the General Court in Luxembourg. Any judgment by the General Court may also be appealed to the Court of Justice of the European Union.

As of December 31, 2010 the Company recorded a US\$14.0 million gain (pre-tax) due to the reversal of a portion of the provision related to the investigation in the cargo business carried out by the European Commission. This was as a result of the fine announced in November 2010, which was lower than the amount provided for. This reversal is recorded in Other gains/(losses).

The investigation by the DOJ prompted the filing of numerous civil class actions by freight forwarding and shipping companies against many airlines, including Lan Cargo and Lan Airlines, including fifty-four in the United States. The cases filed in the United States were consolidated in the United States District Court, Eastern District of New York and the original complaint was subsequently amended to include additional airlines, including ABSA. In February 2006 the Canadian Competition Bureau (“CCB”), in conjunction with the DOJ, initiated a global investigation of a large number of international cargo airlines (among them Lan Cargo) for possible price fixing of cargo fuel surcharges and other fees in the Canadian air cargo markets. The CCB’s investigation prompted the filing of four separate civil class actions by freight forwarding and shipping companies against many airlines, including Lan Cargo and Lan Airlines in Canada. Given the current stage of the both proceedings, it is not possible at this time to anticipate with any precision the outcome of the Civil actions filed against Lan Cargo.

On April 5, 2008, Brazilian authorities notified ABSA of the initiation of administrative proceedings before the *Conselho Administrativo de Defesa Econômica* (the Brazilian Antitrust Authority) against several cargo airlines and airline officers, among them ABSA, for allegations of anticompetitive practices regarding fuel surcharges in the air cargo business. Given the current stage of the proceedings, it is not possible at this time to anticipate with any precision the outcome of the civil actions filed against Lan Cargo, although it is expected to be a lengthy process.

In June 2008, the Korean Fair Trade Commission notified LAN of an investigation into the air cargo industry and its non-compliance with the Monopoly Regulation and Fair Trade Act and has requested information and documentation from LAN, which LAN duly submitted. On May 26, 2010 the Korean Fair Trade Commission announced the imposition of penalties against 29 other airlines and excluded LAN from further investigation.

The New Zealand Commerce Commission also initiated an investigation into potential anti-competitive activities in the international air cargo markets and requested information and documentation from LAN, which LAN duly submitted. On December 15, 2008, the New Zealand Commerce Commission announced it would focus its investigation on ten airlines and excluded LAN from further investigation.

Fleet

General

As of February 28, 2011, we operated a fleet of 140 aircraft, comprised of 126 passenger aircraft and 14 cargo aircraft, as set forth in the following chart:

	Number of aircraft in operation			Average term of lease	Average age
	Total	Owned ⁽¹⁾	Operating Lease	remaining (years)	(years)
Passenger aircraft					
Airbus A318-100	15	15	-	-	3.0
Airbus A319-100	23	23	-	-	4.0
Airbus A320-200	31	26	5	4.9	5.0
Boeing 737-700	9	0	9	3.4	8.4
Dash 8-200	11	0	11	4.0	13.7
Dash 8-400	4	0	4	9.4	4.8
Boeing 767-700	28	18	10	3.1	8.4
Airbus A340-300	5	4	1	1.8	10.7
Total passenger aircraft	126	86	40	4.2	6.6
Cargo aircraft					
Boeing 767-300 Freighter	12	8	4	5.0	7.4
Boeing 777-200 Freighter	2	0	2	6.1	1.9
Total cargo aircraft	14	8	6	5.4	6.6
Total fleet ⁽²⁾	140	94	46	4.4	6.6

⁽¹⁾ Aircraft included within property, plant and equipment.

⁽²⁾ Does not include one Boeing 767-200 passenger aircraft leased to Aeromexico.

LAN's strategic fleet renewal plan involves the sale of five Airbus A318 aircraft during 2011, five during 2012 and five during 2013.

The daily average hourly utilization rates of our aircraft for each of the periods indicated are set forth below.

	Year ended December 31,			
	2010	2009	2008	2007
	(measured in hours)			
Passenger aircraft				
Airbus A340-300	14.6	14.5	14.6	14.7
Boeing 767-300 ER	13.5	13.2	13.6	14.2
Airbus A320-Family Aircraft	10.8	10.3	10.4	10.6
Cargo aircraft				
Boeing 767-300 Freighter	15.4	14.7	16.7	16.0
Boeing 777-200 Freighter	14.2	10.6	-	-

We operate different aircraft types as we perform various different missions ranging from short-haul domestic trips to long-haul trans-continental flights. We have selected our aircraft based on the ability to effectively and efficiently serve these missions while trying to minimize the number of aircraft families we operate.

- For short-haul domestic and regional flights we operate the Airbus A320-Family aircraft and, since the acquisition of Aires, we also operate the Boeing 737-700 aircraft, the Dash 8-200 aircraft, and the Dash 8-400 aircraft. The Airbus A320 Family that we currently operate has been incorporated into our fleet pursuant to operating leases or have been purchased directly from Airbus pursuant to various purchase agreements since 1999. In December 2010, we ordered 50 Airbus A320 Family aircraft. Consequently, as of February 28, 2011 we had outstanding orders for 16 Airbus A319 aircraft, 61 Airbus A320 aircraft, and 10 Airbus A321 aircraft for delivery between 2011 and 2016. Our purchase contracts with Airbus provide for some flexibility with regard to future changes in aircraft types and delivery dates. We believe that our fleet of A320-Family Aircraft will allow us to provide broader service across Latin America as well as the domestic markets that we serve given their longer range. We also believe that they will enable us to increase efficiency levels through reduced fuel consumption and maintenance costs.
- For long-haul passenger and cargo flights we operate the Airbus A340-300 aircraft, the Boeing 767-300 passenger aircraft and Boeing 767-300 aircraft's Freighters 777. The Boeing 767-300 aircraft's size and range provides an optimal alternative for most of our long-haul passenger and cargo routes. Additionally, the commonality between the passenger and dedicated cargo versions allows us to leverage the ensuing economies of scale. We believe that these aircraft provide a key efficiency advantage over our peers, especially in the cargo business. The Boeing 767-300 aircraft that we currently operate have been incorporated into our fleet pursuant to operating leases or have been purchased directly from Boeing pursuant to various purchase orders since 1997. As of February 28, 2011 we had outstanding orders for nine Boeing 767-300 aircraft. We also operate five Airbus A340-300 aircraft for long-haul routes. Given their range and four-engine configuration, these aircraft are well suited to perform trans-Atlantic and trans-Pacific missions out of Santiago. In the future, we will operate Boeing 787 aircraft for our long-haul fleet, for which we have placed 26 orders and committed 6 operating leases. We expect to receive our first Boeing 787 in 2012. For our cargo operations, we operate 12 Boeing 767 Freighters and two Boeing 777 Freighters.

For more information, see "Additional Information—Material Contracts" under Item 10.

During the first quarter of 2009, we initiated the process of incorporation of winglets, advanced technology devices, in all our Passenger and Freighter Boeing 767-300 aircraft. Winglets are placed on the wings of an aircraft causing an approximate 5% reduction in fuel consumption. The total investment in this project amounts to approximately US\$ 70 million while as of February 28, 2011, 38 aircraft have been modified and US\$ 50.5 million of the total investment has been disbursed. We expect to continue with the implementation of this project during 2011 and 2012 as we continue to receive Boeing 767s.

Fleet Leasing and Financing Arrangements

Our financing and leasing methods include borrowing from financial institutions and leasing under financial leases, tax leases and operating leases.

In 2000, to finance Airbus aircraft, LAN entered into a US\$1.3 billion umbrella credit facility with a syndicate of international financial institutions under which the Company borrowed in the form of separate loans in connection with the specific financing requirements of each Airbus aircraft (including pre-delivery and long-term financing). This umbrella facility was guaranteed by the English, French and German Export Credit Agencies. The repayment profile for each aircraft financed under the facility was for a period of up to eighteen years. Under this financing package LAN incorporated Airbus aircraft into its fleet through operating leases, financial leases and tax leases. Even though this facility covered the aircraft scheduled to be delivered under our 1998/9 Airbus purchase agreements through December 31, 2006, the Company decided to fund the 2006 deliveries with a new facility negotiated in 2006. This new facility financed the acquisition of

- eight Airbus A319 delivered in 2006;
-

- five A318 and two A320 delivered in 2007;
- ten A318, two A319 and two A320 delivered in 2008; and
- three A319 delivered in the first quarter of 2009.

This new US\$920 million facility is similar to the previous one as there are separate loans drawn in connection with the specific financing requirements of each Airbus aircraft and is also based on support guarantees from the European Export Credit Agencies namely Compagnie Francaise d'Assurance pour le Commerce Exterieur (Coface), Euler Hermes Kreditversicherungs-AG (Euler Hermes) and the Secretary of State of Her Britannic Majesty's Government acting by the Export Credits Guarantee Department (ECGD).. Under this financing package LAN incorporated into its fleet Airbus aircraft through financial leases. The facility covered 85% of the purchase price of each aircraft plus the associated export credit agencies premium. The remaining 15% was funded directly by the Company. There is no remaining drawdown availability under this facility.

Between 2004 and 2006, LAN ordered fifteen Boeing 767-300 Passenger aircraft and Freighters for delivery between 2005 and 2008. In 2004 the Company structured a new syndicated facility for US\$260 million to finance the entire cost of the two Boeing 767-300 Freighters delivered in 2005 and the first Boeing 767-300 Passenger aircraft delivered in 2006. In 2005, LAN finalized the syndicated facility to fund the purchase of four Boeing 767-300 Passenger and Freighter aircraft for delivery in 2006. Between 2005 and 2006, LAN also finalized two additional syndicated facilities to fund the purchase of the remaining eight Boeing 767-300 Passenger aircraft. Three of these aircraft were delivered in 2007, and five were delivered in 2008. Each loan with respect to these aircraft is guaranteed by the Export-Import Bank of the United States ("Ex-Im Bank") with a twelve-year profile for the financing of 85% of the aircraft value.

On June 12, 2005, LAN finished the payments with respect to a Boeing 767-200 aircraft that was held under a financial lease. This aircraft has been subleased to a third party at market rate until December 2011.

In 2006, LAN also ordered three additional Boeing 767-300 passenger aircraft for delivery between 2009 and 2010. The first aircraft, which was delivered in November 2009, was financed through the issuance of an Ex-Im-Bank guaranteed bond and through LAN's own funds (85% and 15%, respectively). The remaining two aircraft were financed through a new Ex-Im Bank guaranteed facility and through LAN's own funds (85% and 15%, respectively).

In April 2007, we entered into two lease agreements with GE Commercial Aviation Services for the lease of two Boeing 777-200LR Freighters, for delivery in 2009. In October 2007, we signed a purchase agreement with the Boeing Company for two additional Boeing 777-200LR Freighters to be delivered in 2011 and 2012. In March 2010, LAN and the Boeing Company agreed to switch the first Boeing 777-200LR Freighter for two Boeing 767-300 Passenger aircraft to be delivered in 2011.

In the second half of 2007, the Company decided to acquire thirty-two new Boeing 787 Dreamliner aircraft with deliveries initially scheduled between 2011 and 2016. The Company entered into a purchase agreement with the Boeing Company for 26 of these aircraft and entered into leasing agreement with the International Lease Finance Corporation for the remaining six aircraft.

In November 2008, the Company entered into a purchase agreement for four additional Boeing 767-300 Passenger aircraft to be delivered in 2012. In March 2010, LAN decided to replace three of these passenger aircraft with three Boeing 767-300 Freighters to be delivered between 2013 and 2014. The fourth aircraft was rescheduled to be delivered in 2011. During the last quarter of 2010, LAN decided to exchange the three Boeing 767 Freighters with three Boeing passenger 767-300 aircraft with deliveries in 2012. As part of this same contract, LAN also ordered a Boeing 777 Aircraft to be delivered in 2012.

During 2008, LAN decided to exercise 15 options to acquire A320-Family Aircraft. Six of these aircraft were delivered in 2010 and the remaining nine are scheduled for delivery in 2011. In March 2010, LAN entered into a credit facility to finance the entire pre-delivery payments attached to these 15 aircraft. In April 2010, LAN entered into an agreement to finance the purchase of these 15 aircraft partially guaranteed by the European Export Credit Agencies and partially through its own funds (85% and 15%, respectively).

In the third quarter of 2010, LAN entered into three lease agreements with GE Commercial Aviation Services for the six year lease of Boeing 767-300 Freighters already delivered in November 2010, December 2010 and January 2011.

In December 2009, LAN entered into a purchase agreement with Airbus for 30 aircraft of the A320 family to be delivered between 2011 and 2014.

As of February 28, 2011, and as a result of the aircraft purchase agreements entered into with Airbus in 2009 and 2010, LAN has 82 Airbus passenger aircraft of the A320 family expected to be delivered between 2011 and 2016.

In September 2010, LAN entered into two new six-year operating lease agreements with AerCap for two A320 aircraft for our operations in Colombia.

In January 2011, LAN entered into a seven year lease agreement with the Bank of China Aviation Pte. Ltd. for one A320 aircraft.

In February 28, 2011, LAN increased its long haul aircraft orders by three Boeing 767-300 Passenger Aircraft with deliveries in the second half of 2012.

Regarding our Boeing fleet, three Boeing 767-300 Passenger aircraft are expected to be delivered in 2011, six Boeing 767-300 Passenger aircraft are expected to be delivered in 2012, Boeing 787-8/9 passenger aircraft are expected to be delivered between 2012 and 2018 and two Boeing 777-Freighter are expected to be delivered in 2012.

As of February 28, 2011, we held 46 aircraft under operating leases compared to 16 as of February, 2010. Twenty five of these aircraft are related to Aires domestic operations which consist of 10 Boeing 737-700, 11 Dash 8-200 and 4 Dash 8-400 aircraft. Under the terms of our operating leases, we are required to return the aircraft in an agreed upon condition at the end of the lease. Although the title to the aircraft remains with the lessor, we are responsible during the lease term for the maintenance, servicing, insurance, repair and overhaul of the aircraft.

As of December 31, 2010, aggregate future minimum lease payments required under our aircraft operating leases were US\$675million, with US\$193 million related to Aires. Our operating leases have terms ranging from three months to twelve years from the date of delivery of the aircraft. For more information, see Note 2.21 to our audited consolidated financial statements.

For more information on our expected future capital expenditures in connection with aircraft purchases see “Capital Expenditures” under Item 5.

Maintenance

Our heavy maintenance, line maintenance and component shop are equipped to service our entire fleet of Airbus and Boeing aircraft. Our maintenance capabilities allow us flexibility in scheduling airframe maintenance, offering us an alternative to third-party maintenance providers.

LAN facilities at Comodoro Arturo Merino Benítez International Airport in Santiago, Chile are among the most extensive in Latin America and have been certified according to IOSA standards and as a FAA approved repair station. Our hangars and components shops at our Santiago repair station can service the Boeing 767, Boeing 777, Airbus 340 and Airbus 320 Family Aircraft fleet. In addition, we have facilities for designing and manufacturing galleys, structures and composite materials, and we have the capability to retrofit aircraft interiors, including sophisticated in-flight entertainment equipment, and blended winglets in the Boeing 767 fleet.

Our engineering and maintenance division is supervised by the local Civil Aviation Authority (the *Dirección General de Aeronáutica Civil* “DGAC”) and is subject to several recurrent external audits from civil aviation authorities and international entities such as the FAA, the Argentine *Dirección Nacional de Aeronavegabilidad* (the National Directorate of Airworthiness or “DNA”), the Brazilian *Agencia Nacional de Aviação Civil* (the ANAC), the International Air Transport Association Operational Safety Audit (“IOSA”) (from the International Air Transport Association or “IATA”) and the International Civil Aviation Organization (“ICAO”), in order to strictly comply with applicable regulations. The audits are conducted in connection with each country’s certification procedures and enable us to continue to perform maintenance for aircraft registered in the certifying jurisdictions. Our repair station holds FAA Part-145 certifications under these approvals.

We also rely on third parties for certain maintenance support for our aircraft and engines. Lufthansa Technik provides our Airbus A320-Family Aircraft and A340 Aircraft component support on a power-by-the-hour basis under a long-term contract, which runs until 2019. International Aero Engines provides the A320 and A319 engine support on a power-by-the-hour contract, which runs for twelve years once each engine is received. Pratt and Whitney provides the A318 engine support on a power-by-the-hour basis contract, which runs for ten years once an engine is received. General Electric provides the maintenance of our Airbus A340 engines under a similar contract, which also runs for twelve years once an engine is received. In addition, General Electric provides for the maintenance of most of our Boeing 767 engines under a contract effective until 2014. Third parties also provide certain additional engine maintenance services. Air France-KLM, which services have been contracted until 2015, provides the maintenance of our Boeing 777 engines and components and to our Boeing 767-300 components.

We occasionally perform certain maintenance services for other airlines.

Our aircraft maintenance personnel participate in extensive training programs at the jointly operated Lufthansa LAN Technical Training S.A., located in Santiago, Chile.

In 2010, LAN continued implementing the management system known as LEAN in an effort to increase efficiency, specifically in its operational areas. The adoption of this system constituted a redesigning of processes that permits solving problems that may occur during aircraft maintenance. The foregoing renders the daily tasks and processes carried out within the Company more efficient. Internationally, the LEAN system has been defined as a methodology for achieving excellence and continuous improvement. It seeks to eliminate activities that do not add value to processes, and suppressing those activities that are superfluous, thereby allowing companies to reduce costs, improve processes and increase customer satisfaction.

During the last year, LAN continued to benefit from the implementation of LEAN in heavy maintenance. Heavy maintenance is performed approximately every 12–18 months or a specific amount of actual flight hours as defined by the manufacturer. This maintenance check puts the aircraft out of service. In 2010, we achieved a 20% reduction in the time an aircraft remains in the hangar. Other benefits of LEAN include a reduction of approximately 80% in errors, a gain of approximately 60% in productivity and a reduction of approximately 60% in labor accidents. Furthermore, by establishing clear roles, challenges and achievements, the implementation of LEAN has had an important benefit in terms of employee motivation.

Safety and Security Corporate Direction

The Safety and Security Corporate Direction (“SSCD”) is an internal division in charge of the management of safety and security matters related to flight operations, operative and administrative buildings, organization and coordination of emergency response matters, safety and security audits and safety and occupational health.

The SSCD reports directly to LAN’s Chief Executive Officer (“CEO”), which reflects the firm commitment that the Company’s senior management has with its employees. The SSCD is comprised of five independent reporting management areas: safety management, security management, emergency response management, Safety & Security Audit management and Safety and Occupational Health Management .

Safety Management

We give high priority to providing safe and reliable air service, as it is considered a fundamental asset to LAN and one of the basic pillars for the development of our Company. We have uniform safety standards and safety-related training programs that cover all of our operations. LAN has implemented a Safety and Quality Management System (“SMS”) throughout the operational areas of the Company, which is certified by the Chilean DGAC and IOSA System. The SMS provides clear definitions of the functions and responsibilities regarding operational safety for all persons involved, from the top to the bottom of the operational structure of the airline. It strengthens the commitment and knowledge required from everyone in the Company regarding any and all actions that could affect safety.

The Operational Safety Director (“OSD”) is responsible for the Operational Safety Oversight and the implementation of the SMS. The OSD supervises a staff of approximately twenty-one safety specialists of different backgrounds, including pilots, aeronautical engineers, aircraft maintenance engineers, a psychologist, and dangerous goods and ground handling safety specialists.

Our corporate operational safety organization consists of four main areas:

- **Flight Safety Management:** The Flight Safety Area oversees and audits our operational safety measures, investigates major incidents and programs and controls the LOSA and FOQA Programs (as defined below). The Flight Safety Area also oversees and audits safety measures related to ground handling and cargo areas and investigates related incidents.
- **Maintenance Safety Management:** The Maintenance Safety Area oversees and audits our maintenance safety measures and investigates maintenance-related incidents.
- **Flight Data Monitoring Management:** The Flight Data Monitoring Area is responsible for the maintenance and administration of the recorded flight data and safety-related databases and software.
- **Corporate Quality Management:** The Corporate Quality Management Area is responsible for the administration of Internal Evaluation Program conducting organization-wide audits in all operational areas.

The main safety programs, elements and procedures include:

- **Flight Operations Quality Assurance (“FOQA”).** Since the end of 2002, LAN has been implementing a Flight Data Monitoring (“FDM”) program using two different analysis programs. The FDM program is fully developed for the A320-Family Aircraft, A340, Boeing B767, and B777 fleet. The statistical information obtained has produced standard operational procedure changes and valuable inputs to the Advance Qualification Program project. We have also fully developed a maintenance variation for the same fleets which monitors the engines, flight controls and general performance of the airplanes.
- **Mandatory Occurrence and Mandatory Reports.** Our operations policy manuals define the incidents that require a mandatory report. On a voluntary basis, personnel can provide confidential reports to the flight safety area in hard copy or electronic form.
- **Safety Information Management.** All safety information regarding all occurrences is entered into dedicated software, where it is analyzed according to its potential risk. Important incidents are investigated thoroughly. The relevant areas related to each particular incident implement corrective actions with the assistance of the corporate operational safety directory.
- **Line Operation Safety Audit (“LOSA”).** LOSA is a program designed to survey and analyze the safety components of our equipment and operations. LOSA observations have been conducted on the A-340, A-320 and Boeing B767 fleets. In 2007, a second LOSA observation has been applied to the A-340 fleet, which has given important information of the effectiveness of the corrective actions recommended by the first observation conducted in 2004.
- **Human Factors Program.** This program is based on a manual developed by LAN that includes all interconnectivities between flight operations and human factors. The program includes a Fatigue Risk Management Program that is being implemented since 2008. The program also includes Crew Resource Management and Flight Crews Training and study of incidents using the Threat and Error Management (“TEM”) model.
- **Quality Assurance and IOSA Certification Programs.** Our flight and maintenance safety areas have a quality assurance system and are currently certified ISO 9001-2000. Our safety management system is based on the ISO 9001-2000 standards. We also periodically evaluate the skills, experience and safety records of our flight crews in order to maintain strict control over the quality of our flight crews. All of our aircraft pilots participate in training programs, some of which are sponsored by aircraft manufacturers, and all are required to undergo recurrent training. LAN Airlines, and passenger subsidiaries are IOSA registered. Currently, cargo subsidiaries IOSA audits are ongoing.

We also have an operational safety committee, composed of senior executives and key operational managers, responsible for the initiation of safety-related actions.

All of our Boeing 767, A320, A340 and Boeing 777 fleets are equipped with an enhanced ground proximity warning system, a traffic collision avoidance system, a wind shear detection system and reduced vertical separation minimum capabilities.

Since 1991, we have had no accidents involving major injury to passengers, crew or aircraft.

Security Management

The main policy and the essential principle of the Company is to ensure an adequate security protection to all its flights, aircraft, passengers, crew members, ground personnel, airport facilities and other services related to the commercial civil aviation against any threat or unlawful action.

The Company has implemented corporate policies and a quality management system through the operational system to detect any lack of security in its operations. Audits and assessments are used to assign different levels of security to international and domestic operations.

The *Corporate Security Manager* (“CSM”) has the responsibility to evaluate, analyze and assign threat levels (high, medium, low) to international and domestic operations, proposing security procedures for each scenario. The CSM leads an organization of five security managers and approximately fifteen security specialists. The current CSM is a former police officer with more than 25 years of experience in the civil aviation.

The corporate security organization has five main areas:

- Domestic Security Operations: that report to a former police officer with more than 20 years of experience in civil aviation.
- International Security Operations: that report to a former police officer, with more than 20 years of experience in civil aviation.
- North America, Caribbean and Europe Security Operations: that report to a security specialist, with more than 18 years of experience in civil aviation.
- Argentinean Security Operations: that report to a security specialist, with more than 30 years of experience in civil aviation.
- Peruvian Security Operations: that report to a security specialist, with more than 19 years of experience in civil aviation.

Each of the five areas is subdivided in internal investigations, fraud, training, cargo security, security of facilities and quality control.

Since 2002, the Company’s Corporate Security Manual unified international and domestic security procedures:

- *Manual de Gestión de Seguridad* (Manual of Security Management). The basis for local security procedures.
- Airport Security Plan or Airport Security Program. Approved by the DGAC for each country in which we have operations. It includes procedures to prevent unlawful conduct and procedures for a bomb threat or hijacking drill.
- Corporate Security Training Program. It includes the contents and definitions regarding security training for all areas involved in acceptance of aircraft, baggage, cargo and passengers.
- Airport Security Inspection Program. It has the contents and definitions regarding airport inspections and identification of security issues and corrective action plans for non-compliance.

Emergency Response Management

The emergency response area is responsible for the administration of the Emergency Response Plan (ERP). It has been developed for the effective management of accidents and serious incidents with the purpose of mitigating any impacts on the passenger and their relatives and the operations.

The ERP consists mainly of:

- Emergency Procedures. They are widely advertised inside the Company, approved by the DGAC and covered by the Emergency Administration Manual.
- Emergency Response Centre (ERC). The ERC includes three principal areas: the Emergency Strategy Committee, the Emergency Resolution Committee and the Public Relations Monitoring Area. Those areas are located at Santiago, Chile. Most of them have meetings rooms, computers, satellite TV, conference call systems, video conference facilities, kitchens and rest rooms.
- Special Assistance Team (SAT). We have a humanitarian assistance program that we deploy for family and passenger assistance. We have about 1,200 total active volunteers distributed as follows: Santiago (700 volunteers), Miami (120 volunteers), Lima (210 volunteers), Ecuador (110 volunteers), and Buenos Aires (90 volunteers). Our SAT is complemented by service vendors.
- Telephone Inquiry Center. It is located in Santiago, Chile, at our call-center office and has 500 agents. There are 18 toll free lines activated for family member calls and are published through the company web site and the media, in case of emergencies.
- Go Team. We have a special team that is dispatched to emergencies involving LAN aircraft. The Go Team includes a director, a SAT leader, a field investigation team (FIT) leader and other representatives from the general support, an Informatics & Telecommunication (IT) team, and security, finance, legal and maintenance departments.
- Logistic Area. It is activated and deployed in our head quarters and at the location of the accident.

Safety and Security Audit Management

The Safety and Security Audit Management reports directly to the Corporate Director. This area has the mission to advise senior management on issues relating to planning and control, design, documentation, implementation, maintenance and improvement of the SMS of LAN and its subsidiaries.

Functions and Responsibilities:

- Advise to senior management regarding the fulfillment of IOSA and ISAGO standards.
- Report to senior management the status of the SMS and Corporate Quality Management Area.
- Coordination of the implementation of the IOSA and ISAGO external audits with the Audit Organization.
- Participation in the ISAGO IATA Audit Pool.
- Creation of guidelines for the quality assurance of the operational areas of Lan Airlines, Lan Express and Lan Cargo, and quality coordinators of the LAN subsidiaries.
- Implementation of the Internal Audit Plan and ISAGO and IOSA audits including operational processes relating to safety and security, quality objectives, status of corrective and prevented actions, and customer complains.
- Coordination of corrective and preventive actions arising from the implementation of the SMS and corporate quality.
- Establishing the IOSA and ISAGO Training and Qualification Auditors Procedure.

- Establishing a corporate system to evaluate and control the external suppliers, in case of outsourcing services.

Safety and Occupational Health Management

The main objective of the Safety and Occupational Health Management is to ensure the safety and health of workers at work, by advising, managing and helping the company prevent occupational accidents and diseases through the identification and control of occupational hazards and medical surveillance.

The forgoing objectives are satisfied through a dedicated team of professionals (engineers, doctors, risk prevention experts and paramedics), who constantly develop activities aimed at protecting LAN employees

Functions and Responsibilities:

- Implementation and control of the preventive management systems.
- Development of training programs.
- Promotion and dissemination of safety and occupational guidelines,
- Assessment of risk of work place.
- Medical assistance to all injured employees.
- Investigation of all accidents.
- Preemployment medical assessment.
- Compliance with legal regulations regarding occupational health, safety and environmental issues.
- Checking of the emergency systems installed in the facilities.

Fuel Supplies

Fuel costs comprise the single largest category of our operating expenses. Over the last years, our fuel consumption and operating expenses have increased due to the significant growth in our operations and to the increase in fuel prices as a result of economic and political factors. In 2010, the foregoing trend was enhanced by the global economic recovery and the total fuel costs represented 29.79% of our total operating expenses. The into-wing (fuel price plus taxes and transportation costs) 2010 average final price was US\$2.32 per gallon, representing a 9.4% increase from the 2009 average. We can neither control nor accurately predict the volatility of fuel prices. Despite the foregoing, it is possible to partially offset the price volatility risk through our hedging and fuel surcharge programs in place in both our passenger and cargo business. For more information, see “Quantitative and Qualitative Disclosures About Market Risk —Risk of Fluctuations in Jet Fuel Prices” under Item 11.

The following table details our consolidated fuel consumption and operating costs (which exclude fuel costs related to charter operations in which fuel expenses are covered by the entity that charters the flight) during the last three years.

	Year ended December 31,		
	2010	2009	2008
Fuel consumption (thousands of gallons)	501,098.2	452,708.5	445,667.7
ATKs (millions)	8,968.8	7,811.8	7,659
Fuel consumption (thousands of gallons) per ATKs (millions)	55.9	58.0	58.2
Total fuel costs (US\$ thousands)	1,161,927	959,608	1,388,826
Cost per gallon (US\$)	2.32	2.12	3.12
Total fuel costs as a percentage of total operating costs	29.79%	29.80%	37.91%

We have entered into fuel contracts to serve operations to more than sixty international and domestic destinations around the world. Contractual terms and conditions vary for each location depending on market conditions, logistics network, volume, economic and political factors, among others. In 2010, approximately 26.5% of our total fuel consumption was originated in Chile where we maintain a long-term commercial relationship with a joint venture between Air BP and Copec, and where we have entered into specific supply contracts with Petrobras Aviation and Shell Aviation. We have more than twenty additional suppliers in our network such as Repsol YPF, Cepsa, Petroperu, Chevron, Air Total, Q8 Aviation and Exxon Mobil. In our secondary hubs we have the following fuel suppliers: Shell Aviation (Miami), Exxon Mobil and Petroperu (Lima), Exxon Mobil, Repsol YPF and Shell (Buenos Aires) and PetroEcuador (Guayaquil).

Ground Facilities and Services

Our main operations are based at the Comodoro Arturo Merino Benítez International Airport in Santiago, Chile. We also operate from various other airports in Chile and abroad. We operate hangars, aircraft parking and other airport service facilities at the Comodoro Arturo Merino Benítez International Airport and other airports throughout Chile pursuant to concessions granted by the DGAC. We also maintain one customs warehouse at the Comodoro Arturo Merino Benítez International Airport, additional customs warehouses in Chile (Iquique, Antofagasta and Punta Arenas) and Argentina (Aeroparque) and operate cargo warehouses at the Miami International Airport to service our cargo customers. Our facilities at Miami International Airport include corporate offices for our cargo and passenger operations and temperature-controlled and freezer space for imports and exports.

We have VIP lounges at the Comodoro Arturo Merino Benítez International Airport. The 7,500 square foot Neruda lounge, which represented an investment of approximately US\$550,000 in 2001, has been widely acclaimed. In 2005, *Latin Trade* magazine selected it as the “Best Airline Lounge” in Latin America. In the same airport we also have the 4,300 square foot Mistral lounge.

Finally, we incur certain airport usage fees and other charges for services performed by the various airports where we operate, such as air traffic control charges, take-off and landing fees, aircraft parking fees and fees payable in connection with the use of passenger waiting rooms and check-in counter space.

During 2010, APV’s (“In-flight Service Supplier”) new 1,650 square meter facilities were completed in the Comodoro Arturo Merino Benitez International Airport.

The development of the new building for the facilities of Andes Airports Services (“Andes,” which performs ground handling services) is in process which is scheduled to be delivered at the beginning of 2012.

Ancillary Airline Activities

In addition to our airline operations, we generate revenues from a variety of other activities. In 2010, LAN generated other revenues of US\$132.8 million from ancillary activities.

Our total revenue from aircraft leases (including subleases, dry-leases, wet-leases and capacity sales to certain alliance partners) and charter flights amounted to US\$13.1 million in 2010.

LAN also provides cargo-related services such as courier, warehousing, value-added door-to-door services and customs services, through various subsidiaries. During 2010, our logistics and courier businesses generated revenues of US\$36.8 million while customs and warehousing services generated US\$ 24.7 million. During January 2011, in relation with our courier business, we signed a promise of sale of our subsidiaries Blue Express Intl. Servicios de Transporte Limitada and Blue Express S.A. (together referred to as “Blue Express”), through which we operate vans and trucks and offer distribution and warehouse services throughout Chile. In April 2011, LAN sold Blue Express to Bethia S.A. a related party of LAN, for US\$54.0 million. Since Blue Express’ book value is US\$9.1 million, the sale generates a non-operational profit of approximately US\$44.9 million, which will be reflected in the second quarter of 2011 financial results.

During 2010, we had revenues of US\$28.1 million for tours and US\$12.0 million for duty-free in-flight sales. The balance of our operating revenues, US\$18.1 million in 2010, was generated by maintenance and handling. Other revenues in 2010 decreased mainly because of fewer revenues from aircraft leases, tours and travel services, but this decrease was partially offset by higher revenues from customs and warehousing and from duty-free sales.

Insurance

We carry hull insurance that includes, among other coverage, “all risk,” war and allied risks, spares and liability for passengers, cargo, mail, baggage and third parties. We renew our insurance coverage yearly, and are subject to deductibles that vary depending on the coverage type and the loss type. Our deductibles are US\$1,250 for loss or damage associated with passengers’ baggage liabilities, US\$10,000 for loss or damage associated with cargo liabilities and between US\$500,000 and US\$1.0 million for hull “all risk” insurance (depending on the aircraft type). Additionally, we have hull deductible coverage to reduce the net hull deductible to US\$100,000 per occurrence (aircraft and/or engine).

Since December 2006, we have negotiated common terms for Hull All Risk, Aviation Legal Liabilities and Spares coverage, together with British Airways, Aer Lingus and their affiliates and franchises which allows us to obtain premium reductions and coverage improvements.

Our insurance coverage has a one-year term starting in April of each year. The aggregate cost of our insurance coverage for the 2010 calendar year was US\$15.6 million, which represents a 2.6% increase in insurance expenses and a 2.0% decrease in average insurance rates compared to the 2009 calendar year.

Aires is covered under a separate insurance policy, and its acquisition in 2010 resulted in an additional insurance cost of US\$600,000 during 2010.

Information Technology

General

We use information technology in almost every aspect of our business.

Our reservations, departure control (check-in), inventory, flight planning and baggage tracing systems are operated by Amadeus, Sabre, Iberia and SITA, and we operate our internal systems from two data center facilities in Santiago, Chile. In 2006, we implemented a Disaster Recovery Plan between those two sites in order to ensure the functionality of our critical systems, with a recovery time objective of four days. The line of business infrastructure currently has an average recovery time of two hours for 80% of our systems and two days for the remaining 20%.

Third-party suppliers provide us with the following technical infrastructure elements:

- wide-area data network (provided mainly by SITA and Telefónica); and
- data centers and desktop operations and support (provided by Accenture and IBM).

Basic Infrastructure Operation

Since early 2010, we have outsourced our IT infrastructure with Accenture and IBM worldwide. IBM manages the data center and Accenture handles our desktop equipment. This outsourcing allowed us to:

- deliver a standard world-class service;
- increase the efficiency of our IT operations;
- convert fixed costs into variable costs;
- guarantee that the service standards (such as up-time and response time) required by critical processes of our business are fulfilled;
- accelerate critical infrastructure projects while significantly reducing the resources required;
- increase the efficiency of our personnel; and
- focus internal IT efforts on business functions, rather than basic hardware and software issues.

Telecommunications

We have used the latest technology available with regard to our global telecommunications network. Our network has the capacity to transport voice, data, and video with the quality required by the Company, combining traditional private data channels with virtual private networks through the Internet.

Front-End Systems

During 2002, we deployed new systems to support our sales personnel. These systems provide the employees who have a direct contact with our customers with additional tools to improve service, enhance customer information and increase efficiency. During 2004 and 2005, we implemented these systems at our airport counters and our call centers.

Since 2005, we have favored a strategy of encouraging and facilitating self service alternatives for customers, through improving the functionality of the www.lan.com website as well as implementing self check-in kiosks in airports.

During 2009, we deployed a new online system in order to provide the processes that our engineering, maintenance and materials areas develop, with technological solutions. This project has allowed us to establish and automate simple and integrated processes, standardize processes for the Company (including our subsidiaries and related companies), facilitate handling of materials and maintenance, make relevant information available in a full, unique and consistent way to all users, and optimize distribution and execution (planned and non planned), among other benefits.

Enterprise Resource Planning

In 2002, we purchased an enterprise resource planning ("ERP") system from SAP. This system was fully implemented in the second quarter of 2004 for Lan Airlines and almost all of its subsidiaries. This ERP system includes modules covering areas such as: finance, accounting, inventory management, human resources, business warehouse, as well as a user-friendly portal. We are currently working on optimizing and simplifying this system, and in leveraging it to increase the efficiency of our back-office processes.

Development and Maintenance System

With respect to new development needs, our first choice is to acquire existing packaged software, but we outsource this service when such software is not available in the market. Since early 2007, we have outsourced our IT system development to three principal vendors: TATA Consultancy Services, Everis and Indra. Thanks to this outsourcing initiative, we have achieved:

- a decrease in project delays;
- an increase in systems reliability; and
- a shift in the efforts of the internal IT department to a more business oriented perspective.

New initiatives

We are implementing a new host ("Host"). A Host change is one of the most important decisions for the passenger business division in an airline in terms of process and technology. It consists in replacing the PSS, or Passenger Service System, that contains the reservation, inventory and departure control systems of an airline. This decision permits the understanding of the software from an aviation industry provider in ASP mode, adherence to standard processes and best industry practices and the integration of multiple legacy applications that complement the needs of the processes model for the airline business. For LAN, the Host change implies going from two suppliers (Amadeus and Resiber) currently covering the role of the complete PSS, to a single supplier (Sabre). This project represents an investment of approximately US\$70.0 million, and is expected to provide immediate savings of 75% per passenger in reservation transaction costs and is estimated to be in place during March 2012.

The IT department expects to implement a Technology Refreshing Project between 2010 and 2012, to move to the platforms that will host our applications and services for the next five years. During 2010, Lan Airlines will define the Technology Refreshing Project and all the platforms, software, solutions and services that it will use to support its business. These hardware and software solutions will be gradually implemented between 2011 and 2012.

We are also buying new airplanes, namely, Boeing 787 aircraft. The Boeing 787 Dreamliner is Boeing's most fuel-efficient aircraft and is the world's first e-Enabled commercial airplane.

The Boeing 787 combines the integrated information and communications systems to drive operational efficiency and streamline airplane maintenance. The e-Enabled tools on the 787 will be a significant change from any other commercial airplane previously operated. The extensive e-Enabling on the 787 increases the need for network connectivity, hardware and software improvements, and systems management practices.

Regulation

Below is a brief reference to the material effects of aeronautical and other regulations in force in each of the relevant jurisdictions in which LAN and its subsidiaries operate.

Chile

Aeronautical Regulation

Both the DGAC and the JAC oversee and regulate the Chilean aviation industry. The DGAC reports directly to the Chilean Air Force and is responsible for supervising compliance with Chilean laws and regulations relating to air navigation. The JAC is the Chilean civil aviation authority. Primarily on the basis of Decree Law No. 2,564, which regulates commercial aviation, the JAC regulates the assignment of international routes, and the compliance with certain insurance requirements, and the DGAC regulates flight operations, including personnel, aircraft and security standards, air traffic control and airport management. We have obtained and maintain the necessary authority from the Chilean government to conduct flight operations, including authorization certificates from the JAC and technical operative certificates from the DGAC, the continuation of which is subject to the ongoing compliance with applicable statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future.

Chile is a contracting state, as well as a permanent member, of the ICAO, an agency of the United Nations established in 1947 to assist in the planning and development of international air transport. The ICAO establishes technical standards for the international aviation industry, which Chilean authorities have incorporated into Chilean laws and regulations. In the absence of an applicable Chilean regulation concerning safety or maintenance, the DGAC has incorporated by reference the majority of the ICAO's technical standards. We believe that we are in material compliance with all relevant technical standards.

Route Rights

Domestic Routes. Chilean airlines are not required to obtain permits in connection with carrying passengers or cargo on any domestic routes, but only to comply with the technical requirements established by the DGAC. Non-Chilean airlines are permitted to provide domestic air service between destinations in Chile, provided that the country in which the foreign airline is based grants a reciprocal right to Chilean airlines. There are no regulatory barriers that would prevent a foreign airline from creating a Chilean subsidiary and entering the Chilean domestic market using that subsidiary.

International Routes. As an airline providing services on international routes, Lan Airlines is also subject to a variety of bilateral civil air transport agreements that provide for the exchange of air traffic rights between Chile and various other countries. There can be no assurance that existing bilateral agreements between Chile and foreign governments will continue, and a modification, suspension or revocation of one or more bilateral treaties could have a material adverse effect on our operations and financial results.

International route rights, as well as the corresponding landing rights, are derived from a variety of air transport agreements negotiated between Chile and foreign governments. Under such agreements, the government of one country grants the government of another country the right to designate one or more of its domestic airlines to operate scheduled services to certain destinations of the former and, in certain cases, to further connect to third-country destinations. In Chile, when additional route frequencies to and from foreign cities become available, any eligible airline may apply to obtain them. If there is more than one applicant for a route frequency the JAC awards it through a public auction for a period of five years. The JAC grants route frequencies subject to the condition that the recipient airline operate them on a permanent basis. If an airline fails to operate a route for a period of six months or more, the JAC may terminate its rights to that route. International route frequencies are freely transferable. In the past, we have generally paid only nominal amounts for international route frequencies obtained in uncontested auctions.

Airfare Pricing Policy. Chilean airlines are permitted to establish their own domestic and international fares without government regulation, as long as they do not abuse any dominant market position they may enjoy. For more information, see “Antitrust Regulation” below. Airlines may file complaints before the Antitrust Court with respect to monopolistic or other pricing practices by other airlines that violate Chile’s antitrust laws. In 1997, the Antitrust Commission approved and imposed a specific self-regulatory fare plan for our domestic operations consistent with the Antitrust Commission’s directive to maintain a competitive environment. According to this plan, we must file notice with the JAC of any increase or decrease in standard fares on routes deemed “non-competitive” by the JAC and any decrease in fares on “competitive” routes at least twenty days in advance. We must file notice with the JAC of any increase in fares on “competitive” routes at least ten days in advance. In addition, the Chilean authorities now require that we justify any modification that we make to our fares on non-competitive routes. We must also ensure that our average yields on a non-competitive route are not higher than those on competitive routes of similar distance.

Registration of Aircraft. Aircraft registration in Chile is governed by the Chilean Aeronautical Code (“CAC”). In order to register or continue to be registered in Chile, an aircraft must be wholly owned by either:

- a natural person who is a Chilean citizen; or
- a legal entity incorporated in and having its domicile and principal place of business in Chile and a majority of the capital stock of which is owned by Chilean nationals, among other requirements established in article 38 of the CAC.

The Aeronautical Code expressly allows the DGAC to permit registration of aircraft belonging to non-Chilean individuals or entities with a permanent place of business in Chile. Aircraft owned by non-Chileans, but operated by Chileans or by an airline which is affiliated with a Chilean aviation entity, may also be registered in Chile. Registration of any aircraft can be cancelled if it is not in compliance with the requirements for registration and, in particular, if:

- the ownership requirements are not met; or
- the aircraft does not comply with any applicable safety requirements specified by the DGAC.

Safety. The DGAC requires that all aircraft operated by Chilean airlines be registered either with the DGAC or with an equivalent supervisory body in a country other than Chile, so long as that country is a member of the Warsaw Convention. All aircraft must have a valid certificate of airworthiness issued by either the DGAC or an equivalent non-Chilean supervisory entity. In addition, the DGAC will not issue maintenance permits to a Chilean airline until the DGAC has assessed the airline’s maintenance capabilities. The DGAC renews maintenance permits annually, and has approved our maintenance operations. Only DGAC-certified maintenance facilities or facilities certified by an equivalent non-Chilean supervisory body in the country where the aircraft is registered may maintain and repair the aircraft operated by Chilean airlines. Aircraft maintenance personnel at such facilities must also be certified either by the DGAC or an equivalent non-Chilean supervisory body before assuming any aircraft maintenance positions.

Security. The DGAC establishes and supervises the implementation of security standards and regulations for the Chilean commercial aviation industry. Such standards and regulations are based on standards developed by international commercial aviation organizations. Each airline and airport in Chile must submit an aviation security handbook to the DGAC describing its security procedures for the day-to-day operations of commercial aviation and procedures for staff security training. Lan Airlines has submitted its aviation security handbook to the DGAC. Chilean airlines that operate international routes must also adopt security measures in accordance with the requirements of applicable bilateral international agreements.

Airport Policy. The DGAC supervises and manages airports in Chile, including the supervision of take-off and landing charges. The DGAC proposes airport charges, which are approved by the JAC and are the same at all airports. Since the mid-90s, a number of Chilean airports have been privatized, including the Comodoro Arturo Merino Benítez International Airport in Santiago. At the privatized airports, the airport administration manages the facilities under the supervision of the DGAC and JAC.

Environmental and Noise Regulation. There are no material environmental regulations or controls imposed upon airlines, applicable to aircraft, or that otherwise affect us in Chile, except for environmental laws and regulations of general applicability. There is no noise restriction regulation currently applicable to aircraft in Chile. However, Chilean authorities are planning to pass a noise-related regulation governing aircraft that fly to and within Chile. The proposed regulation will require all such aircraft to comply with certain noise restrictions, referred to in the market as Stage 3 standards. LAN's fleet already complies with the proposed restrictions so we do not believe that enactment of the proposed standards would impose a material burden on us.

Argentina

Aeronautical Regulation.

Both the *Administración Nacional de Aviación Civil* ("ANACI") and the Secretary of Transport oversee and regulate the Argentinean aviation industry. ANACI regulates flight operations, including personnel, aircraft and security standards, air traffic control and airport management, and reports indirectly to the Ministry of Planning and is responsible for supervising compliance with Argentinean laws and regulations relating to air navigation. The Secretary of Transport also reports to the Ministry of Planning and regulates the assignment of international routes and matters related to tariff regulation policies. We have obtained and maintain the necessary authorizations from the Argentinean government to conduct flight operations, including authorization certificates and technical operative certificates from ANACI, the continuation of which is subject to the ongoing compliance with applicable statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future.

Argentina is a contracting state and a permanent member of the ICAO, an agency of the United Nations established in 1947 to assist in the planning and development of international air transport. The ICAO establishes technical standards for the international aviation industry, which Argentinean authorities have incorporated into Argentinean laws and regulations. In the absence of applicable Argentinean regulation concerning safety or maintenance, the ANACI has incorporated by reference the majority of the ICAO's technical standards. We believe that we are in material compliance with all relevant technical standards.

Route Rights

Domestic Routes. In Argentina airlines are required to obtain permits in connection with carrying passengers or cargo on any domestic routes, and to comply with the technical requirements established by the local authority. There are no regulatory barriers preventing a foreign airline from creating an Argentine subsidiary and entering the Argentine domestic market using that subsidiary. However, ownership of such subsidiary by the foreign airline may not be direct, but through a subsidiary formed in Argentina, which in turn may be directly or indirectly owned by the foreign company. However, such subsidiary should operate Argentine registered aircraft and employ Argentine aeronautical personnel.

International Routes. As an airline providing services on international routes, Lan Argentina is also subject to a variety of bilateral civil air transport agreements that provide for the exchange of air traffic rights between Argentina and various other countries. There can be no assurance that existing bilateral agreements between Argentina and foreign governments will continue. Furthermore, a modification, suspension or revocation of one or more bilateral treaties could have a material adverse effect on our operations and financial results.

International route rights, as well as the corresponding landing rights, are derived from a variety of air transport agreements negotiated between Argentina and foreign governments. Under such agreements, the government of one country grants the government of another country the right to designate one or more of its domestic airlines to operate scheduled services to certain destinations of the former and, in certain cases, to further connect to third-country destinations. In Argentina, when additional route frequencies to and from foreign cities become available, any eligible airline may apply to obtain them. ANACI grants route frequencies subject to the condition that the recipient airline operate them on a permanent basis. If an airline fails to operate a route for a period of six months or more, the ANACI may terminate its rights to that route.

Airfare Pricing Policy. Argentine airlines are permitted to establish their own international fares without government regulation, as long as they do not abuse any dominant market position they may enjoy. Yet, there are government-fixed maximum and minimum prices for domestic flights.

Registration of Aircraft. Aircraft registration in Argentina is governed by the Argentinean Aeronautical Code (“AAC”). In order to register or continue to be registered in Argentina, an aircraft must be wholly owned by either:

- a natural person who is an Argentinean citizen; or
- a legal entity incorporated in and having its domicile and principal place of business in Argentina and a majority of the capital stock of which is owned, directly or indirectly, by Argentinean nationals, among other requirements established in the AAC.

Safety. ANACI requires that all aircraft operated by Argentinean airlines be registered with ANACI. All aircraft must have a valid certificate of airworthiness issued by ANACI. In addition, ANACI will not issue maintenance permits to an Argentinean airline until ANACI has assessed the airline’s maintenance capabilities. ANACI renews maintenance permits periodically and approves maintenance operations once the airline initiates its operations and each time an airline changes its maintenance regime. Only ANACI-certified maintenance facilities (in Argentina or in any other country) may maintain and repair the aircraft operated by Argentinean airlines. Aircraft maintenance personnel at such facilities must also be certified by ANACI before assuming any aircraft maintenance positions.

Security. ANACI establishes and supervises the implementation of security standards and regulations for the Argentinean commercial aviation industry. Such standards and regulations are based on standards developed by international commercial aviation organizations. Each airline and airport in Argentina must submit an aviation security handbook to ANACI describing its security procedures for the day-to-day operations of commercial aviation and procedures for staff security training. Lan Argentina has submitted its aviation security handbook to ANACI. Argentinean airlines that operate international routes must also adopt security measures in accordance with the requirements of applicable bilateral international agreements.

Airport Policy. The ORSNA (*Organismo Regulador del Sistema Nacional de Aeropuertos*) supervises and manages the airports in Argentina, including the supervision of take-off and landing charges. The ORSNA proposes airport charges, which are approved by ANACI and are the same at all airports. Nevertheless, while domestic flights are charged in local currency, international flights are charged in U.S. dollars. Since the late-90s, a number of Argentinean airports have been privatized, including Aeroparque and Aeropuerto Internacional de Ezeiza Ministro Pistarini in Buenos Aires, the two most important airports in Argentina. At the privatized airports, the airport administration manages the facilities under the supervision of ANACI and ORSNA.

Environmental and Noise Regulation. There are no material environmental regulations or controls imposed upon airlines, applicable to aircraft, or that otherwise affect us in Argentina, except for environmental laws and regulations of general applicability and noise restriction regulation currently applicable to aircraft in Argentina. Any aircraft operated by an Argentinean airline should comply with certain noise restrictions, specifically with Stage 3 standards, as set forth in chapter 91.805 of the Argentinean civilian aviation regulations (*Regulaciones Argentinas de Aviación Civil*) referred to in the market as Stage 3 standards. LAN’s fleet already complies with the proposed restrictions so we do not believe that enactment of the proposed standards would impose a material burden on us.

Aeronautical Regulation.

The Peruvian DGAC (“PDGAC”) oversees and regulates the Peruvian aviation industry. The PDGAC reports directly to the Ministry of Transportation and Communications and is responsible for supervising compliance with Peruvian laws and regulations relating to air navigation. In addition, the PDGAC regulates the assignment of national and international routes, and the compliance with certain insurance requirements, and it regulates flight operations, including personnel, aircraft and security standards, air traffic control and airport management. We have obtained and maintain the necessary authorizations from the Peruvian government to conduct flight operations, including authorization and technical operative certificates, the continuation of which is subject to the ongoing compliance with applicable statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future.

Peru is a contracting state and a permanent member of the ICAO. The ICAO establishes technical standards for the international aviation industry, which Peruvian authorities have incorporated into Peruvian laws and regulations. In the absence of an applicable Peruvian regulation concerning safety or maintenance, the PDGAC has incorporated by reference the majority of the ICAO’s technical standards. We believe that we are in material compliance with all relevant technical standards.

Route Rights

Domestic Routes. Peruvian airlines are required to obtain permits in connection with carrying passengers or cargo on any domestic routes, but only to comply with the technical requirements established by the PDGAC. Non-Peruvian airlines are not permitted to provide domestic air service between destinations in Peru.

International Routes. As an airline providing services on international routes, Lan Peru is also subject to a variety of bilateral civil air transport agreements that provide for the exchange of air traffic rights between Peru and various other countries. There can be no assurance that existing bilateral agreements between Peru and foreign governments will continue, and a modification, suspension or revocation of one or more bilateral treaties could have a material adverse effect on our operations and financial results.

International route rights, as well as the corresponding landing rights, are derived from a variety of air transport agreements negotiated between Peru and foreign governments. Under such agreements, the government of one country grants the government of another country the right to designate one or more of its domestic airlines to operate scheduled services to certain destinations of the former and, in certain cases, to further connect to third-country destinations. In Peru, when additional route frequencies to and from foreign cities become available, any eligible airline may apply to obtain them. If there is more than one applicant for a route frequency the PDGAC awards it through a public auction for a period of four years. The PDGAC grants route frequencies subject to the condition that the recipient airline operate them on a permanent basis. If an airline fails to operate a route for a period of 90 days or more, the PDGAC may terminate its rights to that route, although that has never happened.

Airfare Pricing Policy. Peruvian airlines are permitted to establish their own domestic and international fares without government regulation, as long as they do not abuse any dominant market position they may enjoy. For more information, see “Antitrust Regulation” below. Airlines may file complaints before the Institute for Protection of Fair Competition and Consumer Rights (“Indecopi”) with respect to monopolistic or other pricing practices by other airlines that violate Peru’s antitrust laws.

Registration of Aircraft. Aircraft registration in Peru is governed by the Peruvian Civil Aviation Law. In order to register or continue to be registered in Peru, an aircraft must be wholly owned by either:

- a natural person who is a Peruvian citizen; or is domiciled in Peru; or
- a legal entity incorporated in and having its domicile and principal place of business in Peru and a majority of the capital stock of which is owned by Peruvian nationals, among other requirements established in article 47 of the Peruvian Civil Aviation Law.

The Civil Aviation Law expressly allows the PDGAC to permit registration of aircraft belonging to non-Peruvian individuals or entities with a permanent place of business in Peru. Aircraft owned by non-Peruvians, but operated by a Peruvian airline, may also be registered in Peru but only if the aircraft is used for general, not commercial aviation. Registration of any aircraft can be cancelled if it is not in compliance with the requirements for registration and, in particular, if:

- the ownership requirements are not met; or
- the aircraft does not comply with any applicable safety requirements specified by the PDGAC.

Safety. Peruvian law allows the use of aircraft that are registered either with the PDGAC or with an equivalent supervisory body in a country other than Peru. All aircraft must have a valid certificate of airworthiness issued by either the PDGAC or an equivalent non-Peruvian supervisory entity. In addition, the PDGAC will not issue maintenance permits to a Peruvian airline until the PDGAC has assessed the airline's maintenance capabilities. The PDGAC renews maintenance permits annually, and has approved our maintenance operations. Only PDGAC-certified maintenance facilities or facilities certified by an equivalent non-Peruvian supervisory body in the country where the aircraft is registered may maintain and repair the aircraft operated by Peruvian airlines. Aircraft maintenance personnel at such facilities must also be certified either by the PDGAC or an equivalent non-Peruvian supervisory body before being appointed to any aircraft maintenance positions.

Security. The PDGAC establishes and supervises the implementation of security standards and regulations for the Peruvian commercial aviation industry. Such standards and regulations are based on standards developed by international commercial aviation organizations. Each airline and airport in Peru must submit an aviation security handbook to the PDGAC describing its security procedures for the day-to-day operations of commercial aviation and procedures for staff security training. Lan Peru has submitted its aviation security handbook to the PDGAC. Peruvian airlines that operate international routes must also adopt security measures in accordance with the requirements of applicable bilateral international agreements.

Airport Policy. CORPAC supervises and manages airports in Peru, including the supervision of take-off and landing charges. CORPAC sets airport charges for navigation facilities, which may differ from airport to airport. Since the mid-90s, a number of Peruvian airports have been privatized, including the Aeropuerto Internacional Jorge Chávez in Lima. At the privatized airports, the airport administration manages the facilities under the supervision of the *Organismo Supervisor de la Inversión en Infraestructura de Transporte de Uso Público*, (the Supervising Agency of Investment in Public Transport Infrastructure Facilities or "OSITRAN"), an independent regulatory and supervising entity.

Environmental and Noise Regulation. There are no material environmental regulations or controls imposed upon airlines, applicable to aircraft, or that otherwise affect us in Peru, except for environmental laws and regulations of general applicability, but there are noise restriction regulations currently applicable to aircraft in Peru. LAN's fleet complies with the proposed restrictions so they do not impose a material burden on us.

Ecuador

Aeronautical Regulation.

There are two institutions that control commercial aviation on behalf of the State: (i) The National Civil Aviation Board ("CNAC"), which directs aviation policy; and (ii) the General Civil Aviation Bureau ("EDGAC"), which is a technical regulatory and control agency. The CNAC issues operating permits and grants operating concessions to national and international airlines. It also issues opinions on bilateral and multilateral air transportation treaties, allocates routes and traffic rights, and approves joint operating agreements such as wet leases and shared codes.

Fundamentally, the EDGAC is responsible for:

- ensuring that the national standards and technical regulations and international ICAO standards and regulations are observed;
- keeping records on insurance, airworthiness and licenses of Ecuadorian civil aircraft;
- maintaining the National Aircraft Registry;
- issuing licenses to crews; and
- controlling air traffic control inside domestic air space.

The EDGAC also must comply with the standards and recommended methods of the ICAO since Ecuador is a signatory of the 1944 Chicago Convention.

Route Rights

Domestic Routes. Airlines must obtain authorization from CNAC (an operating permit or concession) to provide air transportation. For domestic operations, only companies incorporated in Ecuador can operate locally, and only Ecuadorian-licensed aircraft and dry leases are authorized to operate domestically.

International Routes. Permits for international operations are based on air transportation treaties signed by Ecuador or, otherwise, the principle of reciprocity is applied. All airlines doing business in Latin America that are incorporated in countries that are members of the *Comunidad Andina de Naciones* (the Andean Community, or “CAN”) obtain their traffic rights on the basis of decisions currently in force under that regime, in particular decision N°582 of 2004, which guarantee free access to markets, with no type of restriction except technical considerations.

Shared codes are allowed in Ecuador after authorization by the CNAC, but the respective airlines must have the relevant traffic rights.

Airfare Pricing Policy. There is no law in Ecuador regulating competition, although currently there is one under discussion. So far, the government has enacted a decision of the CAN that is being applied by the Undersecretary of Competition. This Department can impose sanctions and penalties if it is proven that a certain fare is predatory, i.e., when the fare is below cost. Rates are not regulated and are subject only to registration. In general, bilateral treaties regarding air transportation provide for airfares to be regulated by the regulation of the country of origin.

Registration of Aircraft. The legislation allows Ecuadorian companies to provide international air transportation services using aircraft licensed in Ecuador and aircraft with a foreign license, always provided the latter are exploited under dry leases. For domestic operations, aircraft is authorized only pursuant to dry leases and Ecuadorian registration. Aircraft interchange agreements are also allowed for international operations, provided that the aviation authority can confirm that the aircraft is under the operational control of an Ecuadorian operator. Wet leases are permitted, but very restricted.

Safety. In order to ensure aviation safety, the EDGAC requires that the airline hold an Air Operator Certificate and have Operating Specifications that are examined technically and rigorously to ensure compliance with the Civil Aviation Technical Regulations, which are essentially the same as the Federal Aviation Regulations (“FAR”) of the FAA. They cover matters of aircraft airworthiness, certification of maintenance facilities, and oversight by the EDGAC.

Security. The governing rules also apply to security in respect of the EDGAC. There are regulations, manuals and procedures on airport security overseen by the EDGAC.

Airport Policy. The international airports in Quito and Guayaquil are managed under administrative concessions, and the EDGAC merely controls air traffic. Fees for the use of airport facilities, terminal fees, landing fees, parking fees are all overseen and collected by the operator. Over-flight and approach fees are controlled and collected by the EDGAC.

Environmental and Noise Regulation. Aircraft must comply with the standards of category 3 under Ecuadorian applicable noise regulations, as set forth in Executive Decree (*Decreto Ejecutivo*) 1,405, enacted on October 24, 2008, which provides certain technical specific criteria. Beginning in May 2010, aircraft must comply with standards of category 4 under cited regulation. Category 3 provides for compliance with ICAO regulations and technical conditions mandatory in the United States of America.

United States of America

Aeronautical Regulation.

Operations to and from the United States by non-U.S. airlines, such as Lan Airlines, are subject to Title 49 of the U.S. Code, under which the Department of Transportation (“DOT”) and the FAA exercise regulatory authority. The DOT has jurisdiction over international aviation in connection with the United States, subject to review by the President of the United States. The DOT also has jurisdiction with respect to unfair practices and methods of competition by airlines and related consumer protection matters. The U.S. DOJ also has jurisdiction over airline competition matters under the federal antitrust laws. Flight operations between Chile and the United States by airlines licensed by either country are governed generally by the open skies air transport agreement that Chile and the United States signed in October 1997. Under the open skies agreement, there are no restrictions on the number of destinations or flights that either a U.S. or a Chilean airline may operate between the two countries or on the number of U.S. and Chilean airlines that may operate.

Authorizations and Licenses.

Lan Airlines is authorized by the DOT to engage in scheduled and charter air transportation services, including the transportation of persons, property (cargo) and mail, or combinations thereof, between points in Chile and points in the United States and beyond (via intermediate points in other countries). Lan Airlines holds the necessary authorizations from the DOT in the form of a foreign air carrier permit, exemption authorizations and statements of authorization to conduct current operations to and from the United States. Exemptions and statements of authorization are temporary in nature and are subject to renewal and therefore there can be no assurance that any particular exemption or statement of authorization will be renewed. Lan Airlines’ foreign air carrier permit has no expiration date, while a renewal of the exemption authorization (which includes the open skies traffic rights) was timely filed and the Authority was automatically extended until such time as the DOT issues the renewal order. Lan Airlines intends to request the inclusion of the open skies rights into our foreign air carrier permit, which would eliminate our need to renew the exemption authority in the future.

The FAA is engaged in the regulation with respect to safety matters, including aircraft maintenance and operations, equipment, aircraft noise, ground facilities, dispatch, communications, personnel, training, weather observation and other matters affecting air safety. The FAA requires each foreign air carrier to obtain certain operations specifications that authorize it to operate to particular airports on approved international routes using specified equipment. Lan Airlines currently holds FAA operations specifications under Part 129 of the FAR in compliance in all material respects with all requirements necessary to maintain in good standing of its operations specifications issued by the FAA. The FAA can amend, suspend, revoke or terminate those specifications, or can suspend temporarily or revoke permanently our authority if an airline fails to comply with the regulations, and can assess civil penalties for such failure. A modification, suspension or revocation of any of our DOT authorizations or FAA operations specifications could have a material adverse effect on our business.

The FAA also conducts safety audits and has the power to impose fines and other sanctions for violations of airline safety regulations. We have not incurred any material fines related to operations.

Certain Regulatory Authorizations in Connection with Strategic Alliances.

The alliance between Lan Airlines and American Airlines includes three major components: a frequent flyer agreement, a reciprocal code-share agreement and the coordination of pricing, scheduling and other functions. The last two of these items required the approval of regulatory authorities in both Chile and the United States. With respect to the code-share agreement, the open skies agreement between Chile and the United States expressly permits code-sharing operations by U.S. and Chilean airlines. With regard to the coordination of pricing and scheduling, Lan Airlines and American Airlines filed a joint application with the DOT in December 1997, requesting approval of their alliance agreement and immunity from the application of all U.S. antitrust laws pursuant to Title 49 of the U.S. Code. Lan Airlines and American Airlines received approval and antitrust immunity from the DOT in September 1999, and implemented the code-share agreement in October 1999. In accordance with the terms of the DOT’s 1999 approval, Lan Airlines and American Airlines were required to resubmit their alliance agreement to the DOT for review within three years after the DOT’s grant of approval. Lan Airlines and American Airlines resubmitted the agreement in September 2002 and did not receive any comments from the DOT.

Lan Peru was granted antitrust immunity by the DOT on October 13, 2005 with respect to the alliance agreements and other agreements incorporated therein (i.e., the reciprocal code-share agreements, among others) with Lan Airlines and American Airlines. In accordance with the terms of the DOT’s 2005 approval, Lan Airlines, Lan Peru and American Airlines resubmitted their alliance agreement to the DOT for review in October 2010.

Flight operations between Argentina and the United States by airlines licensed by either country are governed generally by the air transport agreement that Argentina and the United States signed in 1986, as amended, including the Memorandum of Consultation dated March 22, 2007. Lan Argentina is authorized by the DOT to engage in scheduled air transportation of persons, property and mail, between any point or points in Argentina and Miami, Florida, (via the intermediate point of Punta Cana, Dominican Republic). Lan Argentina holds the necessary authorizations from the DOT in the form of exemption authorizations and statements of authorization to conduct current operations to and from the United States. Lan Argentina also holds the necessary DOT authorizations regarding code share with American Airlines, which have been granted indefinitely, subject to applicable conditions and all other required authorizations remaining in place for both air carriers.

Security. On November 19, 2001, the Congress of the United States passed, and the President signed into law, the Aviation and Transportation Security Act, also referred to as the Aviation Security Act. This law federalized substantially all aspects of civil aviation security and created the Transportation Security Administration (“TSA”), which took over security responsibilities previously held by the FAA. The TSA is an agency of the U.S. Department of Homeland Security. The Aviation Security Act requires, among other things, the implementation of certain security measures by airlines and airports, such as the requirement that all passenger bags be screened for explosives. Funding for airline and airport security required under the Aviation Security Act is provided in part by a US\$2.50 per segment passenger security fee, subject to a US\$10 per roundtrip cap; however, airlines are responsible for costs in excess of this fee. Implementation of the requirements of the Aviation Security Act has resulted in increased costs for airlines and their passengers. Since the events of September 11, 2001, Congress has mandated and the TSA has implemented numerous security procedures and requirements that have imposed and will continue to impose burdens on airlines, passengers and shippers.

Noise Restrictions. Under the Airport Noise and Capacity Act of 1990 (“ANCA”), and related FAA regulations, aircraft that fly to the United States must comply with certain Stage 3 noise restrictions, which are currently the most stringent FAA noise requirements. All of our aircraft that fly to the United States meet the Stage 3 requirements.

Under the direction of the ICAO, governments are considering the creation of a new and more stringent noise standard than that contained in the ANCA. The ICAO adopted new noise standards in 2001 that established more stringent noise requirements for aircraft manufactured after January 1, 2006. In the U.S., legislation known as the “Vision 100—Century of Aviation Reauthorization Act,” which was signed into law in December 2003, required the FAA to issue regulations implementing Stage 4 noise standards consistent with recommendations adopted by the ICAO. FAA regulations require all aircraft designed and certified after January 1, 2006 to comply with Stage 4 noise restrictions.

FAA regulations also require compliance with the Traffic Alert and Collision Avoidance System, approved airborne wind shear warning system and aging aircraft regulations. Our entire fleet meets these requirements.

Brazil

Aeronautical Regulation.

The Brazilian aviation industry is regulated and overseen by the ANAC. The ANAC reports directly to the Brazilian Defense Ministry, which is subordinated by the Federal Executive Power of this country. Primarily on the basis of Law No. 11.182/2005, ANAC was created to regulate commercial aviation, air navigation, the assignment of domestic and international routes, compliance with certain insurance requirements, flight operations, including personnel, aircraft and security standards, air traffic control, in this case sharing its activities and responsibilities with the *Departamento de Controle do Espaço Aéreo* (Department of Airspace Control, or “DECEA”), which is a public secretary also subordinated by the Brazilian Defense Ministry, and airport management, in this last case sharing responsibilities with the *Empresa Brasileira de Infra-Estrutura Aeroportuária* (the Brazilian Airport Infrastructure Company, or “INFRAERO”), a public company that was created by Law No. 5862/72, and is responsible for administering, operating and exploring Brazilian airports industrially and commercially.

We have obtained and maintain the necessary authority from the Brazilian government to conduct flight operations, including authorization and technical operative certificates from ANAC, the continuation of which is subject to ongoing compliance with applicable statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future.

ANAC is the Brazilian civil aviation authority and it is responsible for supervising compliance with Brazilian laws and regulations relating to air navigation. Brazil is a contracting state and a permanent member of the ICAO. The ICAO establishes technical standards for the international aviation industry, which Brazilian authorities, represented by the Brazilian Defense Ministry, have incorporated into Brazilian laws and regulations. In the absence of an applicable Brazilian regulation concerning safety or maintenance, ANAC has incorporated by reference the majority of the ICAO's technical standards.

Route Rights.

Domestic Routes. Brazilian airlines are not required to obtain permits in connection with domestic passenger or cargo transportation, but only to comply with the technical requirements established by ANAC. Based on the Brazilian Aeronautical Code ("CBA") established by Law No. 7.565/86, non-Brazilian airlines are not permitted to provide domestic air service between destinations in Brazil. The same law prevents a foreign airline from creating a Brazilian subsidiary and entering the Brazilian domestic market using that subsidiary.

International Routes. Brazilian and non-Brazilian airlines providing services on international routes are also subject to a variety of bilateral civil air transport agreements that provide for the exchange of air traffic rights between Brazil and various other countries. International route rights, as well as the corresponding landing rights, are derived from a variety of air transport agreements negotiated between Brazil and foreign governments. Under such agreements, the government of one country grants the government of another country the right to designate one or more of its domestic airlines to operate scheduled services to certain destinations of the former and, in certain cases, to further connect to third-country destinations. In Brazil, when additional route frequencies to and from foreign cities become available, any eligible airline may apply to obtain them. If there is more than one applicant for a route frequency ANAC must carry out a public bid and award it to the elected airline. ANAC grants route frequencies subject to the condition that the recipient airline operate them on a permanent basis. If an airline fails to operate a route for a period of six months or more, ANAC may terminate its rights to that route. ANAC may also terminate its right if the recipient airline does not operate at least 80% of the frequency given for that specific route.

Airfare Pricing Policy. Brazilian and non-Brazilian airlines are permitted to establish their own international and domestic fares, in this last case only for Brazilian airlines, without government regulation, as long as they do not abuse any dominant market position they may enjoy. Airlines may file complaints before the Antitrust Court with respect to monopolistic or other pricing practices by other airlines that violate Brazil's antitrust laws.

Registration of Aircraft. Aircraft registration in Brazil is managed by ANAC, which maintains the Brazilian Aeronautical Register, as regulated by the CBA. The CBA allows ANAC to permit registration of aircraft belonging to Brazilian and non-Brazilian individuals.

Safety. ANAC requires that all Brazilian aircraft must have a valid certificate of airworthiness issued by ANAC. In addition, ANAC will not issue maintenance permits to a Brazilian airline until it has assessed the airline's maintenance capabilities. ANAC renews maintenance permits annually, and has approved our maintenance operations. Only ANAC certifies aircraft maintenance services and its personnel.

Security. ANAC establishes and supervises the implementation of security standards and regulations for the Brazilian commercial aviation industry. Such standards and regulations are based on standards developed by international commercial aviation organizations. Each airline and airport in Brazil must submit an aviation security handbook to ANAC describing its security procedures for the day-to-day operations of commercial aviation and procedures for staff security training.

Brazilian Airport Policy. INFRAERO supervises and manages airports in Brazil, including the supervision of take-off and landing charges. INFRAERO proposes airport charges, which are approved by ANAC and are the same at all airports. At privatized airports, the airport administration manages the facilities under the supervision of ANAC.

Environmental and Noise Regulation. ANAC coordinates and supervises noise regulations by regulation 121, which established noise restriction applicable to aircraft in Brazil. There are no material environmental regulations or controls imposed specifically upon airlines companies, applicable to aircraft, other than Brazilian general environmental laws and regulations.

Colombia

Aeronautical Regulation.

The governmental entity in charge of regulating, directing and supervising the civil aviation is the Aeronáutica Civil (“AC”), a technical agency ascribed to the Ministry of Transportation. The AC is the aeronautical authority for the entire domestic territory, in charge of regulating and supervising the Colombian air space. The AC may interpret, apply and complement all civil aviation and air transportation regulation to ensure compliance with the Colombian Aeronautical Regulations (“RAC”). The AC also grants the necessary permits for air transportation.

Route Rights.

The AC grants operation permits to domestic and foreign carrier that intend to operate in, from and to Colombia. In the case of Colombian airlines in order to obtain the operational permit the company must comply with the RAC and fulfill legal, economic and technical requirements, to later be subject to public hearings where the public convenience and necessity of the service is considered. The same process must be followed to add national or international routes, whose concession is subject to the bilateral instruments entered into by Colombia. Routes cannot be transferred under any circumstance and there is no limit to foreign investment in domestic airlines.

Airfare Pricing Policy. Domestic and international cargo transportation fares are not restricted in Colombia, but are subject to market regulations. In addition, there is a fuel surcharge that is regulated by the AC and that fluctuates in accordance with the cost of fuel. This surcharge, which is regulated by the authority, is not mandatory for cargo and it can be applied without exceeding the regulated maximum.

Registration of Aircraft. The AC, through the Office of Aeronautical Registration, is in charge of handling the registration of aircraft that will be operated by Colombian airlines. Registration may be obtained by a registration process fully conducted in Colombia or through the validation in Colombia of a foreign registration. For such registration, the aircraft must be legally imported to the country and inspected by the aeronautical inspectors. This office is also in charge of property registrations, lease contracts and liens of the registered aircraft.

Safety. Aircraft registered in Colombia obtain an airworthiness certificate or a validation of the airworthiness certificate (if they operate under the approval of the foreign registration).

Security. Following the guidelines of the OACI annexes, the AC issued an airport security program that must be strictly complied with by all the aircraft operators in the country as well as by airports.

Environmental and Noise Regulation. In Colombia, only aircraft that comply with category 3 noise limits may operate. There are strict regulations to control noise during takeoffs and landings of the aircraft at the El Dorado Airport in Bogotá due to its location in an urban area.

Antitrust Regulation

The Chilean antitrust authority, which we refer to as the Antitrust Court (previously the Antitrust Commission), oversees antitrust matters, which are governed by Decree Law No. 211 of 1973, as amended, or the Antitrust Law. The Antitrust Law prohibits any entity from preventing, restricting or distorting competition in any market or any part of any market. The Antitrust Law also prohibits any business or businesses that have a dominant position in any market or a substantial part of any market from abusing that dominant position. An aggrieved person may sue for damages arising from a breach of Antitrust Law and/or file a complaint with the Antitrust Court requesting an order to enjoin the violation of the Antitrust Law. The Antitrust Court has the authority to impose a variety of sanctions for violations of the Antitrust Law, including termination of contracts contrary to the Antitrust Law, dissolution of a company and imposition of fines and daily penalties on businesses. Courts may award damages and other remedies (such as an injunction) in appropriate circumstances. Lan Airlines, Lan Express and Lan Cargo must comply with Chilean Antitrust Law that prohibits a carrier from abusing a dominant position in the market. As described above under “Route Rights—Air Fare Pricing Policy,” in October 1997, the Antitrust Court approved a specific self-regulatory fare plan for us consistent with the Antitrust Court’s directive to maintain a competitive environment within the domestic market.

Since October 1997, Lan Airlines and Lan Express follow a self-regulatory plan, which was modified and approved by the *Tribunal de la Libre Competencia* (the Competition Court) in July 2005. In February 2010, the *Fiscalía Nacional Económica* (the National Economic Prosecutor's Office) finalized the investigation initiated in 2007 regarding our compliance with this self-regulatory plan and no further observations were made.

For more recent information regarding regulatory proceedings see “Other Financial Information—Legal and Arbitration Proceedings” under Item 8.

Property

Headquarters

Our main facilities are located on approximately five acres of land near the Comodoro Arturo Merino Benítez International Airport. The complex includes approximately 150,695 square feet of office space, 32,292 square feet of conference space and training facilities, 9,688 square feet of dining facilities and mock-up cabins used for crew instruction. In 2004, we adapted part of this building to meet our expanding training needs. This process included developing new rooms for technical instruction, in-flight and airport services.

During the fourth quarter of 2003, we moved some of our executive offices into a new building in a more central location in Santiago, Chile, where we initially occupied a total of four floors. In the first half of 2005 we added three more floors to accommodate our growth requirements. In 2007, in order to accommodate the Company's growth, LAN leased two floors in an adjacent building (totaling 1,700 square meters), where some of LAN staff moved in February 2008. In 2009, to respond to the Company's growth, LAN leased two additional floors in this building (totaling 1,200 square meters). In 2010, new offices were leased east of Santiago to allow for Company growth and to implement projects such as “Host,” which involves changing our system of reservations, sales, inventory and passenger check-in. These additional offices add a total of 1,850 square meters to LAN's property.

In addition, during 2011 we expect to add a new floor of 1,100 square meters to the Arrau Building for the new facilities of LAN Cargo.

Maintenance Base

Our 877,258 square feet maintenance base is located on a site that we own inside the grounds of the Comodoro Arturo Merino Benítez International Airport. This facility contains our aircraft hangar, warehouses, workshops and offices, as well as a 559,720 square feet aircraft parking area capable of accommodating up to seventeen short-haul aircraft. We have a five-floor, 53,820 square feet office building plus a 10,000 square feet office and workshop space. This facility is certified by several civil aviation authorities, including the United States' FAA. As such, we are permitted to perform maintenance work for third parties at the facility. The FAA periodically inspects the facility to ensure its compliance with FAA standards. In 2005, we finalized the construction of an additional hangar, as well as 75,000 square feet of aircraft parking space, for US\$2.1 million. During 2006 we started a new investment plan at this facility that includes building 64,580 square feet of additional aircraft parking space, a new 15,340 square foot building for offices and maintenance shops, a new 16,680 square feet engine shop and storage facility, and additional warehousing and external work space. The plan also included the upgrade of some of the current facilities, increasing parking space and building a new access road. Further, in 2006 we completed construction of an engine workshop with eight workstations and capacity for 36 engines, for a total investment of US\$820,000. We also lease from the DGAC 193,750 square feet of space inside the Comodoro Arturo Merino Benítez International Airport for operational and service purposes.

In 2007, LAN approved a two-year capital expenditures plan earmarking approximately US\$7.0 million for preparing our buildings and plants for the future growth of the Company and of its fleet.

During 2008, LAN finalized the construction of a 4,300 square feet warehouse especially designed for the storage of oil and flammable supplies, which complies with all the security standards required for its operation. We also upgraded some facilities such as bathrooms and dressing rooms in our maintenance base increasing the total area in 15,000 square feet.

During 2009, LAN finalized the construction of a new five-story building located in our maintenance base, which has a total surface of 49,500 square feet and represented an investment of US\$5.8 million. This building has new workshops, a new food court with capacity for over 2,500 people in different shifts, two floors of new offices and meeting rooms.

Also, during 2009, LAN finalized the extension of the engine workshop, which added 900 square feet and represented an investment of US\$0.5 million. This extension will be used mainly for the Boeing 777's engine maintenance.

During 2010 LAN remodelled portions of the administrative offices in the Mario Bontempi Building and the Luis Ernesto Videla Buildings ("LEV Building"), which are located within the Company's maintenance base inside the ground of the Comodoro Arturo Merino Benitez International Airport. Currently we are working in adding a fifth floor to the LEV Building, which is expected to be finalized on May 2011.

Miami Facilities

We occupy a 36.3-acre site at the Miami International Airport that has been leased to us by the airport under a concession agreement. Our facilities include a 48,000 square foot corporate building, a 380,000 square foot cargo warehouse and a 783,000 square foot aircraft-parking platform, which were constructed and are now leased to us under a long-term contract by a North American developer. We began using these new facilities in September 2001 for our passenger and cargo offices (with the exception of our reservations and ticket offices). We converted 21,528 square feet of the warehouse into fully furnished offices during 2004.

During 2009, LAN began the extension of the cooling area in the cargo warehouse. This extension added 30,000 square feet and represented an investment of US\$4.0 million. This extension was inaugurated on April 20, 2010.

During 2010, LAN signed a concession agreement with the Miami International Airport to add a new cargo warehouse for additional areas for future developments.

Other Facilities

We own a building and sixteen acres of land on the west side of the Comodoro Arturo Merino Benítez International Airport that houses a flight-training center. As of March 2007, this facility features three full-flight simulators for Boeing 767, Airbus A320 and Boeing 737 aircraft. We rent this flight-training center under a long-term lease to CAE Inc. (a leading Canadian company in the flight training business). These full-flight simulators are being extended and are expected to be completed in the second semester of 2011.

We own a 661,980-square foot warehouse in Santiago, which includes 91,493 square feet of space for offices and other administrative facilities and 45,000 square foot distribution center. We use this facility to support Blue Express door-to-door cargo transport business.

In 2004, Fast Air Almacenes de Carga S.A. ("Fast Air"), one of our subsidiaries that operates import customs warehouses, began utilizing an import warehouse and office building at the Comodoro Arturo Merino Benítez International Airport. This 172,000 square foot building was developed in conjunction with two other operators.

We have also developed a recreational facility for our employees with Airbus' support. The facility, denominated "Parque LAN," is located near the Comodoro Arturo Merino Benítez International Airport. Parque LAN includes amenities such as a gymnasium, synthetic fields for multiple uses and swimming pools.

During 2008, we acquired a 43,000 square feet piece of land in Chile, which represented a US\$12 million investment, for the purpose of constructing our new corporate building.

During 2008, we acquired a 161,000 square feet piece of land near the Lima airport, which will host new facilities for the Company.

We are currently working on the design and estimate that the construction will start during the first semester of 2011.

In March 2009, we began the construction of a new maintenance base in Argentina. The project includes a new hangar of 26,900 square feet with 9,600 square feet of offices, 1,070 square feet of workshops and an exterior platform of 5,300 square feet. This project comprised a US\$3.2 million investment and was completed in 2009.

THE TRANSACTION AGREEMENTS

This section describes the material terms of the transaction agreements. The rights and obligations of the parties to the transaction agreements are governed by the express terms and conditions of the transaction agreements and not by this summary or any other information contained in this annual report on Form 20-F. The description in this section and elsewhere in this annual report on Form 20-F is qualified in its entirety by reference to the complete text of the transaction agreements, copies of which are attached as exhibits to and are incorporated by reference into this annual report on Form 20-F. This summary does not purport to be complete and may not contain all of the information about the transaction agreements that is important to you. We encourage you to read the transaction agreements carefully and in their entirety.

Explanatory Note Regarding the Transaction Agreements

The following summary is included to provide you with information regarding the terms of the transaction agreements. This section is not intended to provide you with any factual information about either TAM or LAN. Such information can be found elsewhere in this annual report on Form 20-F, in the public filings TAM and LAN make with the SEC, and in the registration statement on Form F-4, the related offer to exchange/prospectus and other relevant documents filed or that will be filed with the SEC in connection with the proposed business combination of LAN and TAM. Factual disclosures about TAM or LAN contained in this annual report on Form 20-F or in LAN's or TAM's respective public reports filed with the SEC may supplement, update or modify the factual disclosures about TAM and LAN contained in the transaction agreements. The representations, warranties and covenants made in the transaction agreements by TAM and LAN were qualified and subject to important limitations agreed to by TAM and LAN in connection with negotiating the terms of the transaction agreements. In particular, in your review of the representations and warranties contained in the transaction agreements and described in this summary, it is important to bear in mind that the representations and warranties were negotiated with the principal purposes of establishing the circumstances in which a party to the transaction agreements may have the right not to commence the exchange offer if the representations and warranties of the other party proved to be untrue due to a change in circumstance or otherwise, and allocating risk between the parties to the transaction agreements, rather than establishing matters as facts. The representations and warranties may also be subject to a contractual standard of materiality different from those generally applicable to shareholders and reports and documents filed with the SEC and in some cases were qualified by the matters contained in the disclosure schedules that TAM and LAN delivered in connection with the transaction agreements, which disclosures were not reflected in the transaction agreements. Therefore, the representations and warranties and other provisions in the transaction agreements should not be read alone but instead together with the information provided elsewhere in this annual report on Form 20-F and in the documents incorporated by reference into this annual report on Form 20-F. Moreover, information concerning the subject matter of the representations and warranties, which do not purport to be accurate as of the date of this annual report on Form 20-F, may have changed since the date of the transaction agreements and subsequent developments or new information qualifying a representation or warranty may have been included in this annual report on Form 20-F. In this annual report on Form 20-F, we refer to January 18, 2011, the date that the parties entered into the transaction agreements as the "signing date."

TAM Representations and Warranties

TAM made customary representations and warranties that are subject, in some cases, to specified exceptions and qualifications and the matters contained in the disclosure schedule delivered by TAM to LAN pursuant to the exchange offer agreement. These representations and warranties relate to, among other things:

- due organization, existence, good standing and authority to carry on the businesses of TAM and its subsidiaries;
- its capitalization;
- ownership and the absence of encumbrances on ownership of the equity interests of its subsidiaries;
- the absence of preemptive or other similar rights or any debt securities that give their holders the right to vote with its shareholders;

- its corporate power and authority to enter into, and complete the transactions under, the transaction agreements and the shareholders agreements, provided that certain shareholder approvals are obtained, and the enforceability of such agreements against it;
- the absence of violations of, or conflicts with, its governing documents, applicable law and certain agreements as a result of entering into and performing under the transaction agreements and the shareholders agreements;
- the required governmental consents, approvals, notices and filings;
- its SEC filings since December 31, 2006 and the financial statements included therein;
- compliance with the Sarbanes-Oxley Act of 2002 and the listing and corporate governance rules and regulations of the NYSE;
- its disclosure controls and procedures and internal controls over financial reporting;
- the absence of a TAM material adverse effect (as defined below in this section) and the absence of certain other changes or events since December 31, 2009 through the signing date;
- the conduct of business in accordance with the ordinary course consistent with past practice since December 31, 2009 through the signing date;
- the absence of legal proceedings, investigations and governmental orders against it or its subsidiaries;
- the absence of certain undisclosed liabilities;
- employee benefit plans;
- certain employment and labor matters;
- compliance with applicable laws and regulations, governmental orders and all applicable operating certificates, air carrier obligations, airworthiness directives, aviation regulations and other similar rules and regulations, of any airline regulator applicable to it, its rights or other assets or its businesses or operations;
- aircraft owned, leased and/or operated by TAM and its subsidiaries;
- takeoff and landing slots, authorizations and similar rights of TAM and its subsidiaries;
- environmental matters;
- tax matters;
- intellectual property;
- the receipt of a fairness opinion from BTG Pactual;
- affiliate transactions;
- information provided for inclusion in the US offering documents and Brazilian offering documents;
- the absence of any undisclosed broker's or finder's fees; and
- material contracts and the absence of any default under any material contract.

Many of TAM's representations and warranties are qualified by, among other things, exceptions relating to the absence of a "TAM material adverse effect," which means any change, effect, occurrence or circumstance which, individually or in the aggregate, (i) has had or would reasonably be expected to have a material adverse effect on the business, financial condition, results of operations, assets or liabilities of TAM and its subsidiaries, taken as a whole, other than (x) any such change, effect, occurrence or circumstance to the extent resulting from (A) any changes after the signing date in general economic or financial market conditions, (B) any changes after the signing date generally affecting the industries in which TAM and its subsidiaries operate, (C) changes after the signing date in IFRS or the interpretation thereof, (D) geopolitical conditions, the outbreak of a pandemic or other widespread health crisis, the outbreak or escalation of hostilities, any acts of war, sabotage or terrorism, or any escalation or worsening of any such acts of war, sabotage or terrorism threatened or underway as of the signing date or (E) any hurricane, tornado, flood, earthquake, volcanic eruption or natural disaster; provided, however, that the foregoing clauses (A), (B), (D) and (E) shall not apply to the extent that any such change, effect, occurrence or circumstance disproportionately impacts TAM and/or its subsidiaries compared to other participants in the industries in which TAM and its subsidiaries participate, or (y) any failure, in and of itself, of TAM to meet any internal or analyst projections, forecasts or estimates of revenue or earnings or any decrease in the market price or trading volume of the TAM preferred shares (but the exception in this clause (y) will not apply to the underlying causes of any such failure or decrease or prevent any of such underlying causes from being taken into account in determining whether a TAM material adverse effect has occurred); or (ii) impairs or would reasonably be expected to impair in any material respect the ability of TAM to complete the transactions contemplated by the transaction agreements or to perform its obligations under those agreements on a timely basis.

LAN Representations and Warranties

LAN made customary representations and warranties that are subject, in some cases, to specified exceptions and qualifications and the matters contained in the disclosure schedule delivered by LAN to TAM pursuant to the exchange after agreement. These representations and warranties relate to, among other things:

- due organization, existence, good standing and authority to carry on the business of LAN and its subsidiaries;
- its capitalization;
- ownership and the absence of encumbrances on ownership of the equity interests of its subsidiaries;
- the absence of preemptive or other similar rights or any debt securities that give their holders the right to vote with its shareholders;
- its corporate power and authority to enter into, and complete the transactions under the transaction agreements and the shareholders agreements, provided that the holders of at least two-thirds of the outstanding LAN common shares vote to approve the mergers and the other transactions contemplated by the transaction agreements at a duly called and held meeting of the shareholders of LAN, and the enforceability of such agreements against it;
- the absence of violations of, or conflicts with, its governing documents, applicable law and certain agreements as a result of entering into and performing under the transaction agreements and the shareholders agreements;
- the required governmental consents, approvals, notices and filings;
- its SEC filings since December 31, 2006 and the financial statements included therein;
- compliance with the Sarbanes-Oxley Act of 2002 and the listing and corporate governance rules and regulations of the NYSE;
- its disclosure controls and procedures and internal controls over financial reporting;
- the absence of a LAN material adverse effect (as defined below) and the absence of certain other changes or events since December 31, 2009 through the signing date;
- the conduct of business in accordance with the ordinary course consistent with past practice since December 31, 2009 through the signing date;
- the absence of legal proceedings, investigations and governmental orders against it or its subsidiaries;
- the absence of certain undisclosed liabilities;
- employee benefit plans;
- certain employment and labor matters;

- compliance with applicable laws and regulations, governmental orders and all applicable operating certificates, air carrier obligations, airworthiness directives, aviation regulations and other rules and regulations, any airline regulator applicable to it, its similar rights or other assets or its businesses or operations;
- aircraft owned, leased and/or operated by LAN and its subsidiaries;
- takeoff and landing slots, authorizations and similar rights of LAN and its subsidiaries;
- environmental matters;
- tax matters;
- intellectual property;
- the receipt of a fairness opinion from J.P. Morgan Securities LLC;
- affiliate transactions;
- information provided for inclusion in the US offering documents and Brazilian offering documents;
- the absence of any undisclosed broker's or finder's fees; and
- material contracts and the absence of any default under any material contract.

Many of LAN's representations and warranties are qualified by, among other things, exceptions relating to the absence of a "LAN material adverse effect," which means any change, effect, occurrence or circumstance which, individually or in the aggregate, (i) has had, or would reasonably be expected to have, a material adverse effect on the business, financial condition, results of operations, assets or liabilities of LAN and its subsidiaries, taken as a whole, other than (x) any such change, effect, occurrence or circumstance to the extent resulting from (A) any changes after the signing date in general economic or financial market conditions, (B) any changes after the signing date generally affecting the industries in which LAN and its subsidiaries operate, (C) changes after the signing date in IFRS or the interpretation thereof, (D) geopolitical conditions, the outbreak of a pandemic or other widespread health crisis, the outbreak or escalation of hostilities, any acts of war, sabotage or terrorism, or any escalation or worsening of any such acts of war, sabotage or terrorism threatened or underway as of the signing date or (E) any hurricane, tornado, flood, earthquake, volcanic eruption or natural disaster; provided, however, that the foregoing clauses (A), (B), (D) and (E) shall not apply to the extent that any such change, effect, occurrence or circumstance disproportionately impacts LAN and/or its subsidiaries compared to other participants in the industries in which LAN and its subsidiaries participate, or (y) any failure, in and of itself, of LAN to meet any internal or analyst projections, forecasts or estimates of revenue or earnings or any decrease in the market price or trading volume of LAN common shares (but the exception in this clause (y) will not apply to the underlying causes of any such failure or decrease or prevent any of such underlying causes from being taken into account in determining whether a LAN material adverse effect has occurred); or (ii) impairs or would reasonably be expected to impair in any material respect the ability of LAN to complete the transactions contemplated by the transaction agreements or to perform its obligations under those agreements on a timely basis.

Controlling Shareholder Representations and Warranties

The LAN controlling shareholders, the TAM controlling shareholder and the Amaro family made customary representations and warranties to the other parties pursuant to the exchange offer agreement. These representations and warranties relate to, among other things:

- due organization, existence, good standing and authority to carry on their businesses, as applicable;
- ownership and absence of encumbrances on their direct or indirect ownership of equity interests of TAM or LAN, as applicable;
- its corporate power and authority to enter into, and complete the transactions under, the transaction agreements and shareholders agreements to which they are a party, and the enforceability of such agreements against them, in the case of the TAM controlling shareholder and the LAN controlling shareholders only;

- the absence of violations of, or conflicts with, its governing documents, applicable law and certain agreements as a result of it entering into and performing under such agreements;
- the required governmental consents, approvals, notices and filings;
- the absence of legal proceedings and investigations against it; and
- the absence of successor liability resulting from the TEP Chile subscription defined below under the “—Actions on the Expiration Date” section.

Conduct of Business Pending the Combination

Under the implementation agreement, both we and TAM have agreed that, subject to certain exceptions set forth in the implementation agreement or as required by applicable law, unless the other party gives its prior written approval between the signing date and the effective time, each of us and our subsidiaries and each of TAM and its subsidiaries will use our commercially reasonable efforts to preserve our business organizations intact and all licenses necessary for us and our respective subsidiaries to own, lease or operate our respective properties, rights and other assets and to carry on our respective business and operations conducted at the signing date and maintain, and keep available the services of our respective current officers, employees and consultants and existing relationships and goodwill with our respective customers, suppliers, employees, strategic partners and other persons with whom we conduct business.

Subject to certain exceptions set forth in the implementation agreement or as required by law, neither we nor TAM will, or will permit our subsidiaries to, take any of the following actions without the other’s written approval:

- make, declare or pay any dividend, or make any other distribution, on or in respect of any of its equity securities, other than (A) dividends or distributions paid or made to such party by its wholly owned subsidiary or to another wholly owned subsidiary of such party and (B) regular dividends paid to such party’s shareholders in accordance with the dividend policy approved at the last regular meeting of its shareholders in an amount not to exceed 50% (in the case of LAN) and 25% (in the case of TAM) of such party’s net income for the year in respect of which the dividends are paid;
- adjust, split, combine, subdivide or reclassify any of its equity securities or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for its equity securities;
- purchase, redeem or otherwise acquire any equity securities or convertible securities of such party or any of its subsidiaries or any other securities thereof or any rights, warrants or options to acquire any such shares or other securities, subject to customary exceptions;
- issue, deliver, sell, grant, pledge or otherwise encumber or subject to any lien any equity securities or convertible securities of such party or any of its subsidiaries, or any “phantom” stock, “phantom” stock rights, stock option, stock purchase or appreciation rights or stock-based performance units relating to or permitting the purchase of any such equity securities or convertible securities, subject to customary exceptions;
- except as otherwise expressly contemplated in the implementation agreement, amend the by-laws of it or its subsidiaries in any way that is or would reasonably be expected to be materially adverse to such party and its subsidiaries, taken as a whole;
- other than in the ordinary course of business consistent with past practice, directly or indirectly make, or agree to directly or indirectly make, any acquisition or investment or make any capital expenditures, other than (i) capital expenditures disclosed in such party’s capital plans for 2010 and 2011, (ii) acquisitions of properties or assets that are not material to such party and its subsidiaries, taken as a whole, and (iii) certain other customary exceptions;
- sell, lease, assign, license, grant, extend, amend, subject to liens, waive or modify any material rights in or to, cancel, abandon or allow to lapse, or otherwise transfer or dispose of, or agree to take or permit any such action, all or any part of its assets, rights or properties which are material, individually or in the aggregate, to such party and its subsidiaries, taken as a whole, subject to certain exceptions;

- incur any indebtedness or guarantee indebtedness of another person, other than (i) indebtedness incurred in the ordinary course of business consistent with past practice, (ii) indebtedness that does not exceed \$10 million in the aggregate and (iii) certain other exceptions;
- settle or compromise any claim or action where the amount paid exceeds the amount set forth in such party's disclosure schedule;
- other than in the ordinary course of business, enter into any material contract, terminate or amend in any material respect any material contract or waive, encumber or otherwise transfer any material rights or claims thereunder;
- make any material changes to the policies or work rules applicable to any group of employees or labor union;
- except as required by applicable law or its existing benefit plans, adopt or enter into, terminate, amend or grant any waiver or consent under any material benefit plan, or other than with respect to the hiring of any person whose annual compensation does not exceed \$500,000, any contract, plan or policy involving any current or former employee, independent consultant, officers, or directors of such party or any of its subsidiaries, except in the ordinary course of business consistent with past practice with respect to employees who are not key personnel; grant any severance or termination payment or increase compensation or benefits of any employee (except for increases in compensation of employees who are not key personnel made in the ordinary course of business consistent with past practice); remove any existing restrictions in any benefit plans; take any action to fund or secure the payment of, or accelerate the vesting or payment of, any compensation or benefits under any benefit plan; except as required by any existing benefit plan and except for normal payments and increases in the ordinary course of business consistent with past practice, increase in any manner the compensation or fringe benefits of any employee or pay any amount or benefit; or grant any retention or similar bonuses, payments or rights to any employee;
- except as required by applicable law, the IFRS or regulatory guidelines, make any material change in its accounting methods or principles; make or change any material tax election; settle any material tax liability; amend any material tax return; enter into any material closing agreement with respect to any tax or surrender any right to claim a material tax refund; or change its current independent auditors;
- enter into any new line of business that is material to such party and its subsidiaries, taken as a whole, or any related party agreement;
- authorize or adopt a plan of complete or partial liquidation or any restructuring, recapitalization or reorganization;
- enter into or amend any contract that would restrict or limit the ability of LAN, TAM or any of their respective subsidiaries to engage in any business, that would reasonably be expected to prevent or materially impede the commencement or the completion the exchange offer, the mergers or the other transactions contemplated in the implementation agreement or to adversely affect in a material respect the expected benefits (taken as a whole) of the exchange offer and the mergers or if the completion of those transactions would conflict with, result in any breach or default or in any termination or modification of or acceleration under, or any change in any right or obligation under, or result in any lien on any property or asset of such party or any of its subsidiaries under any provisions of such contract;
- take or fail to take any action to prevent or delay, or that would reasonably be expected to prevent or delay, the satisfaction of any of the conditions to the commencement or completion of the exchange offer, the mergers or the other transactions contemplated by the implementation agreement;

- cancel, terminate or amend any binding financing commitment to fund the acquisition of an aircraft unless it is replaced by another financing with substantially equivalent terms or such party and/or its subsidiaries receives equivalent value from the manufacturer of the applicable aircraft;
- enter into or materially amend any aircraft purchase agreement, engine purchase agreement or engine maintenance agreement that involves or is reasonably expected to involve aggregate payments in excess of \$25 million in any twelve-month period;
- enter into, amend or terminate any alliance or brand alliance agreement, code-sharing agreement, frequent flyer participation agreement, capacity purchase or similar agreement, cooperation, joint venture, profit or revenue sharing agreement, special prorate agreement or interlining agreement with any person; or
- authorize any of, or commit, resolve, propose or agree to take any of, the foregoing actions.

LAN Shareholder Meeting

Prior to the LAN shareholders meeting, our board of directors will recommend that our shareholders vote to approve the mergers, changing our name to “LATAM Airlines Group S.A.” (which we refer to as the “name change”) and the other transactions contemplated by the implementation agreement (which we refer to as the “LAN board merger recommendation”). We are required to take all action necessary to establish a record date for, duly call, give notice of, convene and hold a meeting (which we refer to as the “LAN shareholders meeting”) of our shareholders for the purpose of voting to approve the mergers, the name change and the other transactions contemplated by the implementation agreement (which we refer to collectively as, the “LAN shareholder merger matters”), (ii) cause such vote to be taken and completed and (iii) include the LAN board recommendations in the materials distributed to our shareholders connection with the LAN shareholders meeting. Under Chilean law and our by-laws, the mergers must be approved by the holders of at least two-thirds of the outstanding shares of LAN common stock (which we refer to as the “requisite LAN shareholder approval”). Approval of the LAN shareholder merger matters will be expressly conditioned upon, and will become effective only upon, the completion of the mergers.

TAM Shareholder Meeting

Prior to the TAM shareholders meeting, TAM will convene a meeting of the TAM board of directors to approve a list of three independent specialized companies experienced in valuing companies with similar size and operations to TAM (we refer to each such company as an “appraiser” and to such list as the “appraiser list”) to be submitted to holders of the free float shares at the TAM shareholders meeting. TAM is required to take all action necessary to establish a record date for, duly call, give notice of, convene and hold a meeting of its shareholders solely for the purpose of voting to select an appraiser from the appraiser list to prepare an appraisal report to determine the economic value of TAM and LAN (which we refer to as the “appraisal report”) in accordance with the terms of TAM’s by-laws and the rules of the Bovespa (which we refer to as the “TAM shareholders meeting”). Under TAM’s by-laws and the rules of the Bovespa, the quorum for the first calling of the TAM shareholders meeting requires the presence in person or by proxy of holders of shares of TAM stock (other than the TAM controlling shareholder, the Amaro family, their respective affiliates and TAM and its subsidiaries) (which we refer to collectively as, the “free float shares”) representing at least 20% of the outstanding shares of TAM stock. Under TAM’s by-laws and the rules of the Bovespa, any appraiser so selected must be approved by a majority of the votes cast by the holders of the free float shares present in person or by proxy at the TAM shareholders meeting at which the requisite quorum is present (we refer to this approval as the “requisite TAM shareholder approval”).

If a quorum is not present at the first calling of the TAM shareholders meeting, then TAM is required to call additional meetings of its shareholders solely for the same purpose until a quorum is established, and under TAM’s by-laws and the rules of the Bovespa the quorum for any such subsequently called meeting requires the presence in person or by proxy of any holder of at least one free float share. If quorum is established at any TAM shareholders meeting and a vote of the holders of free float shares is taken but the requisite TAM shareholder approval is not obtained, then TAM is required to call additional meetings of its shareholders solely for the same purpose until the requisite TAM shareholder approval is obtained. However, TAM is not required to call more than five shareholder meetings within a period of five months.

If after the appraiser prepares the appraisal report the holders of free float shares exercise their right under Brazilian law to request that TAM call a special meeting of the shareholders of TAM to vote upon whether or not to request a new appraisal report and to appoint a new appraiser, then TAM is required to take all action necessary to establish a record date for, duly call, give notice of, convene and hold such a special meeting of the TAM shareholders no later than 45 days after the request for such special meeting.

Prior to the commencement of the exchange offer, TAM is required to convene a special meeting of the TAM board of directors to recommend that the holders of shares of TAM stock tender and sell such shares in the exchange offer (which we refer to as the “TAM board exchange offer recommendation”), and promptly after such meeting TAM must publicly announce the TAM board exchange offer recommendation.

Holdco Shareholder Meetings

The Amaro family is required to cause Holdco 2 to (i) take all action necessary to establish a record date for, duly call, give notice of, convene and hold a special meeting of the shareholders of Holdco 2 (we refer to this meeting as the “Holdco 2 shareholders meeting”) for the purpose of voting to approve (i) the Holdco 2 merger and the other transactions contemplated by the implementation agreement, (ii) the relevant audited financial statements and appraisal report and (iii) the by-laws of the surviving corporation of the Holdco 2 merger (which we refer to collectively as, the “Holdco 2 merger matters”). Under Chilean law and Holdco 2’s by-laws, the Holdco 2 merger matters must be approved by the holders of at least two-thirds of the outstanding shares of Holdco 2 stock (we refer to this approval as the “requisite Holdco 2 shareholder approval”). The requisite Holdco 2 shareholder approval will be expressly conditioned upon, and will become effective only upon, the completion of the mergers.

The Amaro family is also required to cause Sister Holdco to (i) take all action necessary to establish a record date for, duly call, give notice of, convene and hold a special meeting of the shareholders of Sister Holdco (we refer to this meeting as the “Sister Holdco shareholders meeting”) for the purpose of voting to approve (i) the Sister Holdco merger and the other transactions contemplated by the implementation agreement, (ii) the relevant audited financial statements and appraisal report and (iii) the by-laws of the surviving corporation of the Sister Holdco merger (which we refer to collectively as, the “Sister Holdco merger matters”). Under Chilean Law and Sister Holdco’s by-laws, the Sister Holdco merger matters must be approved by the holders of at least two-thirds of the outstanding shares of Sister Holdco stock (we refer to this approval as the “requisite Sister Holdco shareholder approval”). The requisite Sister Holdco shareholder approval will be expressly conditioned upon, and will become effective only upon, the completion of the mergers.

Further Actions; Notification

We and TAM have agreed to cooperate with each other and use (and cause our respective affiliates to use) our respective reasonable best efforts to take or cause to be taken all actions and to do or cause to be done all things reasonably necessary, proper or advisable under the transaction agreements and applicable law to satisfy the conditions to the commencement and completion of the exchange offer described below under “—Conditions to the Commencement of the Exchange Offer” and “—Conditions to the Completion of the Exchange Offer” (we refer to these conditions collectively as “exchange offer conditions”) and to complete as soon as reasonably practicable the exchange offer, the mergers and the other transactions contemplated by the transaction agreements in accordance with the terms of the transaction agreements. If any action or proceeding is instituted (or threatened to be instituted) by any person challenging any such transaction, each party is required to cooperate in all respects with the other parties and use its respective reasonable best efforts to contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts completion of such transaction so as to permit such completion by the fifth business day before December 30, 2011. In addition, each party is required to, at its own cost and expense, defend any such actions or proceedings against it or its affiliates in connection with the transactions contemplated by the transaction agreements.

Neither we nor TAM nor any of our respective affiliates will be required to sell, transfer, dispose of, or otherwise encumber, or to hold separate pending any such action, or propose, commit or agree to any of the foregoing or to hold separate, either before or after the effective time, any assets, licenses, operations, rights, product lines, businesses or interest of either of us or any of our affiliates or to take or agree to take any other action, or agree or consent to any limitations or restrictions on freedom of actions with respect to, or our ability to own, retain or make changes in, any assets, licenses, operations, rights, product lines, businesses or interests of either of us or any of our affiliates or our ability to receive and exercise full voting, economic and ownership rights with respect to our interests in Holdco 1, TAM and its subsidiaries, subject only to the rights of TEP Chile in respect of its voting shares of Holdco 1 and under the shareholders agreements.

Each of the parties is required to promptly advise the other parties orally and in writing if it fails to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under the transaction agreements, if any of the exchange offer conditions or the Amaro subscription conditions (as defined under “—Subscription Conditions”) fail or cease to be satisfied or if an appraisal event (as defined under “—Conditions to the Commencement of the Exchange Offer”) occurs.

No Solicitation

Each of the parties has agreed to cease and immediately terminate all existing activities and discussions with any person conducted prior to the signing date with respect to an alternative proposal concerning its relevant parent entity. In this annual report on Form 20-F, we refer to LAN as the relevant parent entity of LAN and the LAN controlling shareholders, and TAM as the relevant parent entity of TAM and the TAM controlling shareholders and the Amaro family, and we refer to any of the following actions or any proposal or exchange offer (including any proposal or exchange offer to or from any representative of any party) with respect to any relevant parent entity by any person or group relating to, or that could reasonably be expected to lead to, any of the following as an “alternative proposal”: (i) any direct or indirect acquisition, lease, license or outsourcing, in one transaction or a series of related transactions, of any assets, services or businesses of such relevant parent entity or any of its subsidiaries collectively representing more than 25% of the fair market value of the total assets of such relevant parent entity or collectively generating or contributing 25% or more of the total consolidated revenues or operating income of such person during the last fiscal year, (ii) any tender exchange offer or exchange offer that, if completed, would result in any person or group beneficially owning any equity securities of such relevant parent entity, or (iii) any business combination, recapitalization, issuance or amendment of securities, liquidation, dissolution, joint venture, share exchange or similar transaction involving such relevant parent entity or any of its subsidiaries.

The parties have agreed not to, and to cause their respective directors, officers, employees, affiliates, financial advisors, attorneys, accountants or other advisors, agents and other representatives and each of the individuals who ultimately beneficially own it, which we refer to collectively as the “representatives” of a party, not to, directly or indirectly, (i) solicit, initiate or encourage any inquiries or the making or completion of any proposal or exchange offer that constitutes, or is reasonably likely to lead to, an alternative proposal with respect to its relevant parent entity, (ii) engage in, continue or otherwise participate in any discussions or negotiations regarding, or provide to any person any non-public information or data in connection with, or otherwise cooperate in any way with, any such alternative proposal, (iii) waive, terminate, modify or fail to enforce any provision of any “standstill” or similar obligation of any person, (iv) enter into any binding or non-binding contract with respect to any such alternative proposal, or (v) otherwise knowingly facilitate any effort or attempt to make any such alternative proposal.

The parties have also agreed to:

- as promptly as practicable (and in any event within 24 hours after receipt) advise the other parties orally and in writing of the receipt of any alternative proposal relating to its relevant parent entity, the material terms and conditions of such alternative proposal (including any changes thereto) and the identity of the person making such alternative proposal;
- keep the other parties fully informed in all material respects of the status and details (including any changes to the terms) of such alternative proposal; and
- provide to the other parties as soon as practicable after receipt or delivery thereof copies of all correspondence and other written material sent or provided to it, such relevant parent entity or any of their respective representatives from any person that describes any of the terms or conditions of such alternative proposal.

Stockholder Actions

Both we and TAM have agreed to give the other the opportunity to participate in the defense or settlement of any stockholder action or proceeding against us and/or our directors or officers relating to the transactions contemplated by the implementation agreement and not to agree to settlement of any such action without the other party's prior written consent.

Controlling Shareholder Covenants

Voting Agreements

Each of the TAM controlling shareholder and the Amaro family have agreed to adhere to the following until the termination of the transaction agreements or the effective time of the mergers, whichever event occurs sooner:

- cause TEP Chile to vote its voting common shares of TAM and non-voting preferred shares of TAM against any alternative proposal relating to LAN and any transaction that would reasonably be expected to result in a breach by LAN of the transaction agreements; and
- not to transfer its voting common shares of TAM and non-voting preferred shares of TAM, except for certain permitted transfers to affiliates and only if the transferor continues to be, and the transferee agrees to become, bound by the terms of the transaction agreements.

The LAN controlling shareholders have agreed to adhere to the following until the termination of the transaction agreements or the effective time of the mergers, whichever event occurs sooner:

- vote their LAN common shares in favor of the approval of the mergers, the name change and the other transactions contemplated by the transaction agreements;
- vote their LAN common shares against any alternative proposal relating to LAN and any transaction that would reasonably be expected to result in a breach by LAN of the transaction agreements; and
- not to transfer their LAN common shares, except for certain permitted transfers to affiliates and only if the transferor continues to be, and the transferee agrees to become, bound by the terms of the transaction agreements.

In addition, each of the LAN controlling shareholders, the TAM controlling shareholder and the Amaro family have agreed that it has not entered into any voting agreement, voting trust or any other agreement, arrangement or obligations (whether or not legally binding) with respect to any of the shares of capital stock of LAN, TAM, the TAM Controlling Shareholder, TEP Chile, Holdco 1, Holdco 2 or Sister Holdco that it beneficially owns and has not granted a proxy, a consent or power of attorney with respect to any such shares and will not take any such actions while the exchange offer agreement remains in effect.

Conditions to Commencement of the Exchange Offer

Mutual Conditions to the Commencement of the Exchange Offer

Holdco 2 is not permitted to commence the exchange offer unless all of the following conditions are satisfied or waived by both LAN and the Amaro family:

- the requisite LAN shareholder approval has been obtained;
- the requisite TAM shareholder approval has been obtained;
- all required approvals from CADE, FNE, TDLC, the applicable antitrust authorities in Italy, Spain and Germany or any other governmental authorities whose consent is required in connection with the transactions contemplated by the transaction agreements (other than those which the failure to obtain, individually or in the aggregate, would not reasonably be expected to have a TAM material adverse effect or a LAN material adverse effect or to result in criminal or civil sanctions against any party to the transaction agreements, its affiliates or any directors or employees of it), which we refer to collectively as, the "required approvals," have been obtained;

- no court or other governmental entity of competent jurisdiction has enacted, issued, promulgated, enforced or entered any law or order or taken any other action that (i) makes illegal, restrains or otherwise prohibits the commencement of the exchange offer or the completion of the transactions contemplated by the transaction agreement on the terms contemplated by the transaction agreements, or (ii) limits or impairs the ability of the parties to jointly own and operate all or a material portion of TAM and its subsidiaries or exercise full ownership of their equity interests in Holdco 1, TAM and its subsidiaries consistent with the terms of the shareholders agreements (which we refer to collectively as “restraining orders”);
- no action seeking a restraining order or to limit or impair the ability of the parties to jointly own and operate all or a material portion of TAM and its subsidiaries or exercise full ownership of each of Holdco 1, TAM and its subsidiaries consistent with the terms of the shareholders agreements (other than any action by a person other than a governmental entity that could not reasonably be expected to succeed on its merits) (which we refer to collectively as “adverse actions”);
- CVM has granted the registrations of LAN and the LAN BDRs representing the LAN common shares to be issued in the mergers on the Bovespa;
- (i) the approval for listing the LAN BDRs representing the LAN common shares to be issued in the mergers on the Bovespa, (ii) the approval for listing the LAN ADRs representing LAN common shares to be issued in the mergers on the NYSE, subject to notice of issuance, (iii) the approval for listing the LAN common shares to be issued in the mergers on the SSE and (iv) approvals for any other listings required by governmental entities has been obtained (which we refer to as collectively as the “required listings”) and such listings will become effective no later than the effective time of the mergers;
- the registration statement on Form F-4 (which we refer to as the “Form F-4”) to be filed in connection with the exchange offer has been declared effective by the SEC under the Securities Act. No stop order suspending the effectiveness of the Form F-4 has been issued by the SEC, and no proceeding for that purpose has been initiated or threatened by the SEC;
- each of the formation and restructuring transactions described and all corporate actions required under applicable law and the terms of the transaction agreements to be taken by LAN and TAM in order to commence the exchange offer and to complete the exchange offer and the mergers has been taken; and
- the product of 0.9 and the high end of the range of economic value of LAN per LAN common share most recently determined by the appraiser approved by the shareholders of TAM is greater than or equal to the low end of the range of economic value of TAM per share of TAM stock as determined by the appraiser at such time, which we refer to as an “appraisal event,” and if the determination was in an appraisal report, the appraisal report has not been replaced by a new appraisal report by a new appraiser at the request of the holders of the outstanding free float shares in accordance with Brazilian law.

LAN Conditions to the Commencement of the Exchange Offer

Holdco 2 is not permitted to commence the exchange offer unless all of the following conditions are satisfied or waived by LAN:

- the representations and warranties of TAM regarding capitalization and the absence of events or changes since December 31, 2009 that, individually or in the aggregate, have had or would reasonably be expected to have a TAM material adverse effect must be true and correct both on the signing date and on the condition date as though made on and as of such date (except to the extent that any such representation and warranty expressly relates to a specified earlier date, in which case such representation and warranty need only be true and correct as of such specified earlier date), and except, in the case of the representations and warranties with respect to capitalization matters, for inaccuracies that, individually or in the aggregate, are de minimis in nature and amount;

- all other representations and warranties of TAM contained in the exchange offer agreement, disregarding any TAM material adverse effect or any other materiality exception, qualification or limitation contained in the exchange offer agreement, must be true and correct on the signing date and on the day immediately preceding the commencement of the exchange offer as though made on and as of such date (except to the extent any representation and warranty expressly relates to a specified earlier date, in which case such representation and warranty need only be true and correct as of such specified earlier date), other than any failures of such representations and warranties to be so true and correct to the extent that such failures and the underlying causes of such failures, individually or in the aggregate, have not had and would not reasonably be expected to have a TAM material adverse effect;
- TAM has performed in all material respects all obligations it is required to perform under the transaction agreements on or prior to the condition date;
- LAN has received a certificate signed on behalf of TAM by the chief executive officer of TAM certifying that all of the above conditions with respect to representations and warranties and performance of the obligations of TAM have been satisfied;
- the representations and warranties of the TAM controlling shareholder and the Amaro family are true and correct on the signing date and on the Condition Date as though made on and as of the day immediately preceding the commencement of the exchange offer;
- the TAM controlling shareholder and the Amaro family have performed in all material respects all obligations it is required to perform under the transaction agreements on or prior to the condition date;
- since December 31, 2009, no change, event, circumstance or development has occurred (including any adverse change or development with respect to any such matters that occurred or existed on or prior to such date) that, individually or in the aggregate, has had or would reasonably be expected to have a TAM material adverse effect;
- since the signing date, no (i) general suspension of, or limitation on trading in securities on, the SSE, the Bovespa or the NYSE (other than a shortening of trading hours or any coordinated trading halt triggered solely as a result of a specified increase or decrease in a market index), (ii) declaration of a banking moratorium or any suspension of payments in respect of banks in Chile, Brazil or the United States, or (iii) commencement of a war or armed hostilities or airline industry events, which we refer to collectively as “market disruption events,” has occurred which, in the case of clauses (ii) and (iii), could reasonably be expected to have a TAM material adverse effect;
- the requisite Holdco 2 shareholder approval and the requisite Sister Holdco shareholder approval have been obtained;
- the holders of not more than 2.5% of the outstanding shares of LAN common stock have exercised their appraisal rights (derecho a retiro) under Chilean law with respect to the mergers;
- TEP Chile has duly executed and/or delivered to LAN copies of the TAM shareholders agreement, Holdco 1 shareholders agreement, the LATAM/TEP shareholders agreement and the control group shareholders agreement. Holdco 1 has duly executed and/or delivered to LAN copies of the Holdco 1 shareholders agreement and the TAM shareholders agreement. TAM has duly executed and/or delivered to LAN a copy of the TAM shareholders agreement. The LAN controlling shareholders have duly executed and/or delivered to LAN a copy of the control group shareholders agreement; and
- CVM has approved the inclusion in the Edital of all of LAN’S conditions to the completion of the exchange offer, and none of the events described in the sixth and seventh bullets below under “LAN’S Conditions to the Completion of the Exchange Offer” has occurred since the signing date (without giving effect to any references to the commencement date contained in those sections).

Holdco 2 is not permitted to commence the exchange offer unless all of the following conditions are satisfied or waived by the Amaro family:

- the representations and warranties of LAN regarding capitalization and the absence of events or changes since December 31, 2009 that, individually or in the aggregate, have had or would reasonably be expected to have a LAN material adverse effect must be true and correct both on the signing date and on the condition date as though made on and as of such date (except to the extent that any such representation and warranty expressly relates to a specified earlier date, in which case such representation and warranty need only be true and correct as of such specified earlier date), and except, in the case of the representations and warranties with respect to capitalization matters, for inaccuracies that, individually or in the aggregate, are de minimis in nature and amount;
- all other representations and warranties of LAN contained in the exchange offer agreement, disregarding any LAN material adverse effect or any other materiality exception, qualification or limitation contained in the exchange offer agreement, must be true and correct on the signing date and on the condition date as though made on and as of such (except to the extent any representation and warranty expressly relates to a specified earlier date, in which case such representation and warranty need only be true and correct as of such specified earlier date), other than any failures of such representations and warranties to be so true and correct to the extent that such failures and the underlying causes of such failures, individually or in the aggregate, have not had and would not reasonably be expected to have a LAN material adverse effect;
- LAN has performed in all material respects all obligations it is required to perform under the transaction agreements on or prior to the condition date;
- TAM has received a certificate signed on behalf of LAN by the chief executive officer of LAN certifying that all of the above conditions with respect to representations and warranties and performance of the obligations of LAN have been satisfied;
- the representations and warranties of the LAN controlling shareholders are true and correct on the signing date and on the condition date as though made on and as of the condition date;
- the LAN controlling shareholders have performed in all material respects all obligations it is required to perform under the transaction agreements on or prior to the condition date;
- since December 31, 2009, no change, event, circumstance or development has occurred (including any adverse change or development with respect to any such matters that occurred or existed on or prior to such date) that, individually or in the aggregate, has had or would reasonably be expected to have a LAN material adverse effect;
- since the signing date, no market disruption event has occurred that could reasonably be expected to have a LAN material adverse effect;
- LAN has duly executed and/or delivered to the Amaro family copies of the Holdco 1 shareholders agreement, the TAM shareholders agreement and the LATAM/TEP shareholders agreement. The LAN controlling shareholders have duly executed and/or delivered to the Amaro family a copy of the control group shareholders agreement; and
- since the signing date, none of the subscription conditions described below under “Conditions to the Subscriptions” has occurred (without giving effect to any references to the commencement date contained in those provisions).

We refer to the conditions to commencement of the exchange offer collectively as the “commencement conditions.”

Pre-Commencement Closing; Commencement of the Exchange Offer

The parties will attend a meeting (which we refer to as the “pre-commencement closing”) on the first business day (which we refer to as the “pre-commencement closing date”) following the first day on which all of the commencement conditions are satisfied or waived in accordance with the exchange offer agreement (other than any such conditions that by their nature are to be satisfied at the pre-commencement closing, but subject to the satisfaction or waiver of those conditions) (we refer to this date as the “condition date”). Holdco 2 is required to commence the exchange offer as promptly as practicable on the first business day after the pre-commencement closing date by publishing the *Edital* relating to the exchange offer (which we refer to as the “*Edital*”) in Brazil in accordance with Brazilian law. We refer to the date and time at which such publication occurs as the “commencement date.”

Conditions to Completion of the Exchange Offer

The only conditions to the completion of the exchange offer are the conditions set forth below. Holdco 2 is not obligated to, and will not, purchase or pay for any of the TAM shares or TAM ADSs validly tendered and not withdrawn pursuant to the exchange offer unless all of such conditions are satisfied or waived by LAN (in the case of LAN’s conditions) or both LAN and Amaro family (in the case of the mutual conditions).

Mutual Conditions to the Completion of the Exchange Offer

Holdco 2 is prohibited from purchasing any shares of TAM stock validly tendered and not withdrawn in the exchange offer unless the following conditions to the completion of the exchange offer are satisfied or waived by LAN and by the Amaro family:

- since the commencement date, none of the Bovespa, the NYSE or the SSE has revoked or suspended its approval of any of its required listings and under the terms of each such approval the relevant required listing will become effective no later than the effective time of the mergers;
- since the commencement date, no stop order suspending the effectiveness of the Form F-4 has been issued by the SEC and no proceeding for that purpose has been initiated or threatened by the SEC;
- the number of free float shares validly tendered and not withdrawn from, or that otherwise approve, the exchange offer is at least equal to the number of free float shares required to permit the delisting of the TAM preferred shares from the Bovespa under the rules of CVM and applicable Brazilian law; and
- since the commencement date, no appraisal event has occurred, the holders of the free float shares have not requested a new appraisal report and a new appraiser in accordance with Brazilian law and the holders of the outstanding free float shares no longer have the right to select a new appraiser and to cause the appraisal report to be replaced with a new appraisal report.

LAN Conditions to the Completion of the Exchange Offer

- the number of TAM shares and TAM ADSs validly tendered and not withdrawn from the exchange offer is at least equal to the number of TAM shares and TAM ADSs that need to be acquired so that, if Holdco 2 or LAN owned all the TAM shares beneficially owned by the Amaro family, it would have the right and ability to effect a statutory squeeze-out under Brazilian law of all TAM shares and TAM ADSs that do not accept the exchange offer, and the Amaro family has stated in writing to LAN that all of the subscription conditions have been satisfied or waived by them;
 - since the commencement date, none of the required approvals have been revoked or amended, modified or supplemented in any way that could reasonably be expected to materially impede or interfere with, delay, postpone or materially and adversely affect the completion of the transactions contemplated by the transaction agreements;
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- since the commencement date, no court or other governmental entity of competent jurisdiction has enacted, issued, promulgated, enforced or entered any restraining order;
- no adverse action commenced since the commencement date remains pending;
- none of the following actions, events or circumstances has occurred with respect to TAM and its subsidiaries since the commencement date (or prior to that date if no executive officer of LAN had actual knowledge of such event as of the commencement date) that, individually or in the aggregate, have had an adverse effect on the businesses, revenues, operations or financial condition of TAM and its subsidiaries (which we refer to collectively as the “TAM Companies”) in any material respect: (a) changes or termination of licenses used to conduct cargo or passenger transport services or threats of any such change or termination; (b) any loss of 5% or more of the total number of slots at Congonhas Airport – São Paulo or any loss of 10% or more of the total takeoff and landing scheduled operations at certain specified airports; (c) any loss of 15% or more of the permits or air traffic rights to operate in any country in the E.U.; (d) termination or expiration of any aeronautical insurance policy covering the TAM Companies unless replaced by a substantially equivalent policy within 24 hours; (e) initiations of inquiries or investigations of the TAM Companies by an airline regulatory entity relating to safety issues that could be expected to result in the revocation of any license or to be detrimental to TAM’s public image; (f) any event that prevents the TAM Companies from operating at a certain level out of certain airports; (g) the inability of Brazil to safely control its airspace which prevents normal operations of TAM for any certain period of time; (h) aircraft accidents that result in loss of life or total loss of aircraft; (i) issuances of laws or orders that fix or regulate Brazilian passenger airline fares, challenge or impair the completion of the exchange offer or the mergers or the ability of the parties to exercise their rights, to own or receive the benefits of their interests in Holdco 1, TAM and its subsidiaries consistent with the shareholders agreements, provide for the expropriation or confiscation of TAM assets, or limit the ability to dispose of assets, suspend or limit foreign currency transactions or transfer of funds in and out of Brazil, and change the current regulations applicable to capital markets in Brazil or Chile or an increase in taxes or tax rates that adversely impacts the shareholders of TAM who enter into the exchange offer; (j) any natural disaster or similar event that causes damage to infrastructure or airspace used by or any industry affecting TAM Companies or any assets of the TAM Companies used in the ordinary course; and (k) any other event that prevents the TAM Companies from operating at least 50% of their regular flights during a 30 day period;
- since the commencement date, no default in the performance or breach, or any event that with notice, lapse of time or both would result in such a default or breach, by any TAM Company of any covenant or agreement contained in any contract to which any of them is a party under which the aggregate consideration provided or received, or to be provided or received, is greater than US\$10,000,000 has occurred that continues to exist, in each case after giving effect to any waivers granted by any other party to such contract and regardless of whether or not any event of default, acceleration or other enforcement action shall have been declared or taken by any such other party;
- since the commencement date, no market disruption event that could reasonably be expected to have a TAM material adverse effect has occurred; and
- the subscriptions have been fully paid in each case in accordance with the exchange offer agreement.

Conditions to the Subscriptions

The obligations of the Amaro Family to make and pay the TEP Chile subscription, and for TEP Chile to pay the Holdco subscriptions are subject to the following conditions (we refer to these conditions collectively as the “subscription conditions”):

- since the commencement date, none of the required approvals have been revoked or amended, modified or supplemented in any way that could reasonably be expected to materially impede or interfere with, delay, postpone or materially and adversely affect the completion of the transactions contemplated by the transaction agreements;
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- since the commencement date, no court or other governmental entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any restraining order;
- no adverse action commenced since the commencement date shall remain pending;
- none of the following actions, events or circumstances has occurred with respect to LAN and its subsidiaries since the commencement date (or prior to that date if no executive officer of TAM had actual knowledge of such event as of the commencement date) that, individually or in the aggregate, have had an adverse effect on the businesses, revenues, operations or financial condition of LAN and its subsidiaries, in any material respect: (a) changes or termination of licenses used to conduct cargo or passenger transport services or threats of any such change or termination; (b) any loss of 10% or more the total takeoff and landing scheduled operations of LAN and its subsidiaries at certain specified airports; (c) any loss of 15% or more of the permits or air traffic rights to operate in the United States of America; (d) termination or expiration of any aeronautical insurance policy covering LAN and its subsidiaries unless replaced by a substantially equivalent policy within 24 hours; (e) initiations of inquiries or investigations of LAN and its subsidiaries by an airline regulatory entity relating to safety issues that could be expected to result in the revocation of any license or to be detrimental to LAN's public image; (f) any event that prevents LAN and its subsidiaries from operating at a certain level out of certain airports; (g) the inability of Chile or Perú to safely control its airspace which prevents normal operations of LAN and its subsidiaries for any certain period of time; (h) aircraft accidents that result in loss of life or total loss of aircraft; (i) issuances of laws or orders that fix or regulate international passenger airline fares affecting 15% or more of the revenues of the international operations of LAN and its subsidiaries, impair the completion of the exchange offer or the mergers or the ability of the parties to exercise their rights and receive the benefits of their interests in Holdco 1, TAM and its subsidiaries, provide for the expropriation or confiscation of LAN assets, or limit the ability to dispose of assets, suspend or limit foreign currency transactions or transfer of funds in and out of Chile, and change the current regulations applicable to capital markets in Brazil or Chile or an increase in taxes or tax rates that adversely impacts the shareholders of TAM who enter into the exchange offer; (j) any natural disaster or similar event that causes damage to infrastructure or airspace used by or any industry affecting LAN and its subsidiaries or any assets of LAN and its subsidiaries used in the ordinary course; and (k) any other event that prevents LAN and its subsidiaries from operating at least 50% of their regular flights during a 30 day period;
- since the commencement date, no default in the performance or breach, or any event that with notice, lapse of time or both would result in such a default or breach, by LAN or any of its subsidiaries of any covenant or agreement contained in any contract to which any of them is a party under which the aggregate consideration provided or received, or to be provided or received, is greater than US\$10,000,000 has occurred that continues to exist, in each case after giving effect to any waivers granted by any other party to such contract and regardless of whether or not any event of default, acceleration or other enforcement action shall have been declared or taken by any such other party
- since the commencement date, no market disruption event that could reasonably be expected to have a LAN material adverse effect has occurred.

Actions on the Expiration Date; Completion of the Exchange Offer

The date on which the auction (*leilão*) established in the Edital will occur as specified in the Edital is referred to as the “expiration date”.

The transaction agreements describe the schedule of events on the expiration date as follows:

- at 2:00 p.m., São Paulo time, on the expiration date, the Bovespa will inform LAN, Holdco 2 and the Amaro family whether or not the minimum conditions have been satisfied;
- promptly after receiving that notice (but no later than 2:10 p.m., São Paulo time, on the expiration date), we will notify the Amaro family in writing as to whether all of the exchange offer conditions (other than the condition relating to the TEP Chile subscription) have been satisfied or irrevocably waived by us;
- if we state in that notice that all exchange offer conditions are satisfied or waived by us, then promptly after receiving our notice (but no later than 2:20 p.m., São Paulo time, on the expiration date), the Amaro family will inform us in writing whether or not all of the exchange offer conditions and the subscription conditions have been satisfied or irrevocably waived by them, and if all such conditions have been satisfied or waived by them, then promptly after sending that notice (but no later than 2:30 p.m., São Paulo time, on the expiration date) the Amaro family will subscribe and pay for all shares of TEP Chile stock in exchange for all of the voting common shares of TAM and non-voting preferred shares of TAM held by them, which we refer to as the “TEP Chile subscription.” The transaction agreements require that, as a result of the TEP Chile subscription, each member of the Amaro family will have the same ownership in TEP Chile as he or she had in the TAM controlling shareholder;
- prior to the date of this annual report on Form 20-F, TEP Chile subscribed for non-voting shares of Holdco 1 in exchange for all of the voting common shares of TAM to be contributed by the Amaro family to TEP Chile and subscribed for Sister Holdco shares in exchange for all of the non-voting shares of Holdco 1, 6.2% of the voting shares of Holdco 1 and all of the non-voting preferred shares of TAM to be contributed by the Amaro family to TEP Chile. Immediately after subscription and payment of the TEP Chile subscription, TEP Chile will pay for the Holdco subscriptions by paying Holdco 1 with all of the voting common shares of TAM contributed by the Amaro family and pay Sister Holdco with all of the non-voting shares of Holdco 1, 6.2% of the voting shares of Holdco 1 and all of the non-voting preferred shares of TAM contributed by the Amaro family. We refer to the subscriptions for shares of Holdco 1 and Sister Holdco as the “Holdco subscriptions” and the Holdco subscriptions and TEP Chile subscription collectively as the “subscriptions”;
- promptly after payment of the subscriptions (but no later than 2:40 p.m., São Paulo time, on the expiration date), we and the Amaro family will issue a press release announcing that all of the exchange offer conditions have been satisfied or irrevocably waived; and
- the auction will commence at 3:00 p.m., São Paulo time (or such other time as the Bovespa may determine), on the expiration date, and the Amaro family will cause Holdco 2 to complete the exchange offer on the expiration date by accepting for exchange and exchanging (with LAN shares issuable in the mergers) all TAM shares and TAM ADSs validly tendered into and not withdrawn from the exchange offer that Holdco 2 is obligated to purchase pursuant to the terms of the exchange offer. The completion of the exchange offer will be deemed to be the purchases of TAM shares and TAM ADSs pursuant to the auction, and such purchases will be settled on the third business day following the expiration date in accordance with the applicable procedures of the Bovespa.

However, if (x) either we or the Amaro family do not state that all of the conditions described above have been satisfied or irrevocably waived by us or (y) the TEP Chile subscription or any of the payments required pursuant to the subscriptions are not made in full when required by the transaction agreements, then the auction will not occur and the exchange offer will expire without the purchase of any TAM shares or TAM ADSs.

Notwithstanding the foregoing, if the auction commences at any time other than 3:00 p.m., São Paulo time, on the expiration date, then each of the times specified above (except for the last time that a withdrawal may be made) will be adjusted by the same amount that the actual time of the commencement of the Auction differs from 3:00 p.m., São Paulo time.

Extensions and Amendments

The exchange offer will initially expire on the date provided in the Edital. However, if all of the exchange offer conditions are not satisfied at, or waived by the parties prior to, the scheduled expiration time for the exchange offer, then we or the Amaro family (if they are entitled to the benefit of the unsatisfied condition) may cause Holdco 2 to request permission from the CVM to extend the expiration time for the exchange offer in maximum increments of 30 days to no later than 28 days after the commencement date. If both we and the Amaro family agree to request a modification to the terms and conditions of the exchange offer or revocation of the exchange offer, the Amaro family is required to cause Holdco 2 to request permission from the CVM to modify the terms and conditions of the exchange offer or to revoke the exchange offer. We and the Amaro family have agreed to cause Holdco 2 to request permission from the CVM to revoke the exchange offer if the transaction agreements terminate in accordance with their terms.

Post-Completion Board Meeting

We are required to convene a special meeting of our board of directors to approve the issuance of LAN common shares issuable pursuant to the mergers as soon as practicable, but not later than two business days following the completion of the exchange offer.

The Mergers; Directors and Officers; By-laws

Holdco 2 Merger

The implementation agreement provides for the merger of Holdco 2 with and into LAN after the completion of the exchange offer and prior to the settlement of the purchases made pursuant to the exchange offer. As the surviving corporation, we will continue to exist following the Holdco 2 merger. Pursuant to the Holdco 2 merger, each share of Holdco 2 stock (including those issuable pursuant to the settlement of the purchases made pursuant to the Auction) will be converted into a LAN common share at a ratio of 0.9 of a LAN common share per share of Holdco 2 stock (we refer to this ratio as the “Holdco 2 exchange ratio”). Holders of TAM preferred shares (including those represented by TAM ADSs) will receive, by virtue of the Holdco 2 merger, LAN common shares in the following form in exchange for their TAM shares or TAM ADSs tendered and accepted for exchange in the exchange offer, depending on the form of TAM preferred shares tendered in the exchange offer:

- holders of TAM ADSs that are tendered and accepted for exchange in the exchange offer will receive LAN ADRs issued pursuant to the deposit agreement, dated as of March 25, 2003, among LAN, the LAN depository, and the record holders and beneficial owners of LAN ADRs from time to time;
- holders of TAM shares registered under Resolution No. 2,689/00 of January 26, 2000 enacted by the CMN that are tendered and accepted for exchange in the exchange offer will receive LAN common shares in the form of LAN BDRs or LAN ADRs, as permitted by applicable law; and
- holders of all other TAM shares tendered and accepted for exchange in the exchange offer will receive LAN common shares in the form of BDRs representing such shares to be issued pursuant to a deposit agreement in customary form among LAN, a depository agent to be selected by LAN and reasonably acceptable to TAM and the holders of LAN BDRs from time to time.

We are required to pay or cause to be paid all deposit fees and other expenses payable in connection with the issuance of such LAN ADRs and LAN BDRs.

Immediately after the completion of the Holdco 2 merger, we will contribute any TAM common shares beneficially owned by Holdco 2 immediately prior to such merger to Holdco 1 in exchange for new non-voting shares of Holdco 1 on a one-for-one basis. After this contribution, we will increase our ownership percentage of the outstanding voting shares of Holdco 1 by converting our non-voting shares of Holdco 1 into voting shares of Holdco 1 to (A) 100% minus (B) 80% divided by the percentage of the outstanding TAM common shares owned by Holdco 1 determined on a primary basis after giving effect to such contribution.

Voting shares of Holdco 1 have the exclusive right to vote on, approve or consent to all matters that are subject to any vote of or approval by the shareholders of Holdco 1 under the applicable law of Chile or otherwise (other than the limited voting rights of the non-voting shares of Holdco 1) and have no economic rights other than the right to receive a nominal dividend (we refer to these rights as the “dividend rights”). Non-voting shares of Holdco 1 have the exclusive right to receive all dividends, distributions or other amounts payable by Holdco 1 in respect of any shares of its capital stock other than the dividend rights and have no right to vote on or approve any matter that is subject to any vote of or approval by the shareholders of Holdco 1 under applicable law of Chile or otherwise other than the rights to vote on and approve the matters requiring the approval of the holders of such shares under the applicable law of Chile or otherwise.

Sister Holdco Mergers

The implementation agreement also provides for the merger of Sister Holdco with and into LAN after the completion of the exchange offer and prior to the settlement of the purchases made pursuant to the exchange offer. As the surviving corporation, LAN will continue to exist following the Sister Holdco merger. We refer to the time that the mergers become effective as the “effective time.”

Pursuant to the Sister Holdco merger, each share of Sister Holdco stock will be converted into 0.90 of a LAN common share at a ratio of 0.9 of a LAN common share per share of Sister Holdco stock (we refer to this ratio as the “Sister Holdco exchange ratio”). We will pay or cause to be paid all deposit fees and other expenses payable in connection with the issuance of such LAN common shares.

By-Laws

The parties are required to take all necessary action so that immediately following the effective time the by-laws of Holdco 1, Sister Holdco and Holdco 2 shall be in the forms attached to the exchange offer agreement.

Directors

We and the controlling shareholder are required to discuss in good faith and agree upon the individuals who will be directors of LAN, Holdco 1, TAM and their subsidiaries as of the effective time and to take all necessary action to ensure that immediately following, and on the same day as, the effective time, the individuals selected for election to the board of directors of LAN, Holdco 1, TAM and their subsidiaries by each of us and TEP Chile pursuant to the Holdco 1 shareholders agreement, by each of us and TEP Chile pursuant to the TAM shareholders agreement and by each of the LAN controlling shareholders and TEP Chile pursuant to the control group shareholders agreement shall be the directors of LAN, Holdco 1, TAM and their subsidiaries. For a discussion of the parties rights to elect the directors of LAN, Holdco 1, TAM and their subsidiaries, see the “Shareholders Agreements—Voting Agreements.”

Effects of the Mergers

Capital Increase

If and when our shareholders approve the mergers, the share capital of LAN will be increased by an aggregate amount equal to the sum of the share capital of Holdco 2 and the share capital of Sister Holdco at such time. We refer to this capital increase as the “initial capital increase.” After the completion of the mergers, the share capital of LAN will be increased by the amount by which the net asset value of the shares of TAM stock contributed pursuant to the subscriptions exceeds, or is decreased by the amount by which such net asset value is less than, the initial capital increase.

Treatment of Holdco 2 Stock

At the effective time, each share of Holdco 2 Stock issued and outstanding immediately prior to the effective time will be converted into the right to receive a fraction of a validly issued, fully paid and non-assessable LAN common share at the Holdco 2 exchange ratio, less applicable withholding taxes. Each share of Sister Holdco stock issued and outstanding immediately prior to the effective time will be converted into the right to receive a fraction of a validly issued, fully paid and non-assessable LAN common share at the Sister Holdco exchange ratio, less applicable withholding taxes.

TAM Options

TAM and the TAM board of directors, as applicable, were required prior to the commencement of the exchange offer to adopt any resolutions and take any actions necessary to ensure that (a) from and after the effective time each TAM stock option outstanding immediately prior to the effective time, whether vested or unvested, will be exercisable only when vested and only for an amount in cash equal to the product of (i) the total number of shares of TAM stock in respect of which such TAM stock option is exercisable, and (ii) the amount (if any) by which (x) the product of the Holdco 2 exchange ratio and the closing price of the LAN common shares on the SSE on the last business day prior to the date on which such TAM stock option was exercised exceeds (y) the exercise price per share of TAM stock under such TAM stock option, less any applicable taxes required to be withheld with respect to such payment, and (b) none of execution, delivery or performance of the implementation agreement or the completion of the mergers or any other transactions contemplated by implementation agreement will, directly or indirectly, cause or result in any acceleration of the vesting of any TAM stock options, whether prior to, on or after the effective time.

Exchange Fund

Prior to the effective time, we will deposit or cause to be deposited with the US exchange agent, for the benefit of the holders of Holdco 2 stock and Sister Holdco stock, certificates or, at our option, evidence of shares in book-entry form, representing LAN common shares, including any cash to be paid in lieu of fractional LAN common shares, as discussed below in this section. We refer to such certificates or evidence of book-entry form, as the case may be, for LAN common shares and such cash paid in lieu of fractional shares collectively as the “exchange fund.” Any interest or income produced from investments of the exchange fund by the US exchange agent will not be deemed part of the exchange fund and will be payable to us.

Fractional Shares

No certificates or scrip representing fractional LAN common shares will be issued in the mergers or pursuant to the statutory squeeze-out and such fractional shares will not entitle the owner thereof to vote or to any rights of a shareholder of LAN. In lieu of fractional shares, we will pay each holder of a fractional LAN common share an amount in cash in US dollars equal to the product of (a) the fractional LAN common shares to which such holder would otherwise be entitled after taking into account all shares of Holdco 2 Stock or Sister Holdco stock owned of record by such holder immediately prior to the effective time, and (b) the closing price of the LAN common shares on the SSE on the last trading day immediately preceding the effective time (as reported in www.bolsadesantiago.com or, if not reported therein, by another authoritative source).

Statutory Squeeze-Out

After the completion of the exchange offer, if permitted under applicable Brazilian law, we (as the surviving corporation of the Holdco 2 merger) will effect a statutory squeeze-out of any holders of voting common shares of TAM and/or non-voting preferred shares of TAM (including those represented as TAM ADSs) other than those beneficially owned by the Amaro family that did not accept the exchange offer (we refer to these shares collectively as “non-tendered shares”). In this statutory squeeze-out, the holders of non-tendered shares will have the right to receive cash in an amount equal to the product of (i) the number of LAN common shares that it would have received pursuant to the exchange offer in respect of its non-tendered shares (assuming it could have received fractional LAN common shares), and (ii) the closing price of the LAN common shares on the SSE on the day on which the exchange offer is completed. After the squeeze-out of all remaining voting common shares of TAM, LAN will (i) contribute all voting ordinary shares of TAM acquired in the exchange offer to Holdco 1 in exchange for non-voting shares of Holdco 1, and (ii) increase its ownership percentage of the outstanding voting shares of Holdco 1 to 20% by converting its non-voting shares of Holdco 1 into voting shares of Holdco 1.

Delistings

Each of the TAM controlling shareholder and TAM are required to use its or their commercially reasonable efforts to cause (i) the TAM preferred shares to be delisted from the Bovespa if the delisting condition is satisfied with respect to such class of TAM stock and (ii) the TAM ADSs to be delisted from the NYSE as soon as practicable after the effective time.

Termination

The transaction agreements will terminate automatically if and when (i) the exchange offer expires in accordance with its terms or is revoked with the permission of CVM without the purchase of any TAM stock or (ii) if the product of 0.9 and the high end of the range of economic value of LAN per share of LAN common stock as determined by the appraiser at any time is less than the low end of the range of economic value of TAM per share of TAM stock as determined by the appraiser at such time. In addition, LAN and the Amaro family may terminate the transaction agreements by mutual written consent.

The transaction agreements may also be terminated and the exchange offer and the mergers may be abandoned at any time prior to the commencement of the exchange offer as follows, whether before or after receipt of any requisite shareholder approvals:

- *by either LAN or the Amaro family:*
 - o if the exchange offer has not commenced by December 31, 2011 (as it may be extended as set forth below, which we refer to as the “outside date”); however if all conditions to commencement of the exchange offer, other than the conditions relating to receipt of all required approvals and absence of pending adverse actions and conditions that by their nature are to be satisfied at the closing to be held on the condition date, then the outside date may be extended until June 30, 2012 at the election of the Amaro family or LAN by written notice to the other party;
 - o if any governmental entity of competent jurisdiction refuses to grant any required approval (other than any approval required from CVM with respect to the inclusion in the Edital of any of the LAN’s conditions to the completion of the exchange offer) and such refusal has become final and nonappealable or any governmental entity of competent jurisdiction has enacted, issued, promulgated, enforced or entered any restraining order that has become final and non-appealable, and such event would give rise to the failure of the condition relating to receipt of all required approvals or absence of restraining order;
 - o if the vote of the holders of LAN common stock at the LAN shareholders meeting to approve the mergers and the other transactions contemplated by the transaction agreements has been taken and completed and the requisite LAN shareholder approval is not obtained; or
 - o if TAM has called five TAM shareholders meetings and a quorum is not present at any such meeting or if a quorum was present and the vote of the holders of the free float shares at the TAM shareholders meeting to select an appraiser is taken and completed but the requisite TAM shareholder approval is not obtained;

however, none of the termination rights described in the preceding bullet points will be available to any party whose material breach of a representation, warranty or covenant in any transaction agreement has been a principal cause of the failure of the exchange offer to commence by the outside date or the failure of the condition giving rise to such termination right, as applicable.

- *by LAN:*
 - o if TAM, the TAM controlling shareholder or the Amaro family has breached or failed to perform any of its representations, warranties, covenants or agreements set forth in the transaction agreements or any of such representations and warranties becomes untrue as of any date after the signing date, which breach or failure to perform or untruth (i) would give rise to the failure of the condition relating to accuracy of the representations and warranties of TAM, the TAM controlling shareholder and the Amaro family or compliance by any of them with their obligations under the transaction agreements and (ii) is not capable of being cured or, if capable of being cured, is not cured by TAM, the TAM controlling shareholder or the Amaro family, as applicable, by the earlier of (A) the day before the outside date and (B) the 30th calendar day following receipt of written notice of such breach or failure to perform from LAN;
 - o prior to the commencement of the exchange offer if CVM has refused to grant its approval to the inclusion in the Edital of any of the LAN’s conditions to the completion of the exchange offer; or
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- o if (i) the TAM board of directors fails to make and publicly announce its recommendation of the exchange offer to its shareholders promptly after the signing date or the TAM board exchange offer recommendation (we refer to these recommendations collectively as the “TAM board recommendations”), (ii) the TAM board of directors or any committee thereof (x) withholds, withdraws or modifies or qualifies in any manner adverse to LAN either of the TAM board recommendations, (y) approves, adopts, or recommends any alternative proposal, or (z) makes, causes to be made or resolves to make or cause to be made any public statement proposing or announcing an intention to take any of the preceding actions (which we refer to as a “TAM board recommendation change”) or (iii) the TAM board of directors fails to publicly reaffirm the TAM board recommendations as promptly as practicable (but in any event within two business days) after receipt of a written request by LAN to provide such reaffirmation, and in any such case all of the directors designated for election to the TAM board of directors by the TAM controlling shareholder and/or the Amaro family do not vote against the TAM board recommendation change or in favor of reaffirming the TAM board recommendations.

· *by the Amaro family:*

- o if LAN or the LAN controlling shareholders has breached or failed to perform any of its representations, warranties, covenants or agreements set forth in the transaction agreements or any of such representations and warranties becomes untrue as of any date after the signing date, which breach or failure to perform or untruth (i) would give rise to the failure of the condition relating to accuracy of the representations and warranties of LAN and the LAN controlling shareholders or compliance by any of them with their obligations under the transaction agreements and (ii) is not capable of being cured or, if capable of being cured, is not cured by LAN or the LAN controlling shareholders, as applicable, by the earlier of (A) the day before the outside date and (B) the 30th calendar day following receipt of written notice of such breach or failure to perform from TAM; or
- o if (i) the LAN board of directors fails to unanimously recommend the transactions contemplated by the implementation agreement to its shareholders promptly after the signing date or to make the LAN board merger recommendation (we refer to these recommendations collectively as the “LAN board recommendations”) on or prior to the LAN shareholder meeting to approve the matters recommended by the LAN board of directors, (ii) the LAN board of directors or any committee thereof (x) withholds, withdraws or modifies or qualifies in any manner adverse to TAM either of the LAN board recommendations, (y) approves, adopts, or recommends any alternative proposal, or (z) makes, causes to be made or resolves to make or cause to be made any public statement proposing or announcing an intention to take any of the preceding actions (which we refer to collectively as, a “LAN board recommendation change”) or (iii) the LAN board of directors fails to publicly reaffirm the LAN board recommendations as promptly as practicable (but in any event within two business days) after receipt of a written request by TAM to provide such reaffirmation, and in either such case all of the directors designated for election to the LAN board of directors by the LAN controlling shareholders did not vote against the LAN board recommendation change or in favor of reaffirming the LAN board recommendations.

Termination Fees

TAM is required to pay us a fee equal to \$200 million (which we refer to as the “TAM termination fee”) and reimburse LAN for all documented out-of-pocket expenses incurred by it or any of its subsidiaries in connection with the transaction agreements and the transactions contemplated by the transaction agreements up to a maximum amount of \$25 million (no later than the second business day after TAM receives documentation for reimbursement) if:

- LAN terminates the transaction agreements due to a TAM board change of recommendation; or
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- within 12 months after the date that a competing proposal termination occurs, TAM or any of its subsidiaries completes any transaction that constitutes a competing proposal with the person that made the competing proposal or any of its affiliates, enters into any binding or non-binding agreement with such person or any of its affiliates providing for a transaction that constitutes a competing proposal or the TAM board of directors approves or recommends to its shareholders or does not oppose any competing proposal made by such person or any of its affiliates (in each case regardless of whether such competing proposal was made or announced or became publicly known before or after termination of the transaction agreements and in any such case the TAM termination fee is payable on the date that is the first to occur of the event(s) referred to in this paragraph).

A “competing proposal termination” occurs if (i)

- (A) any person makes an alternative proposal with respect to TAM or LAN, or a “competing proposal,” to any party or its representatives,
- (B) a competing proposal by any person becomes publicly known, or
- (C) any person publicly announces an intention (whether or not conditional) to make a competing proposal; and

(ii) the transaction agreements automatically terminate solely because either of the minimum conditions is not satisfied or because an appraisal event occurs.

We are required to pay TAM a fee equal to \$200 million (which refer to as the “LAN termination fee”) and reimburse TAM for all documented out-of-pocket expenses incurred by it or any of its subsidiaries in connection with the transaction agreements and the transactions contemplated by the transaction agreements up to a maximum amount of \$25 million (no later than the second business day after we receive documentation for reimbursement) if:

- the Amaro family terminates the transaction agreements due to a LAN board change of recommendation; or
- within 12 months after the date that a competing proposal termination occurs, we or any of our subsidiaries complete any transaction that constitutes a competing proposal with the person that made the competing proposal or any of its affiliates, enter into any binding or non-binding agreement with such person or any of its affiliates providing for a transaction that constitutes a competing proposal or our board of directors approves or recommends to its shareholders or does not oppose any competing proposal made by such person or any of its affiliates (in each case regardless of whether such competing proposal was made or announced or became publicly known before or after termination of the transaction agreements and in any such case the LAN termination fee is payable on the date that is the first to occur of the event(s) referred to in this paragraph).

Remedies

If either we or TAM fails promptly to pay the amount due to the other party as a result of the termination of the transaction agreements under certain circumstances and, in order to obtain such payment, the other party commences a suit that results in a judgment against us or TAM for all or a portion of the TAM termination fee or the LAN termination fee, as applicable, such party is required to pay to the other party its costs and expenses (including reasonable attorneys’ fees and expenses) in connection with such suit, together with interest on the amount of the TAM termination fee or the LAN termination fee, as applicable, accruing from the date such payment was required to be made pursuant to the implementation agreement until the date of payment at the six-month LIBOR rate in effect on the date such payment was required to be made plus 3%. The right to receive the fees and expenses payable described above under “—Termination Fees” will be in addition to, and not in lieu of, any other remedies a party may have at law or in equity with respect to breaches of the implementation agreement by the other party.

Indemnification

Indemnification by LAN

We are required to indemnify, defend and hold the TAM Controlling Shareholder, its affiliates and their respective directors, officers, employees and shareholders harmless from and against any and all damages, losses, charges, liabilities, claims, demands, actions, suits, proceedings, payments, judgments, settlements, assessments, deficiencies, taxes, interest, penalties, and costs and expenses (including reasonable attorneys' fees and disbursement), which we refer to collectively as "indemnifiable losses," incurred by any of them (whether or not involving a claim by any third party) arising out of or resulting from (i) the failure of the exchange offer to be completed solely as a result of any failure by LAN to confirm in writing to the controlling shareholders of TAM on the expiration date that any exchange offer condition waivable only by LAN (other than the squeeze-out condition) was satisfied if (but only if) such condition was in fact satisfied or (ii) any failure of the exchange offer to be completed after the controlling shareholders of TAM has paid for the TEP Chile subscription.

Indemnification by the TAM Controlling Shareholders

The controlling shareholders of TAM, jointly and severally, are required to indemnify, defend and hold us, our affiliates and our respective directors, officers, employees and shareholders harmless from and against any and all indemnifiable losses incurred by any of us (whether or not involving a claim by a third party) arising out of or resulting from any failure by the controlling shareholders of TAM to confirm in writing to us on the expiration date that any of the subscription conditions was satisfied if (but only if) such condition was in fact satisfied.

Access

Subject to certain exceptions, both we and TAM will, upon reasonable prior written notice, afford the other and its authorized representatives reasonable access to it and furnish the other information concerning its business, properties and personnel as may reasonably be requested until the completion of the exchange offer or termination of the transaction agreements, whichever occurs sooner.

Amendment

The parties are not permitted to amend transaction agreements after the commencement of the exchange offer.

Expenses

Except for the termination fees described above, each party is required to pay its own fees and expenses that it incurs in connection with the transaction agreements, the mergers and the other transactions contemplated by the transaction agreements, regardless of whether the exchange offer is commenced or the exchange offer and the mergers are completed, except that expenses incurred in connection with the printing and mailing of this offer to exchange/prospectus and the filing fee for the Form F-4 will be shared equally by LAN, on the one hand, and TAM controlling shareholders, on the other hand.

Choice of Law and Jurisdiction

The transaction agreements are governed by New York law with regard to all matters other than the authorization and execution of the transaction agreements, which are governed by the laws of each party's jurisdiction of incorporation.

SHAREHOLDERS AGREEMENTS

As discussed above under the section entitled “Proposed Combinaton with TAM,” following the combination of LAN and TAM, TAM will continue to exist as a subsidiary of Holdco 1 (and as an indirect subsidiary of LAN) and our name will be changed to “LATAM Airlines Group S.A.,” or “LATAM.” Prior to the LAN shareholders meeting, we and the LAN controlling shareholders will enter into several shareholders agreements with TAM and TEP Chile to set forth our agreement with respect to the governance, management and operation of LAN, Holdco 1, TAM and their respective subsidiaries (we refer to these entities collectively as the “LATAM Group.”) following the effective time. The shareholders agreements set forth an extensive set of principles that will apply to the corporate governance and organization of the LATAM Group following the effective time, which are summarized below. Pursuant to their terms, the shareholders agreements will become effective only if and at the time that Holdco 1 becomes a holder of at least 80% of the outstanding voting common shares of TAM.

Governance and Management of LATAM Group

The control group shareholders agreement and the LAN-TEP shareholders agreement set forth the parties’ agreement on the governance and management of the LATAM Group following the effective time. The key provisions of these agreements are summarized below but are qualified in their entirety by reference to the full text of these agreements, which are attached to this annual report on Form 20-F as Exhibits 4.11, and 4.12. For a full understanding of these agreements, we advise you to read these agreements carefully and in their entirety. We refer to the shareholders agreement among the LAN controlling shareholders and TEP Chile, which sets forth the parties’ agreement concerning the governance, management and operation of the LATAM Group, and voting and transfer of their respective LAN common shares and TEP Chile’s voting shares of Holdco 1, following the effective time as the “control group shareholders agreement.” We refer to the shareholders agreement between us and TEP Chile, which sets forth our agreement concerning the governance, management and operation of the LATAM Group following the effective time as the “LAN-TEP shareholders agreement.”

Composition of the LATAM Board

Mr. Mauricio Rolim Amaro will be the chairman of our board of directors for the first two years following the effective time. If Mr. Amaro vacates this position for any reason within that two-year period, TEP Chile has the right to select a replacement to complete his term. Thereafter, our board of directors will appoint any of its members as the chairman of our board of directors, from time to time, in accordance with our by-laws.

LATAM Board Committees

Promptly after the effective time, our board of directors will establish four committees to review, discuss and make recommendations to our board of directors. These include a Strategy Committee, a Leadership Committee, a Finance Committee and a Brand, Product and Frequent Flyer Program Committee. The Strategy Committee will focus on the corporate strategy, current strategic issues and the three-year plans and budgets for the main business units and functional areas and high-level competitive strategy reviews. The Leadership Committee will focus on, among other things, group culture, high-level organizational structure, appointment of the chief executive officer (Vice Presidente Ejecutivo), (LATAM CEO) of the LATAM Group (which we refer to as the “LATAM CEO”) and his or her other reports, corporate compensation philosophy, compensation structures and levels for the LATAM CEO and other key executives, succession or contingency planning for the LATAM CEO and performance assessment of the LATAM CEO. The Finance Committee will be responsible for financial policies and strategy, capital structure, monitoring policy compliance, tax optimization strategy and the quality and reliability of financial information. Finally, the Brand and Frequent Flyer Program Committee will be responsible for brand strategies and brand building initiatives for the corporate and main business unit brands, the main characteristics of products and services for each of the main business units, frequent flyer program strategy and key program features and regular audit of brand performance.

Management of the LATAM Group

Enrique Cueto, currently our CEO, will be the LATAM CEO following the effective time. The LATAM CEO will be the highest ranked officer of the LATAM Group and will report directly to the LATAM board of directors. The LATAM CEO will be charged with the general supervision, direction and control of the business of the LATAM Group and certain other responsibilities set forth in the LAN-TEP shareholders agreement. After any departure of the LATAM CEO, our board of directors will select his or her successor after receiving the recommendation of the Leadership Committee.

Ignacio Cueto, currently our president and chief operating officer (*Gerente General*), or the “COO”, will be the COO of LATAM, or the “LATAM COO,” following the effective time. The LATAM COO will report directly to the LATAM CEO and will have general supervision, direction and control of the passenger and cargo operations of the LATAM Group, excluding those conducted by Holdco 1, TAM and its subsidiaries, and the international passenger business of the LATAM Group. The LATAM COO, together with the TAM Group CEO, will recommend a candidate to the LATAM CEO to serve as the head of the international passenger business of the LATAM Group (including both long haul and regional operations), who shall report jointly to the LATAM COO and the TAM Group CEO. The key executives of the LATAM Group (other than the LATAM CEO and those in the TAM Group) will be appointed by, and will report, directly or indirectly, to the LATAM CEO.

The head office of the LATAM Group will continue to be located in Santiago, Chile following the effective time.

Governance and Management of Holdco 1 and TAM

The Holdco 1 shareholders agreement and the TAM shareholders agreement set forth the parties’ agreement on the governance and management of Holdco 1, TAM and its subsidiaries (we refer to these entities collectively as the “TAM Group”) following the effective time. The key provisions of these agreements are summarized below but are qualified in their entirety by reference to the full text of these agreements, which are attached to this annual report on Form 20-F as Exhibits 4.13, and 4.14. For a full understanding of these agreements, we advise you to read these agreements carefully and in their entirety. We refer to the shareholders agreement between us, Holdco 1 and TEP Chile, which sets forth our agreement concerning the governance, management and operation of Holdco 1, and voting and transfer of voting shares of Holdco 1, following the effective time as the “Holdco 1 shareholders agreement” and to the shareholders agreement between us, Holdco 1, TAM and TEP Chile, which sets forth our agreement concerning the governance, management and operation of TAM and its subsidiaries following the effective time as the “TAM shareholders agreement.”

Composition of the Holdco 1 and TAM Boards

The Holdco 1 shareholders agreement and TAM shareholders agreement generally provide for identical boards of directors and the same chief executive officer at Holdco 1 and TAM, with us appointing two directors and TEP Chile appointing four directors (including the chairman of the board of directors). For the first two years after the effective time, the chairman of the Holdco 1 and TAM boards of directors will be Maria Cláudia Oliveira Amaro.

The control group shareholders agreement provides that the persons elected by or on behalf of the LAN controlling shareholders or the TAM Controlling Shareholder to our board of directors must also serve on the boards of directors of both Holdco 1 and TAM.

Management of Holdco 1 and TAM

The day-to-day business and affairs of Holdco 1 will be managed by the TAM Group CEO under the oversight of the board of directors of Holdco 1. The day-to-day business and affairs of TAM will be managed by the *TAM Diretoria* under the oversight of the board of directors of TAM. The “*TAM Diretoria*” will be comprised of the TAM Group CEO, the TAM CFO, the TAM COO and the TAM CCO. Marco Bologna, currently the CEO of TAM, will be the initial CEO of Holdco 1 and TAM, or the “TAM Group CEO” and any successor CEO will be selected by us from three candidates proposed by TEP Chile. The TAM Group CEO will have general supervision, direction and control of the business and operations of the TAM Group (other than the international passenger business of the LATAM Group) and will carry out all orders and resolutions of the board of directors of TAM. The initial chief financial officer of TAM, or the “TAM CFO,” will be jointly selected by us and TEP Chile and any successor CFO will be selected by TEP Chile from three candidates proposed by us. The chief operating officer of TAM, or the “TAM COO,” and chief commercial officer of TAM, or the “TAM CCO,” will be jointly selected and recommended to the TAM board of directors by the TAM Group CEO and TAM CFO and approved by the TAM board of directors. These shareholders agreements also regulate the composition of the boards of directors of subsidiaries of TAM.

TAM will continue to be headquartered in São Paulo, Brazil following the effective time.

Supermajority Actions

Certain actions by Holdco 1 or TAM require supermajority approval by the board of directors or the shareholders of Holdco 1 or TAM which effectively require the approval of both us and TEP Chile before the specified actions can be taken. Actions that require supermajority approval of the Holdco 1 board of directors or the TAM board of directors include, as applicable:

- to approve the annual budget and business plan and the multi-year business (which we refer to collectively as the “approved plans”), as well as any amendments to these plans;
 - to take or agree to take any action which causes, or will reasonably cause, individually, or in the aggregate, any capital, operating or other expense of any TAM Company and its subsidiaries to be greater than (i) the lesser of 1% of revenue or 10% of profit under the approved plans, with respect to actions affecting the profit and loss statement, or (ii) the lesser of 2% of assets or 10% of cash and cash equivalents (as defined by IFRS) as set forth in the approved plan then in effect, with respect to actions affecting the cash flow statement;
 - to create, dispose of or admit new shareholders to any subsidiary of the relevant company, except to the extent expressly contemplated in the approved plans;
 - to approve the acquisition, disposal, modification or encumbrance by any TAM company of any asset greater than \$15 million or of any equity securities or securities convertible into equity securities of any TAM Company or other company, except to the extent expressly contemplated in the approved plans;
 - to approve any investment in assets not related to the corporate purpose of the relevant company, except to the extent expressly contemplated in the approved plans;
 - to enter into any agreement in an amount greater than \$15 million, except to the extent expressly contemplated in the approved plans;
 - to enter into any agreement related to profit sharing, joint ventures, business collaborations, alliance memberships, code sharing arrangements, except as approved by the business plans and budget then in effect, except to the extent expressly contemplated in the approved plans;
 - to terminate, modify or waive any rights or claims of a relevant company or its subsidiaries under any arrangement in any amount greater than \$15 million, except to the extent expressly contemplated in the approved plans;
 - to commence, participate in, compromise or settle any material action with respect to any litigation or proceeding in an amount greater than \$15 million, relating to the relevant company, except to the extent expressly permitted in the approved plans;
 - to approve the execution, amendment, termination or ratification of agreements with related parties, except to the extent expressly contemplated in the approved plans;
 - to approve any financial statements, amendments, or to any accounting, dividend or tax policy of the relevant company;
 - to approve the grant of any security interest or guarantee to secure obligations of third parties;
 - to appoint executives other than the Holdco 1 CEO or the TAM Diretoria or to re-elect the then current TAM CEO or TAM CFO; and
-

- to approve any vote to be cast by the relevant company or its subsidiaries in its capacity as a shareholder.

Actions requiring supermajority shareholder approval include:

- to approve any amendments to the by-laws of any relevant company or its subsidiaries in respect to the following matters: (i) corporate purpose, (ii) corporate capital; (iii) the rights inherent to each class of shares and its shareholders; (iv) the attributions of shareholder regular meetings or limitations to attributions of the board of directors; (v) changes in the number of directors or officers; (vi) the term; (vii) the change in the corporate headquarters of a relevant company; (viii) the composition, attributions and liabilities of management of any relevant company; and (ix) dividends and other distributions;
- to approve the dissolution, liquidation, winding up of a relevant company;
- to approve the transformation, merger, spin-up or any kind of corporate re-organization of a relevant company;
- to pay or distribute dividends or any other kind of distribution to the shareholders;
- to approve the issuance, redemption or amortization of any debt securities, equity securities or convertible securities;
- to approve a plan or the disposal by sale, encumbrance or otherwise of 50% or more of the assets, as determined by the balance sheet of the previous year, of Holdco 1;
- to approve the disposal by sale, encumbrance or otherwise of 50% or more of the assets of a subsidiary of Holdco 1 representing at least 20% of Holdco 1 or to approve the sale, encumbrance or disposition of equity securities such that Holdco 1 loses control;
- to approve the grant of any security interest or guarantee to secure obligations in excess of 50% of the assets of the relevant company; and
- to approve the execution, amendment, termination or ratification of acts or agreement with related parties but only if applicable law requires approval of such matters.

Voting Agreements, Transfers and Other Arrangements

Voting Agreements

The LAN controlling shareholders and TEP Chile have agreed in the control group shareholders agreement to vote their respective LAN common shares as follows after the effective time:

- until such time as TEP Chile sells any of its LAN common shares, the LAN controlling shareholders will vote their LAN common shares to elect to the LATAM board of directors any individual designated by TEP Chile unless TEP Chile beneficially owns enough LAN common shares to directly elect two directors to the LATAM board of directors;
 - the parties agree to vote their LAN common shares to assist the other parties in removing and replacing the directors such other parties elected to the LATAM board of directors;
 - the parties agree to consult with one another and use their good faith efforts to reach an agreement and act jointly on all actions (other than actions requiring supermajority approval under Chilean law) to be taken by the LATAM board of directors or the LAN shareholders;
 - the parties agree to maintain the size of the LATAM board of directors at a total of nine directors and to maintain the quorum required for action by the LATAM board of directors at a majority of the total number of directors of the LATAM; and
 - if, after good faith efforts to reach an agreement with respect to any action that requires supermajority approval under Chilean law and a mediation period, the parties do not reach such an agreement then TEP Chile has agreed to vote its shares on such supermajority matter as directed by the LAN controlling shareholders, which we refer to as a “directed vote.”
-

The parties to the Holdco 1 shareholders agreement and TAM shareholders agreement have agreed to vote their voting shares of Holdco 1 and shares of TAM so as to give effect to the agreements with respect to representation on the TAM board of directors discussed above.

Transfer Restrictions

Pursuant to the control group shareholders agreement, the LAN controlling shareholders and TEP Chile are subject to certain restrictions on sales, transfers and pledges of the LAN common shares and (in the case of TEP Chile only) the voting shares of Holdco 1 beneficially owned by them. Except for a limited amount of LAN common shares, neither the LAN controlling shareholders nor TEP Chile may sell any of its LAN common shares, and TEP Chile may not sell its voting shares of Holdco 1, until the third anniversary of the effective time. Thereafter, sales of LAN common shares by either party are permitted, subject to (i) certain limitations on the volume and frequency of sales and (ii) in the case of TEP Chile only, certain minimum ownership requirements. After the tenth anniversary of the effective time, TEP Chile may sell all of its LAN common shares and voting shares of Holdco 1 as a block, subject to (x) approval of the transferee by the LATAM board of directors, (y) the condition that the sale not have an adverse effect and (z) a right of first offer in favor of the LAN controlling shareholders, which we refer to collectively as “block sale provisions.” An “adverse effect” is defined in the control group shareholders agreement to mean a material adverse effect on our and Holdco 1’s ownership of TAM and its subsidiaries or the ability of TAM and its subsidiaries to operate their airline businesses worldwide. The LAN controlling shareholders have agreed to transfer any voting shares of Holdco 1 acquired pursuant to such right of first offer to us for the same consideration paid for such shares.

The block sale provisions will also apply to any transfer by TEP Chile of LAN common shares or voting shares of Holdco 1 beneficially owned by it after the third anniversary of the effective time if a release event (as described below) occurs or if TEP Chile is required to make two or more directed votes during any twenty-four month period at two meetings (consecutive or not) of the shareholders of LAN held at least twelve months apart and we have not yet fully exercised our conversion option described below. A “release event” will occur if (i) a capital increase of LATAM occurs, (ii) TEP Chile does not fully exercise the preemptive rights granted to it under applicable law in Chile with respect to such capital increase in respect of all of its restricted LAN common shares, and (iii) after such capital increase is completed, the individual designated by TEP Chile for election to the LATAM board of directors with the assistance of the LAN controlling shareholders is not elected to the LATAM board of directors.

In addition, after the tenth anniversary of the effective time and after the occurrence of the full ownership trigger date (as described below under the “—Conversion Option” section), TEP Chile may sell all or any portion of its LAN common shares, subject to (x) a right of first offer in favor of the LAN controlling shareholders and (y) the restrictions on sales of LAN common shares more than once in a 12-month period.

The control group shareholders agreement provides certain exceptions to these restrictions on transfer for certain pledges of LAN common shares made by the parties and for transfers to affiliates, in each case under certain limited circumstances.

In addition, TEP Chile agreed in the Holdco 1 shareholders agreement not to vote its voting shares of Holdco 1, or to take any other action, in support of any transfer by Holdco 1 of any equity securities or convertible securities issued by it or by any of TAM or its subsidiaries without our prior written consent.

Call Option

We agreed in the Holdco 1 shareholders agreement not to sell or transfer any shares of TAM stock to any person (other than our affiliates) at any time when TEP Chile owns any voting shares of Holdco 1. However, we will have the right to effect such a sale or transfer if, at the same time as such sale or transfer, we (or our assignee) acquires all the voting shares of Holdco 1 beneficially owned by TEP Chile for an amount equal to TEP Chile’s then current tax basis in such shares and any costs TEP Chile is required to incur to effect such sale or transfer. TEP Chile has irrevocably granted us the assignable right to purchase all of the voting shares of Holdco 1 beneficially owned by TEP Chile in connection with any such sale.

Conversion Option

Pursuant to the control group shareholders agreement and the Holdco 1 shareholders agreement, we have the unilateral right to convert our shares of non-voting stock of Holdco 1 into shares of voting stock of Holdco 1 to the maximum extent allowed under law and to increase our representation on the TAM and Holdco 1 boards of directors if and when permitted in accordance with foreign ownership control laws in Brazil and other applicable laws if the conversion would not have an adverse effect (as defined above under the “—Transfer Restrictions” section).

On or after the tenth anniversary of the effective time and after we have fully converted all of our shares of non-voting stock of Holdco 1 into shares of voting stock of Holdco 1 as permitted by Brazilian law and other applicable laws, we will have the right to purchase all of the voting shares of Holdco 1 held by the controlling shareholders of TAM for an amount equal to their then current tax basis in such shares and any costs incurred by them to effect such sale, which amount we refer to as the “sale consideration.” If we do not timely exercise our right to purchase these shares or if, after the tenth anniversary of the effective time, we have the right under applicable law in Brazil and other applicable law to fully convert all the shares of non-voting stock of Holdco 1 beneficially owned by us into shares of voting stock of Holdco 1 and such conversion would not have an adverse effect but we have not fully exercised such right within a specified period, then the controlling shareholders of TAM will have the right to put their shares of voting stock of Holdco 1 to us for an amount equal to the sale consideration.

Acquisitions of TAM Stock

The parties have agreed that all acquisitions of TAM common shares by any member of the LATAM Group from and after the effective time will be made by Holdco 1.

ITEM 18. FINANCIAL STATEMENTS

In accordance with SVS's regulations, Chile started a process to adopt IFRS for all public companies with significant market presence over a three-year period from 2009 to 2011, as follows:

- January 1, 2009: major listed (open) companies were required to report under IFRS (i.e. 2009 financial statements had to be prepared using IFRS and had to include 2008 comparative information using IFRS). However, IFRS reporting may be postponed until 2010 so long as a supplemental "pro forma" disclosure of expected impact of moving to IFRS is provided;
- January 1, 2010: smaller listed (open) companies, insurance companies, mutual funds, pension funds, stock brokers and dealers, insurance agents, companies that issue publicly traded debt securities, and large listed (open) companies that were unable to move to IFRS in 2009; and
- January 1, 2011: other entities registered with the SVS (non-issuers who have voluntarily registered).

We have adopted, and have started reporting under, IFRS as of January 1, 2009.

See pages F-1 through F-120, incorporated herein. The following is an index of the financial statements.

Consolidated Financial Statements for Lan Airlines and its Subsidiaries

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ITEM 19. EXHIBITS

Documents filed as exhibits to this Amendment No. 1 to our annual report:

Exhibit No.	Description
8.1	Subsidiaries
12.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certifications of Chief Financial Officer and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1	Consent of PricewaterhouseCoopers.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Amendment No. 2 to its annual report on its behalf.

Lan Airlines S.A.

/s/ Alejandro de la Fuente Goic

Name: Alejandro de la Fuente Goic

Title: Chief Financial Officer

Date: December 1, 2011

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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CLP	-	CHILEAN PESO
ARS	-	ARGENTINE PESO
US\$	-	UNITED STATES DOLLAR
THUS\$	-	THOUSANDS OF UNITED STATES DOLLARS

To the Board of Directors and Shareholders of Lan Airlines S.A.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Lan Airlines S.A. and its subsidiaries at December 31, 2010 and 2009 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers
Santiago - Chile
March 1, 2011

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LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

	<u>Note</u>	<u>2010</u> ThUS\$	<u>2009</u> ThUS\$
Current Assets			
Cash and cash equivalents	6 - 7	631,052	731,497
Other financial assets	7 - 11	245,451	110,667
Other non-financial assets	12	18,820	17,128
Trade and other accounts receivable	7 - 8	481,350	423,739
Accounts receivable from related entities	7 - 9	50	38
Inventories	10	53,193	46,563
Tax assets		97,656	68,420
		<u>1,527,572</u>	<u>1,398,052</u>
Total current assets other than non-current assets (or disposal groups) classified as held for sale		1,527,572	1,398,052
Non-current assets (or disposal groups) classified as held for sale	13	5,497	10,919
Total current assets		<u>1,533,069</u>	<u>1,408,971</u>
Non-current Assets			
Other financial assets	7 - 11	21,587	20,024
Other non-financial assets	12	32,508	28,736
Rights receivable	7 - 8	7,883	7,190
Equity accounted investments	15	593	1,236
Intangible assets other than goodwill	16	45,749	34,814
Goodwill	17	157,994	63,793
Property, plant and equipment	18	4,948,430	4,196,556
		<u>5,252,828</u>	<u>4,363,001</u>
Deferred tax assets	19	38,084	10,652
Total non-current assets		<u>5,252,828</u>	<u>4,363,001</u>
Total assets		<u><u>6,785,897</u></u>	<u><u>5,771,972</u></u>

The accompanying Notes 1 to 39 form an integral part of these consolidated financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES AND NET EQUITY

		For the year ended December 31,	
	Note	2010	2009
		ThUS\$	ThUS\$
LIABILITIES			
Current liabilities			
Other financial liabilities	7 - 20	542,624	417,932
Trade and other accounts payable	7 - 21	645,571	476,597
Accounts payable to related entities	7 - 9	184	297
Other provisions	22	753	970
Tax liabilities		15,736	11,287
Other non-financial liabilities	23	939,151	616,256
Total current liabilities		<u>2,144,019</u>	<u>1,523,339</u>
Non-current liabilities			
Other financial liabilities	7 - 20	2,562,348	2,443,178
Other accounts payable	7 - 25	425,681	426,521
Other provisions	22	32,120	26,834
Deferred tax liabilities	19	312,012	240,619
Employee benefits	24	9,657	5,555
Total non-current liabilities		<u>3,341,818</u>	<u>3,142,707</u>
Total liabilities		<u>5,485,837</u>	<u>4,666,046</u>
EQUITY			
Share capital	26	453,444	453,444
Retained earnings	26	949,214	740,047
Other equity interests	26	5,463	2,490
Other reserves	26	(111,307)	(97,154)
Equity attributable to owners of parent		1,296,814	1,098,827
Non-controlling interest		3,246	7,099
Total equity		<u>1,300,060</u>	<u>1,105,926</u>
Total liabilities and equity		<u>6,785,897</u>	<u>5,771,972</u>

The accompanying Notes 1 to 39 form an integral part of these consolidated financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2010 ThUS\$	For the year ended December 31, 2009 ThUS\$	2008 ThUS\$
Revenue	27	4,390,502	3,519,162	4,140,245
Cost of sales		(3,012,698)	(2,522,778)	(2,893,944)
Gross margin		1,377,804	996,384	1,246,301
Other income	30	132,826	136,351	142,942
Distribution costs		(383,517)	(326,964)	(366,652)
Administrative expenses		(331,831)	(269,588)	(274,950)
Other expenses		(172,428)	(100,483)	(127,864)
Other gains/(losses)		5,438	(11,728)	(134,731)
Financial income		14,946	18,183	18,480
Financial costs	28	(155,279)	(153,109)	(125,488)
Equity accounted earnings	15	132	315	696
Foreign exchange gains/(losses)	31	13,792	(11,237)	23,443
Result of indexation units		149	(605)	1,229
Income before taxes		502,032	277,519	403,406
Income tax expense	19	(81,107)	(44,487)	(65,094)
NET INCOME FOR THE PERIOD		420,925	233,032	338,312
Income attributable to owners of the parent		419,702	231,126	336,480
Income attributable to non-controlling interests		1,223	1,906	1,832
Net income for the period		420,925	233,032	338,312
EARNINGS PER SHARE				
Basic earnings per share (US\$)		1.23882	0.68221	0.99318
Diluted earnings per share (US\$)		1.23534	0.68221	0.99318

The accompanying Notes 1 to 39 form an integral part of these consolidated financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2010 ThUS\$	For the year ended December 31, 2009 ThUS\$	2008 ThUS\$
NET INCOME		420,925	233,032	338,312
Currency translation differences				
Gains (losses) on currency translation, before tax	31	708	1,442	(7,371)
Other comprehensive income, before taxes, currency translation differences		708	1,442	(7,371)
Cash flow hedges				
Gains (losses) on cash flow hedges before tax	20	(17,855)	252,508	(308,901)
Other comprehensive income, before taxes, cash flow hedges		(17,855)	252,508	(308,901)
Other components of other comprehensive income, before taxes		(17,147)	253,950	(316,272)
Income tax relating to components of other comprehensive income				
Income tax related to currency translation differences in other comprehensive income	19	(120)	1,008	-
Income tax related to cash flow hedges in other comprehensive income	19	3,035	(42,925)	52,513
Amount of income taxes related to components of other comprehensive income		2,915	(41,917)	52,513
Other comprehensive income		(14,232)	212,033	(263,759)
Total comprehensive income		406,693	445,065	74,553
Comprehensive income attributable to the owners of the parent		405,549	441,977	73,900
Comprehensive income attributable to non-controlling interest		1,144	3,088	653
TOTAL COMPREHENSIVE INCOME		406,693	445,065	74,553

The accompanying Notes 1 to 39 form an integral part of these consolidated financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	Share capital	Other equity interests	Other reserves		Retained earnings	Equity attributable to owners of the parent	Non- controlling interest	Total net equity
			Currency translation reserve	Cash flow hedging reserve				
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2010	453,444	2,490	(4,924)	(92,230)	740,047	1,098,827	7,099	1,105,926
Changes in equity								
Comprehensive income								
Net income	26	-	-	-	419,702	419,702	1,223	420,925
Other comprehensive income		-	667	(14,820)	-	(14,153)	(79)	(14,232)
Total comprehensive income		-	667	(14,820)	419,702	405,549	1,144	406,693
Transactions with shareholders								
Dividends	26	-	-	-	(210,406)	(210,406)	-	(210,406)
Increase (decrease) for transfers and other changes	26-36	-	2,973	-	(129)	2,844	(4,997)	(2,153)
Total transactions with shareholders		-	2,973	-	(210,535)	(207,562)	(4,997)	(212,559)
Closing balance as of December 31, 2010		453,444	5,463	(4,257)	949,214	1,296,814	3,246	1,300,060

The accompanying Notes 1 to 39 form an integral part of these consolidated financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

			Other reserves			Equity	Non-	Total	
	Note	Share capital	Other equity interests	Currency translation reserve	Cash flow hedging reserve	Retained earnings	attributable to owners of the parent	controlling interest	net equity
		ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 01, 2009		453,444	1,749	(6,192)	(301,813)	614,587	761,775	6,829	768,604
Changes in equity									
Comprehensive income									
Net income	26	-	-	-	-	231,126	231,126	1,906	233,032
Other comprehensive income		-	-	1,268	209,583	-	210,851	1,182	212,033
Total comprehensive income		-	-	1,268	209,583	231,126	441,977	3,088	445,065
Transactions with shareholders									
Dividends	26	-	-	-	-	(104,622)	(104,622)	-	(104,622)
Increase (decrease) for transfers and other changes	26-36	-	741	-	-	1,613	2,354	(2,818)	(464)
Increase (decrease) in ownership interests that do not result in a loss of control		-	-	-	-	(2,657)	(2,657)	-	(2,657)
Total transactions with shareholders		-	741	-	-	(105,666)	(104,925)	(2,818)	(107,743)
Closing balance as of December 31, 2009		453,444	2,490	(4,924)	(92,230)	740,047	1,098,827	7,099	1,105,926

The accompanying Notes 1 to 39 form an integral part of these consolidated financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT – METHOD

	Note	2010 ThUS\$	For the year ended December 31, 2009 ThUS\$	2008 ThUS\$
Cash flows from operating activities				
Cash collection from operating activities				
Proceeds from sales of goods and services		4,831,963	3,871,189	4,648,591
Other cash receipts from operating activities		46,336	40,319	35,457
Payments for operating activities				
Payments to suppliers for goods and services		(3,058,168)	(2,475,716)	(3,318,680)
Payments to and on behalf of employees		(633,686)	(636,603)	(614,528)
Other payments for operating activities		(18,000)	(19,000)	-
Interest paid		(387)	-	-
Interest received		11,438	13,542	8,226
Income taxes refunded (paid)		(11,098)	10,304	(26,994)
Other cash inflows (outflows)		(43,061)	41,792	(100,997)
Net cash flows from operating activities		<u>1,125,337</u>	<u>845,827</u>	<u>631,075</u>
Cash flows used in investing activities				
Cash flows from disposal of subsidiaries		1,491	1,568	6,708
Cash flows used for acquisition of subsidiaries		(12,000)	(921)	(698)
Cash flows used in the purchase of non-controlling interest		-	(2,439)	-
Other cash receipts from sales of equity or debt instruments of other entities		12,915	8,743	14,511
Other payments to acquire equity or debt instruments of other entities		(60,000)	(58,983)	(2,607)
Amounts raised from sale of property, plant and equipment		577	10,777	6,625
Purchases of property, plant and equipment		(1,029,158)	(538,576)	(779,315)
Purchases of intangible assets		(19,236)	(12,888)	(23,388)
Dividends received		111	414	813
Interest received		4,048	2,637	2,743
Other cash inflows (outflows)		812	-	5
Net cash flow used in investing activities		<u>(1,100,440)</u>	<u>(589,668)</u>	<u>(774,603)</u>
Cash flows from (used in) financing activities				
Amounts raised from term loans		687,792	671,425	574,874
Loan Payments		(554,539)	(261,705)	(102,644)
Payments of finance lease liabilities		(54,034)	(62,858)	(52,386)
Dividends paid		(155,407)	(139,937)	(222,803)
Interest paid		(128,722)	(129,323)	(81,421)
Other cash inflows		80,181	21,588	(15,210)
Net cash flows from (used in) financing activities		<u>(124,729)</u>	<u>99,190</u>	<u>100,410</u>
Net increase (decrease) in cash and cash equivalents before the effect of changes in the exchange rate		(99,832)	355,349	(43,118)
Effects of variation in the exchange rate on cash and cash equivalents		(613)	(24,824)	(1,525)
Net increase (decrease) in cash and cash equivalents		<u>(100,445)</u>	<u>330,525</u>	<u>(44,643)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6	<u>731,497</u>	<u>400,972</u>	<u>445,615</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6	<u><u>631,052</u></u>	<u><u>731,497</u></u>	<u><u>400,972</u></u>

The accompanying Notes 1 to 39 form an integral part of these consolidated financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010

NOTE 1 - GENERAL INFORMATION

Lan Airlines S.A. (the "Company" or "LAN") is a public company registered with the Chilean Superintendency of Securities and Insurance (SVS), under No.306, whose shares are quoted in Chile on the Valparaíso Stock Exchange, the Chilean Electronic Exchange and the Santiago Stock Exchange; it is also quoted on the New York Stock Exchange (NYSE) in the form of American Depositary Receipts (ADRs). Its principal business is passenger and cargo air transportation, both in the domestic markets of Chile, Peru, Argentina, Colombia and Ecuador and a series of regional and international routes in America, Europe and Oceania. These businesses are performed directly or through its subsidiaries in different countries. In addition, the company has subsidiaries operating in the freight business in Mexico, Brazil and Colombia.

On August 13, 2010, LAN Airlines S.A. and TAM S.A. (TAM) announced they have signed a non-binding Memorandum of Understanding (MOU) in which the companies agree to proceed with their intention of carrying out their operations jointly under one parent company, to be named LATAM Airlines Group. The proposed partnership of LAN with TAM would be within the world's 10 largest airline groups. LATAM will provide transport services for passengers and cargo to more than 115 destinations in 23 countries, operating with a fleet of over 280 aircraft, with over 40,000 employees. Both airlines will continue operating independently with their current operating licenses and brands. Within the group, TAM will continue operating as a Brazilian company with its own structure. The current holding of LAN Airlines S.A. will operate as an independent business unit within the group. On October 20, 2010, LAN Airlines and TAM announced that the operating subsidiaries of TAM had presented the structure of the transaction to the Brazilian Civil Aviation Agency (ANAC) for approval.

The Company is located in Santiago, Chile, at Avenida Américo Vespucio Sur 901, Renca.

Corporate governance practices of the Company are set in accordance with Securities Market Law 18,045 the Corporations Law 18,046 and its regulations, and the regulations of the SVS and the laws and regulations of the United States of America and the US Securities and Exchange Commission (SEC) with respect to the issuance of ADRs.

The Board of the Company is composed of nine members who are elected every two years by the ordinary shareholders meeting. The board meets in regular monthly sessions and in extraordinary sessions as the corporate needs demand. Of the nine board members, three form part of its Directors' Committee which fulfills both the role foreseen in the Corporations Law and the functions of the Audit Committee required by the Sarbanes Oxley Act of the United States of America and the respective regulations of the SEC.

The majority shareholder of the Company is the Cueto Group, which through Costa Verde Aeronáutica S.A. and Inversiones Mineras del Cantábrico S.A. owns 34.1% of the shares issued by the Company, as is the controller of the Company in accordance with the provisions of the letter b) of Article 97 and Article 99 of the Securities Market Law, attended that despite not meeting the majority of votes at shareholder meetings and to elect the majority of the directors of the Company, has a decisive influence in its administration.

As of December 31, 2010, the Company had a total of 1,412 registered shareholders, and 5.23% of the Company's share capital was in the form of ADRs.

For the year ended December 31, 2010 the Company had an average of 17,810 employees, ending the year with a total of 20,285 people, with 3,940 in administration, 2,576 in maintenance, 5,730 in operations, 3,561 flight personnel, 1,835 cabin crew, and 2,643 in sales.

The significant operating subsidiaries included in these consolidated financial statements are as follows:

Tax No.	Company	Country of origin	Functional Currency	As of December 31, 2010			As of December 31, 2009		
				Direct ownership interest	Indirect ownership interest	Total ownership interest	Direct ownership interest	Indirect ownership interest	Total ownership interest
				%	%	%	%	%	%
96.518.860-6	Lantours Division de Servicios Terrestres S.A. (*)	Chile	US\$	99.9900	0.0100	100.0000	99.9900	0.0100	100.0000
96.763.900-1	Inmobiliaria Aeronáutica S.A.	Chile	US\$	99.0100	0.9900	100.0000	99.0100	0.9900	100.0000
96.969.680-0	Lan Pax Group S.A. and Subsidiaries	Chile	US\$	99.8361	0.1639	100.0000	99.8361	0.1639	100.0000
Foreign	Lan Perú S.A.	Perú	US\$	49.0000	21.0000	70.0000	49.0000	21.0000	70.0000
Foreign	Lan Chile Investments Limited and Subsidiaries	Caymán Island	US\$	99.9900	0.0100	100.0000	99.9900	0.0100	100.0000
93.383.000-4	Lan Cargo S.A.	Chile	US\$	99.8939	0.0041	99.8980	99.8939	0.0041	99.8980
Foreign	Connecta Corporation	U.S.A	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Prime Airport Services Inc. and Subsidiary	U.S.A	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.951.280-7	Transporte Aéreo S.A.	Chile	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.634.020-7	Ediciones Ladeco América S.A.	Chile	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Aircraft International Leasing Limited	U.S.A	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.631.520-2	Fast Air Almacenes de Carga S.A.	Chile	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.631.410-9	Ladeco Cargo S.A.	Chile	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Laser Cargo S.R.L.	Argentina	ARS	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Lan Cargo Overseas Limited and Subsidiaries	U.S.A	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.969.690-8	Lan Cargo Inversiones S.A. and Subsidiary	Chile	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.801.150-2	Blue Express INT L S.A. and Subsidiary	Chile	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.575.810-0	Inversiones Lan S.A. and Subsidiaries	Chile	CLP	99.7100	0.0000	99.7100	99.7100	0.0000	99.7100

(*) Comercial Masterhouse S.A., in July 2010, changed name to Lantours División de Servicios Terrestres S.A.

Additionally, the Company has proceeded to consolidate certain special purpose entities according with standards issued by the Standing Interpretations Committee of the International Accounting Standards: Consolidation - Special Purpose Entities ("SIC 12") and private investment funds in which the parent company and subsidiaries are contributors.

All the entities controlled have been included in the consolidation.

Changes in the scope of consolidation from January 01, 2009 and December 31, 2010, are detailed below:

- (1) Dissolution of company
Nigsy S.A., indirect subsidiary of Lan Chile Investments Limited
- (2) Incorporation or acquisition of companies
Florida West Technical Services LLC., direct subsidiary of Prime Airport Services S.A., in April 2010, changed name to Lan Cargo Repair Station, LLC.
Aerovías de Integración Regional, Aires S.A., indirect subsidiary of Lan Pax Group S.A., in November 2010, acquired through the purchase of companies Akemi Holdings S.A. and Saipan Holdings S.A.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following describes the principal accounting policies adopted in the preparation of these consolidated financial statements.

2.1. Preparation

The consolidated financial statements of Lan Airlines SA are for the period ended December 31, 2010 and have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared under the historic-cost criterion, although modified by the valuation at fair value of certain financial instruments.

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to use its judgment in applying the Company's accounting policies. Note 4 shows the areas that imply a greater degree of judgment or complexity or the areas where the assumptions and estimates are significant to the consolidated financial statements.

At the date of these consolidated financial statements, the following accounting pronouncements had been issued by the IASB:

a) Accounting pronouncements effective as of January 1, 2010:

Standards and amendments	Mandatory application: annual periods beginning on or after
IFRS 3 revised: Business Combinations	01/07/2009
Amendment to IAS 27: Consolidated and separate financial statements	01/07/2009
Amendment to IFRS 2: Share-based payment	01/01/2010
Amendment to IAS 38: Intangible assets	01/07/2010
Amendment to IAS 1: Presentation of financial statements	01/01/2010
Amendment to IAS 36: Impairment assets	01/01/2010
Amendment to IFRS 5: Non-current assets held for sale and discontinued operations	01/01/2010
Interpretation	Mandatory application: annual periods beginning on or after
IFRIC 17: Distributions to owners of non-monetary assets	01/07/2009
IFRIC 18: Transfers of assets from customers	01/07/2009
Amendment to IFRIC 9: Reassessment of embedded derivatives	01/07/2009
Amendment to IFRIC 16: Hedges of a net investment in a foreign operation	01/07/2009

b) Accounting pronouncements effective as of January 1, 2011:

Standards and amendments	Mandatory application: annual periods beginning on or after
Amendment to IAS 32: Classification of rights issues	01/02/2010
IAS 24 revised: Related party disclosures	01/01/2011
IFRS 9: Financial instruments	01/01/2013
Amendment to IFRS 3: Business Combinations	01/07/2010
Amendment to IFRS 7: Financial Instruments: Disclosures	01/01/2011
Amendment to IAS 1: Presentation of financial statements	01/01/2011
Amendment to IAS 27: Consolidated and separate financial statements	01/07/2010
Amendment to IAS 34: Interim financial reporting	01/01/2011
Interpretation	Mandatory application: annual periods beginning on or after
IFRIC 19: Extinguishing financial liabilities with equity instruments	01/07/2010
Amendment to IFRIC 14: Pre-payments of a minimum funding requirement	01/01/2011
Amendment to IFRIC 13: Customer loyalty programs	01/01/2011

The Company's management believes that the adoption of the standards, amendments and interpretations described above would not have had a significant impact on the Company's consolidated financial statements in the period of their first application.

2.2. Consolidation

(a) Subsidiaries

Subsidiaries are all the entities (including special-purpose entities) over which the Company has the power to control the financial and operating policies, which are generally accompanied by a holding of more than half of the voting rights. In evaluating whether the Company controls another entity, the existence and effect of potential voting rights that are currently exercisable or convertible are considered. The subsidiaries are consolidated from the date on which control is passed to the Company and they are excluded from the consolidation on the date they cease to be so controlled.

The Company uses the acquisition-cost method or purchase accounting for the purchase of subsidiaries. The cost of acquisition is the fair value of the assets delivered, the equity instruments issued and the liabilities incurred or assumed on the exchange date. The identifiable assets acquired and the liabilities and contingent liabilities assumed in a business combination are initially valued at their fair value on the date of acquisition, regardless of the extent of the non-controlling interests. The excess of the acquisition cost over the fair value of the Company's holding in the net identifiable assets acquired is shown as goodwill. If the cost is less than the fair value of the net assets of the acquired subsidiary, the difference is recorded directly in the consolidated statement of income (Note 2.6).

Inter-company transactions, balances and unrealized gains on transactions between the Company's entities are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment loss of the asset transferred. When necessary in order to ensure uniformity with the policies adopted by the Company, the accounting policies of the subsidiaries are modified.

(b) Transactions and minority holdings

The Group applies the policy of considering transactions with non-controlling interests, when not related to loss of control, as equity transactions without an effect on income.

(c) Investees or associates

Investees or associates are all entities over which Lan Airlines S.A. and Subsidiaries exercise a significant influence but has no control, this usually arise by a holding of between 20% and 50% of the voting rights. Investments in associates are booked using the equity method and are initially recorded at their cost.

The participation of Lan Airlines S.A. and Subsidiaries in the losses or gains after the acquisition of its investees or associates is shown in results, and its participation in post acquisition movements in reserves of investees or associates are shown in reserves. Post-acquisition movement is adjusted against the carrying amount of the investment. When the participation of Lan Airlines S.A. and Subsidiaries in the losses of an investee or associate is equal to or more than its holding in it, including any other non guaranteed account receivable, Lan Airlines S.A. and Subsidiaries will not show the additional losses unless it has incurred obligations or made payments on behalf of the investee or associate.

Gains or losses for dilution in investees or associates are shown in the consolidated statement of income.

2.3. Foreign currency transactions

(a) Presentation and functional currencies

The items included in the financial statements of each of the entities of Lan Airlines S.A. and Subsidiaries are valued using the currency of the main economic environment in which the entity operates (the functional currency). The functional currency of Lan Airlines S.A. is the United States dollar which is also the currency of presentation of the consolidated financial statements of Lan Airlines S.A. and Subsidiaries.

(b) Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates on the transaction dates. Foreign currency gains and losses resulting from the liquidation of these transactions and from the translation at the closing exchange rates of the monetary assets and liabilities denominated in foreign currency are shown in the consolidated statement of income.

(c) Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency other than the currency of presentation are translated to the currency of presentation as follows:

- (i) Assets and liabilities of each consolidated statement of financial position presented are translated at the closing exchange rate on the consolidated statement of financial position date;
- (ii) The revenues and expenses of each results account are translated at the exchange rates prevailing on the transaction dates,
- (iii) All the resultant exchange differences are shown as a separate component in net equity.

In the consolidation, exchange differences arising from the translation of a net investment in foreign entities (or local with a functional currency different to that of the parent), and of loans and other foreign currency instruments designated as hedges for these investments, are recorded within net equity. When the investment is sold, these exchange differences are shown in the consolidated statement of income as part of the loss or gain on the sale.

Adjustments to the goodwill and fair value arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the period-end exchange rate.

2.4. Property, plant and equipment

The land of Lan Airlines S.A. and Subsidiaries is recognized at cost less any accumulated impairment loss. The rest of the property, plant and equipment is shown, initially and subsequently, at historic cost less the corresponding depreciation and any impairment loss, except for certain land and minor equipment that were revalued on first time adoption of IFRS.

The amounts of advance payments to aircraft manufacturers are capitalized by the Company under Construction in progress until receipt of the aircraft. Subsequent costs (replacement of components, improvements, extensions, etc.) are included in the value of the initial asset or shown as a separate asset only when it is probable that the future economic benefits associated with the elements of property, plant and equipment are going to flow to the Company and the cost of the element can be determined reliably. The value of the component replaced is written off in the books at the time of replacement. The rest of the repairs and maintenance are charged to the result of the year in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method over their estimated technical useful lives; except in the case of certain technical components which are depreciated on the basis of cycles and hours flown. The residual value and useful life of assets is revised, and adjusted if necessary, once a year.

When the carrying amount of an asset is higher than its estimated recoverable amount, its value is reduced immediately to its recoverable amount (Note 2.8).

Losses and gains on the sale of property, plant and equipment are calculated by comparing the proceeds obtained with the book value and are included in the consolidated statement of income.

2.5. Intangible assets

Computer software

Licenses for computer software acquired are capitalized on the basis of the costs incurred in acquiring them and preparing them for using the specific software. These costs are amortized over their estimated useful lives.

Expenses related to the development or maintenance of computer software which do not qualify for capitalization, are shown as an expense when incurred. Certain costs directly related to the production of unique and identifiable computer software controlled by the Company, are shown as intangible assets when met all the criteria for capitalization. The direct costs include the expenses of the personnel who develop the computer software and other costs directly associated.

Development costs of computer software shown as assets are amortized over their estimated useful lives.

2.6. Goodwill

Goodwill represents the excess of acquisition cost over the fair value of the Company's participation in the net identifiable assets of the subsidiary on the acquisition date. Goodwill related to acquisitions of subsidiaries is not amortized but tested for impairment annually and when there are indications that the carrying value may not be recoverable. Gains and losses on the sale of an entity include the book amount of the goodwill related to the entity sold.

2.7. Borrowing costs

Interest costs incurred for the construction of any qualified asset are capitalized over the time necessary for completing and preparing the asset for its intended use. Other interest costs are charged to income and expenses.

2.8. Losses for impairment of non-financial assets

Assets that have an indefinite useful life, and developing IT projects, are not subject to amortization and are subject to annual testing for impairment losses. Assets subject to amortization are subjected to impairment tests whenever any event or change in circumstances indicates that the book value of the assets may not be recoverable. An impairment loss is recorded when the book value is greater than the recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In evaluating the impairment, the assets are grouped at the lowest level for which cash flows are separately identifiable (CGUs). Non-financial assets other than goodwill that have suffered an impairment loss are subjected to a test once a year to check that there has been no reversal of the loss.

2.9. Financial assets

The Company classifies its financial instruments in the following categories: financial assets at fair value through profit and loss, loans and accounts receivable and financial assets held to maturity. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at the time of initial recognition, which occurs on the date of transition.

(a) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial instruments held for trading and those in their initial classification has been designated as at fair value through profit or loss. A financial asset is classified in this category if acquired mainly for the purpose of being sold in the near future or when these assets are managed and measured using fair value. Derivatives are also classified as acquired for trading unless they are designated as hedges. Assets in this category are classified as cash and cash equivalents, held for trading, and other financial assets, designated on initial recognition.

(b) Loans and accounts receivable

Loans and accounts receivable are non-derivative financial instruments with fixed or determinable payments not traded on an active market. These items are classified in current assets except for those with maturity over 12 months from the date of the consolidated statement of financial position, which are classified as non-current assets. Loans and accounts receivable are included in trade and other accounts receivable in the consolidated statement of financial position (Note 2.12).

(c) Financial assets held to maturity

Financial assets held to maturity are non-derivative financial instruments with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and capacity to hold until their maturity. Should the Company sell a not-insignificant amount of the financial assets held to their maturity, the whole category is reclassified as available for sale. These financial instruments held to maturity are included in non-current assets, except for those maturity equal to or less than 12 months from the consolidated statement of financial position, which are classified as other current financial assets.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method. Held to maturity investments are carried at amortized cost using the effective interest rate.

The company valued at the date of each consolidated statement of financial position if there is objective evidence that a financial asset or group of financial assets may have suffered an impairment loss. For the case of financial assets held to maturity, if any evidence of impairment, the amount of the provision is the difference between the book value of the assets and the present value of the estimated future cash flows, discounted at the original effective interest rate.

2.10. Derivative financial instruments and hedging activities

Derivatives are booked initially at fair value on the date the derivative contracts are signed and later they continue to be valued at their fair value. The method for booking the resultant loss or gain depends on whether the derivative has been designated as a hedging instrument and, if so, the nature of the item hedged. The Company designates certain derivatives as:

- (a) Hedge of the fair value of recognized assets (fair value hedge);
- (b) Hedge of an identified risk associated with a recognized liability or an expected highly-probable transaction (cash-flow hedge), or
- (c) Derivatives that do not qualify for hedge accounting.

The Company documents, at the inception of each transaction, the relationship between the hedging instrument and the hedged item, as well as its objectives for managing risk and the strategy for carrying out various hedging transaction. The Company also documents its assessment, both at the beginning and on an ongoing basis, as to whether the derivatives used in the hedging transactions are highly effective in offsetting the changes in the fair value or cash flows of the items being hedged.

The total fair value of the hedging derivatives is booked as an other non-current financial asset or liability if the remaining maturity of the item hedged is over 12 months, and as an other current financial asset or liability if the remaining term of the item hedged is less than 12 months.

Derivatives not booked as hedges are classified as other financial assets or liabilities, current in the case that their remaining maturity is less than 12 months and non-current in the case that it is more than 12 months.

(a) Fair value hedges

Changes in the fair value of derivatives designated and that qualify as fair value hedges are shown in the consolidated statement of income, together with any change in the fair value of the asset or liability hedged that is attributable to the risk being hedged.

(b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is shown in net equity. The loss or gain relating to the ineffective portion is recognized immediately in the consolidated statement of income under "Other gains (losses)".

In the case of variable interest-rate hedges, this means that the amounts recognized in equity are reclassified to results within financial cost at the same time the associated debts accrue interest.

For fuel price hedges, the amounts shown in equity are reclassified to income as Cost of sales to the extent that the fuel subject to the hedge is used.

When hedging instruments mature or are sold or when they do not meet the requirements to be accounted for as hedges, any gain or loss accumulated in net equity until that moment remains in equity and is reclassified to the consolidated statement of income when the hedged transaction is finally recognized. When it is expected that the hedged transaction is no longer going to occur, the gain or loss accumulated in net equity is taken immediately to the consolidated statement of income as "Other gains (losses)".

(c) Derivatives not booked as a hedge

Certain derivatives are not booked as a hedge. The changes in fair value of any derivative instrument that is not booked as a hedge are shown immediately in the consolidated statement of income, in "Other gains (losses)".

2.11. Inventories

Inventories, detailed in note 10, are shown at the lower of cost and their net realizable value. The cost is determined on the basis of the weighted average cost method. The net realizable value is the estimated selling price in the normal course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.12. Trade and other accounts receivable

Trade accounts receivable are shown initially at their fair value and later at their amortized cost in accordance with the effective interest rate method, less the allowance for impairment losses. An allowance for impairment losses of trade accounts receivable is made when there is objective evidence that the Company will not be able to recover all the amounts due according to the original terms of the accounts receivable. The existence of significant financial difficulties on the part of the debtor, the probability that the debtor is entering bankruptcy or financial reorganization and the default or delay in making payments are considered as indicators that the receivable has been impaired. The amount of the provision is the difference between the book value of the assets and the present value of the estimated future cash flows, discounted at the original effective interest rate. The book value of the asset is reduced by the amount of the allowance and the loss is shown in the consolidated statement of income in Cost of sales. When an account receivable is written off, it is charged to the allowance account for accounts receivable.

2.13. Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, time deposits in financial institutions, and other short-term and easily-liquidated investments.

2.14. Capital

The common shares are classified as net equity.

Incremental costs directly attributable to the issuance of new shares or options are shown in net equity as a deduction from the proceeds obtained.

2.15. Trade and other accounts payable

Trade payables and other accounts payables are initially recognized at fair value and subsequently at amortized cost are valued according to the method of the effective interest rate

2.16. Interest-bearing loans

Financial liabilities are shown initially at their fair value, net of the costs incurred in the transaction. Later, these financial liabilities are valued at their amortized cost; any difference between the proceeds obtained (net of the necessary arrangement costs) and the repayment value, is shown in the consolidated statement of income during the term of the debt, according to the effective interest rate method.

Financial liabilities are classified in current and non-current liabilities according to the contractual payment dates of the nominal principal.

2.17. Deferred taxes

Deferred taxes are calculated, according to the balance-sheet method, on the temporary differences arising between the tax bases of assets and liabilities and their book values. However, if the temporary differences arise from the initial recognition of a liability or an asset in a transaction different from a business combination that at the time of the transaction does not affect the accounting result or the tax gain or loss, they are not booked. The deferred tax is determined using the tax rates (and laws), that have been enacted or substantially enacted at the end of the reporting period, and are expected to apply when the related deferred tax asset is realized or the deferred tax liability discharged.

Deferred tax assets are recognised when it is probable that there will be sufficient future tax earnings with which to compensate the temporary differences.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18. Employee benefits

(a) Personnel vacations

The Company recognizes the expense for personnel vacations on an accrual basis.

(b) Share-based compensation

The compensation plans implemented by the granting of options for the subscription and payment of shares are shown in the consolidated financial statements in accordance with IFRS 2: Share based payments, showing the effect of the fair value of the options granted as a charge to remuneration on a straight-line basis between the date of granting such options and the date on which these become vested.

(c) Post-employment and other long-term benefits

Provisions are made for these obligations by the application of the actuarial value of the accrued cost of the benefit method, and take into account estimates of future permanence, mortality rates and future wage increases determined on the basis of actuarial calculations. The discount rates are determined by reference to market interest-rate curves. Actuarial gains or losses are shown in results for the period when they occur.

(d) Incentives

The Company has an annual incentives plan for its personnel for compliance with objectives and individual contribution to the results. The incentives eventually granted consist of a given number or portion of monthly remuneration and the provision is made on the basis of the amount estimated for distribution.

2.19. Provisions

Provisions are recognised when:

- (i) The Company has a present legal or implicit obligation as a result of past events.
- (ii) It is probable that some payment is going to be necessary to settle an obligation, and
- (iii) The amount has been reliably estimated.

Provisions are shown at the present value of the disbursements expected to be necessary for settling the obligation using the Company's best estimates. The pre-tax discount rate used for determining the present value reflects current market evaluations on the date of the financial statements of the time value of money, plus the specific risks related to the liability in question.

2.20. Revenue recognition

Revenues include the fair value of the proceeds received or to be received on sales of goods and rendering services in the ordinary course of the Company's business. Revenues are shown net of refunds, rebates and discounts.

(a) Rendering of services

a.1 Passenger and cargo transport

The Company shows revenue from the transportation of passengers and cargo once the service has been provided.

a.2 Frequent flyer program

The Company currently has a frequent flyer program called Lan Pass, whose objective is customer loyalty through the delivery of kilometers every time that members fly with the Company or its alliance partners, use the services of entities registered with the program or make purchases with an associated credit card. The kilometers earned can be exchanged for flights tickets or other services of associated entities. The consolidated financial statements include liabilities for this concept (deferred income), according to the estimate of the valuation established for the kilometers accumulated pending use at that date, in accordance with IFRIC 13: Customer loyalty programs.

a.3 Other revenues

The Company records revenues for other services when these have been provided.

(b) Interest income

Interest income is booked using the effective interest rate method.

(c) Dividend income

Dividend income is booked when the right to receive the payment is established.

2.21. Leases

(a) When the Company is the lessee – financial lease

The Company leases certain property, plant and equipment in which it has substantially all the risk and benefits deriving from the ownership; they are therefore classified as financial leases. Financial leases are capitalized at the start of the lease at the lower of the fair value of the asset leased and the present value of the minimum lease payments.

Every lease payment is separated between the liability component and the financial expenses so as to obtain a constant interest rate over the outstanding amount of the debt. The corresponding leasing obligations, net of financial charges, are included in Interest-bearing loans. The element of interest in the financial cost is charged in the consolidated statement of income over the lease period so that it produces a constant periodic rate of interest on the remaining balance of the liability for each period. The asset acquired under a financial lease is depreciated over the shorter of its useful life and the lease term and is included in Property, plant and equipment.

(b) When the Company is the lessee – operating lease

Leases, in which the lessor retains an important part of the risks and benefits deriving from ownership, are classified as operating leases. Payments with respect to operating leases (net of any incentive received from the lessor) are charged in the consolidated statement of income on a straight-line basis over the term of the lease.

2.22. Non-current assets (or disposal groups) classified as held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and are shown at the lesser of their book value and the fair value less costs to sell.

2.23. Maintenance

The costs incurred for scheduled major maintenance of the aircraft's fuselage and engines are capitalized and depreciated until the next maintenance. The depreciation rate is determined on technical grounds, according to its use expressed based on cycles and flight hours.

The unscheduled maintenances of aircraft and engines, and minor maintenances, are charged to income as incurred.

2.24. Environmental costs

Disbursements related to environmental protection are charged to income when incurred.

NOTE 3 - FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The Company's activities are exposed to different financial risks: (a) market risk, (b) credit risk, and (c) liquidity risk. The Company's global risk management program is focused on uncertainty in the financial markets and tries to minimize the potential adverse effects on the net margin. The Company uses derivatives to hedge part of these risks.

(a) Market risk

Due to the nature of its operations, the Company is exposed to market risks such as:

(i) fuel-price risk, (ii) interest-rate risk, and (iii) local exchange-rate risk. In order to fully or partially hedge all these risks, the Company operates with derivative instruments to fix or limit rises in the underlying assets.

(i) Fuel-price risk:

Fluctuations in fuel prices largely depend on the global supply and demand for oil, decisions taken by Organization of Petroleum Exporting Countries (OPEC), global refining capacity, stock levels maintained, and weather and geopolitical factors.

The Company purchases an aircraft fuel called Jet Fuel grade 54. There is a benchmark price in the international market for this underlying asset, which is US Gulf Coast Jet 54. However, the futures market for this asset has a low liquidity index and as a result the Company hedges its exposure using West Texas Intermediate (WTI) crude, which has a high correlation with Jet Fuel and is a highly liquid asset and therefore has advantages in comparison to the use of the U.S. Gulf Coast Jet 54 index.

During 2010, the Company booked gains of US\$ 1 million on fuel hedging. During 2009, the Company recognized losses of US\$ 128.7 million for the same reason.

At December 31, 2010, the market value of its fuel positions amounted to US\$ 45.8 million. At the December 31, 2009, this market value was US\$ 13.6 million. The following tables show the notional value of the purchase positions together with the derivatives contracted for the different periods:

Positions as of December 31, 2010	Maturities				
	Q111	Q211	Q311	Q411	Total
Volume (thousands of barrels WTI)	1,848	918	687	324	3,777
Agreed future value (US\$ per barril)(*)	82	81	84	90	83
Total (ThUS\$)	151,536	74,358	5,778	29,160	313,491
Approximate percentage of hedge (of expected consumption value)	54%	27%	19%	8%	26%

(*)Weighted average between collars and asset options

Positions as of December 31, 2009

	Maturities				
	Q110	Q210	Q310	Q410	Total
Volume (thousands of barrels WTI)	1,404	1,371	876	738	4,389
Agreed future value (US\$ per barrel)(*)	84	80	79	82	81
Total (ThUS\$)	117,936	109,680	69,204	60,516	355,509
Approximate percentage of hedge (of expected consumption value)	48%	49%	29%	24%	37%

(*)Weighted average between collars and asset options

Sensitivity analysis

A drop in fuel prices positively affects the Company through a reduction in costs. However, this drop negatively affects contracted positions as these are to protect the Company against the risk of a rise in prices. The policy therefore is to maintain a hedge-free percentage in order to be competitive in the event of a drop in prices.

As the current positions do not represent changes in cash flows, but a variation in the exposure to the market value, the current hedge positions have no impact on income (they are booked as cash flow hedge contracts, so a variation in the fuel price has an impact on the Company's net equity).

The following table shows the sensitivity analysis of the financial instruments according to reasonable changes in the fuel price and their effect on equity. The term of the projection was defined until the end of the last current fuel hedge contract, being the last business day of 2011. The calculations were made considering a parallel movement of US\$ 5 per barrel in the curve of the WTI crude futures benchmark price at the end of December 2010, and 2009.

Benchmark price WTI (US\$ per barrel)	Positions as of December 31, 2010 effect on equity (millions of US\$)	Positions as of December 31, 2009 effect on equity (millions of US\$)
+ 5	+16.7	+ 14.6
-5	-15.7	-13.6

The Company seeks to reduce the risk of fuel price rises to ensure it is not left at a disadvantage compared to its competitors in the event of a sharp price fall. The Company therefore uses hedge instruments like swaps, options and collars to partially hedge the fuel volumes consumed.

According to that required by IAS 39, during the periods presented, the company has not recorded amounts for ineffectiveness in the consolidated income statement.

Given the fuel hedge structure to December 31, 2010, which considers a hedge-free portion, a vertical fall by US\$ 5 in the WTI benchmark price (the monthly daily average) for each month would have meant a saving of approximately US\$ 27.1 million in the cost of total fuel consumption. A vertical rise by US\$ 5 in the WTI benchmark price (the monthly daily average) would have meant an impact of approximately US\$ 26.0 million of increased fuel costs for 2010.

(ii) Cash flow interest-rate risk:

The fluctuation in interest rates depends heavily on the state of the global economy. An improvement in long-term economic prospects moves long-term rates upward while a drop causes a decline through market effects. However, if we consider government intervention in periods of economic recession, it is usual to reduce interest rates to stimulate aggregate demand by making credit more accessible and increasing production (in the same way interest rates are raised at times of economic expansion). The present uncertainty about how the market and governments will react, and thus how interest rates will change, creates a risk related to the Company's debt at floating interest rates and its investments.

Cash flow interest rate risk equates to the risk of future cash flows of the financial instruments due to the fluctuation in interest rates on the market. The Company's exposure to risks of changes in market interest rates is mainly related to long-term obligations which accrued interest at a floating rate.

In order to reduce the risk of an eventual rise in interest rates, the Company has signed interest-rate swap and call option contracts in order to eliminate more than 94% of its exposure to interest-rate fluctuations. The Company is therefore exposed to a small portion of the fluctuations in the 90 days London Inter Bank Offer Rate (LIBOR) and the nominal Chilean Active Banking Rate (TAB) 180-day rate.

The following table shows the sensitivity of changes in financial obligations that are not hedged against interest-rate variations. These changes are considered reasonably possible based on current market conditions.

Increase (decrease) in libor 3 months	Positions as of December 31, 2010 effect on pre-tax earnings (millions of US\$)	Positions as of December 31, 2009 effect on pre-tax earnings (millions of US\$)
+100 basis points	-1.18	-0.87
-100 basis points	+1.18	+0.87

Changes in market conditions produce a change in the valuation of current financial instruments hedging interest rates, causing an effect on the Company's equity (because they are booked as cash-flow hedges). These changes are considered reasonably possible based on current market conditions. The calculations were made increasing (decreasing) vertically 100 basis points of the three-month Libor futures curve.

Increase futures curve months	Positions as of December 31, 2010 effect on equity (millions of US\$)	Positions as of December 31, 2009 effect on equity (millions of US\$)
+100 basis points	42.39	49.64
-100 basis points	(45.35)	(53.23)

There are limitations in the method used for the sensitivity analysis and relate to those provided by the market. These are because the levels indicated by the futures curves are not necessarily met and will change in each period.

According to that required by IAS 39, during the periods presented, the company has not recorded amounts for ineffectiveness in the consolidated income statement.

(iii) Local exchange-rate risk:

The functional currency used by the parent Company is the US dollar in terms of setting prices for its services, the composition of its classified statements of financial position and effects on its operating income. It sells most of its services in US dollars or prices equivalent to the US dollar, and a large part of its expenses are denominated in US dollars or equivalents of the US dollar, particularly fuel costs, aeronautic charges, aircraft leases, insurance and aircraft components and accessories. Remuneration expenses are denominated in local currencies.

The Company maintains its cargo and passenger business tariffs in US dollars. There is a mix in the domestic markets as sales in Peru are in local currency but the prices are indexed to the US dollar. In Chile and Argentina, tariffs are in local currency without any kind of indexation. In the case of the domestic business in Ecuador, both tariffs and sales are in dollars. The Company is therefore exposed to fluctuations in the different currencies, mainly: Chilean peso, Argentine peso, Uruguayan peso, Peruvian sol, Brazilian real, Australian dollar and New Zealand dollar; of these, the largest exposure is in Chilean pesos.

The company manages its exposure to foreign currency risk through hedging selected balances using forward exchange contracts and cross currency swaps. The impact of remaining, unhedged exposures is monitored on an ongoing basis and for the periods presented has not been relevant to the company's results.

(b) Credit risk

Credit risk occurs when the counterparty to a financial agreement or instrument fails to discharge an obligation due.

The Company is exposed to credit risk due to its operative and financial activities, including deposits with banks and financial institutions, investments in other kinds of instruments, exchange-rate transactions and the contracting of derivative instruments or options.

(i) Financial activities

Cash surpluses that remain after the financing of assets necessary for the operation are invested according to credit limits approved by the Company's board, mainly in time deposits with different financial institutions, short-term mutual funds, and easily-liquidated corporate and sovereign bonds with short remaining maturities. These investments are booked as cash and cash equivalents and as investments held to maturity.

In order to reduce counterparty risk and to ensure that the risk assumed is known and managed by the Company, investments are diversified among different banking institutions (both local and international). The Company evaluates the credit standing of each counterparty and the levels of investment, based on (i) their credit rating, (ii) the equity size of the counterparty, and (iii) investment limits according to the Company's level of liquidity. According to these three parameters, the Company chooses the most restrictive parameter of the previous three and based on this, establishes limits for operations with each counterparty. All other financial assets with contractual cash flows other than trade receivables are considered by the Company to have minimal credit risk, as they relate principally to the instruments issued by counterparties with high credit quality. The maximum credit loss associated with these instruments is their carrying value.

The Company has no guarantees to mitigate this exposure.

(ii) Operational activities

The Company has four large sales "clusters": travel agencies, cargo agents, airlines and credit-card administrators. The first three are governed by IATA (International Air Transport Association), international organization comprising most of the airlines that represent over 90% of scheduled commercial traffic and one of its main objectives is to regulate the financial transactions between airlines and travel agents and cargo. When an agency or airline does not pay their debt, they are excluded from operating with IATA's member airlines. In the case of credit-card administrators, they are fully guaranteed by the issuing institutions.

The exposure consists of the term granted, and this fluctuates between 1 and 45 days.

One of the tools the Company uses for reducing credit risk is to participate in global entities related to the industry, such as IATA, Business Sales Processing (BSP), Cargo Account Settlement Systems ("CASS"), IATA Clearing House ("ICH") and banks (credit cards). These institutions fulfill the role of collectors and distributors between airlines and travel and cargo agencies. In the case of the Clearing House, it acts as an offsetting entity between airlines for the services provided between them. A reduction in term and implementation of guarantees has been achieved through these entities.

Credit quality of financial assets

The credit evaluation system used by the Company for trade receivables is that provided by IATA. Internal systems are also used for particular evaluations or specific markets based on trade reports available on the local market. The internal classification system is complementary to the external one, i.e. for agencies or airlines not members of IATA, the internal demands are greater. The bad-debt rate in the principal countries where the Company has a presence is insignificant.

(c) Liquidity risk

Liquidity risk represents the risk that the Company has no funds to meet its obligations.

Because of the cyclical nature of the business, the operation, and its investment and financing needs related to the acquisition of new aircraft and renewal of its fleet, plus the financing needs related to market-risk hedges, the Company requires liquid funds to meet its payment obligations.

The Company therefore manages its cash and cash equivalents and its financial assets, matching the term of investments with those of its obligations. Its policy is that the average term of its investments may not exceed the average term of its obligations. This cash and cash equivalents position is invested in highly-liquid short-term instruments through first-class financial entities.

The Company has future obligations related to financial leases, operating leases, maturities of other bank borrowings, derivative contracts and aircraft purchase contracts.

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2010

Class of liability	Debtor Tax No.	Debtor	Debtor country	Creditor Tax No.	Creditor	Creditor country	Currency	Upto 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total	Amortization	Effective rate	Nominal value	Nominal rate
								ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			ThUS\$	%	ThUS\$
Guaranteed obligations	89.862.200-2	Lan Airlines S.A.	Chile	0- E	ING	U.S.A.	US\$	7,425	22,305	53,471	47,128	93,325	223,654	Quarterly	5.19%	181,029	4.69%
		Lan Airlines S.A.	Chile	0- E	CALYON	Fr a n c e	US\$	21,045	63,352	130,785	39,186	20,916	275,284	Quarterly	4.47%	256,417	4.47%
		Lan Airlines S.A.	Chile	0- E	PEFCO	U.S.A.	US\$	19,838	59,513	158,688	149,595	209,374	597,008	Quarterly	5.16%	497,692	4.60%
		Lan Airlines S.A.	Chile	0- E	BNP PARIBAS WELLS	U.S.A.	US\$	22,831	68,726	184,673	186,931	385,438	848,599	Quarterly	4.49%	707,306	4.00%
		Lan Airlines S.A.	Chile	0- E	FARGO	U.S.A.	US\$	5,626	16,842	44,872	44,796	135,714	247,850	Quarterly	3.64%	204,392	3.53%
		Lan Airlines S.A.	Chile	0- E	CITIBANK	U.S.A.	US\$	8,984	27,039	72,767	73,806	206,771	389,367	Quarterly	3.93%	326,235	3.48%
		Lan Airlines S.A.	Chile	0- E	SANTANDER	S p a i n	US\$	2,919	8,859	24,242	25,206	95,708	156,934	Quarterly	0.95%	148,741	0.83%
Financial leases	89.862.200-2	Lan Airlines S.A.	Chile	0- E	ING	U.S.A.	US\$	3,899	11,685	30,440	25,695	11,675	83,394	Quarterly	4.08%	77,096	3.71%
		Lan Airlines S.A.	Chile	0- E	CALYON	Fr a n c e	US\$	2,249	6,786	18,376	22,613	43,431	93,455	Quarterly	1.27%	87,337	1.27%
		Lan Airlines S.A.	Chile	0- E	CITIBANK S	U.S.A.	US\$	1,692	5,249	26,758	-	-	33,699	Quarterly	1.32%	32,921	1.27%
		Lan Airlines S.A.	Chile	0- E	.CHARTERED	U.S.A.	US\$	3,858	11,873	14,628	-	-	30,359	Quarterly	1.28%	29,864	1.25%
Bank loans	89.862.200-2	Lan Airlines S.A.	Chile	0- E	SANTANDER MADRID	Spain	US\$	-	26,125	12,726	-	-	38,851	Semiannual	3.64%	37,500	3.55%
Bank loans	89.862.200-2	Lan Airlines S.A.	Chile	97.023.000-976.645.030-K	CORP BANCA	Chile	CLP	13,479	13,158	12,713	-	-	39,350	Semiannual	6.53%	36,858	6.44%
		Lan Airlines S.A.	Chile	97.006.000-6	ITAU	Chile	CLP	-	21,653	10,332	-	-	31,985	Semiannual	6.67%	29,967	6.60%
		Lan Airlines S.A.	Chile	97.030.000-7	BCI	Chile	CLP	-	38,144	18,188	-	-	56,332	Semiannual	6.71%	52,723	6.63%
		Lan Airlines S.A.	Chile	0- E	ESTADO HELM	Chile	CLP	-	47,521	22,666	-	-	70,187	Semiannual	6.65%	65,704	6.59%
		Aires S.A.	Colombia	0- E	HELM	Colombia	COP	3,944	-	-	-	-	3,944	30 days	3.37%	3,936	3.37%
Other loans	89.862.200-2	Lan Airlines S.A.	Chile	0- E	SANTANDER MADRID	S p a i n	US\$	586	1,587	72,962	-	-	75,135	-	3.29%	72,962	3.29%
		Lan Airlines S.A.	Chile	0- E	BOEING	U.S.A.	US\$	1,862	1,207	106,665	-	-	109,734	-	2.04%	106,209	2.04%
Derivatives	89.862.200-2	Lan Airlines S.A.	Chile	-	OTHERS	-	US\$	6,018	22,331	61,273	24,643	4,751	119,016	-	-	115,189	-
Non- hedging Derivatives	89.862.200-2	Lan Airlines S.A.	Chile	-	OTHERS	-	US\$	1,461	4,239	9,891	5,608	-	21,199	-	-	20,703	-
Accounts payable other accounts payable		Lan Airlines S.A.															
		and subsidiaries	Varios	-	Varios	-	US\$	277,327	26,002	-	-	-	303,329	-	-	303,329	-
							CLP	28,058	-	-	-	-	28,058	-	-	28,058	-
							Others	169,307	-	-	-	-	169,307	-	-	169,307	-
Other accounts payable, non-currents		Lan Airlines S.A.															
		and subsidiaries	Varios	-	Varios	-	US\$	-	-	54,000	-	-	54,000	-	-	54,000	-
Accounts payable related parties		Lan Airlines S.A.			Lufthansa Lan Technical training S.A.												
		and subsidiaries	Varios	96847880- k			-	-	184	-	-	-	-	184	-	-	184
Total								602,592	504,196	1,141,116	645,207	1,207,103	4,100,214			3,645,660	

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2009

Class of Liability	Debtor Tax No.	Debtor	Debtor country	Creditor Tax No.	Creditor	Creditor Country	Currency	Upto 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total	Amortization	Effective rate %	Nominal value ThUS\$	Nominal rate %
								ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$				
Guaranteed obligations	89.862.200-2	Lan Airlines S.A.	Chile	0-E	ING	U.S.A.	US\$	7,355	22,153	59,137	47,630	116,885	253,160	Quarterly	5.19%	201,409	4.63%
		Lan Airlines S.A.	Chile	0-E	CALYON	France	US\$	20,878	62,824	166,879	67,336	40,878	358,795	Quarterly	5.01%	325,998	5.01%
		Lan Airlines S.A.	Chile	0-E	PEFCO	U.S.A.	US\$	19,830	59,513	158,706	158,703	279,604	676,356	Quarterly	5.14%	552,605	4.58%
		Lan Airlines S.A.	Chile	0-E	BNP P ARIBAS	U.S.A.	US\$	24,127	72,581	195,244	197,936	529,928	1,019,816	Quarterly	3.86%	840,814	3.72%
		Lan Airlines S.A.	Chile	0-E	RBS	U.S.A.	US\$	6,083	18,250	48,667	48,667	135,929	257,596	Quarterly	6.40%	191,879	5.67%
		Lan Airlines S.A.	Chile	0-E	WELLS FARGO	U.S.A.	US\$	1,551	5,637	15,009	14,975	52,100	89,272	Quarterly	3.61%	72,770	3.50%
		Lan Airlines S.A.	Chile	0-E	WELLS FARGO	U.S.A.	US\$	1,551	5,637	15,009	14,975	52,100	89,272	Quarterly	3.61%	72,770	3.50%
Financial leases	89.862.200-2	Lan Airlines S.A.	Chile	0-E	ING	U.S.A.	US\$	3,940	11,790	31,105	51,561	-	98,396	Quarterly	4.45%	89,389	3.98%
		Lan Airlines S.A.	Chile	0-E	CALYON	France	US\$	2,215	6,659	18,054	31,643	41,394	99,965	Quarterly	1.26%	95,036	1.24%
		Lan Airlines S.A.	Chile	0-E	CITIBANK	U.S.A.	US\$	1,585	4,920	33,656	-	-	40,161	Quarterly	1.10%	39,018	1.03%
		Lan Airlines S.A.	Chile	0-E	S.CHARTERED	U.S.A.	US\$	9,709	19,053	29,958	-	-	58,720	Quarterly	0.89%	58,247	0.73%
		Lan Airlines S.A.	Chile	0-E	S.CHARTERED	U.S.A.	US\$	9,709	19,053	29,958	-	-	58,720	Quarterly	0.89%	58,247	0.73%
Bank loans	89.862.200-2	Lan Airlines S.A.	Chile	97.036.000-K	SANTANDER	Chile	US\$	930	13,435	52,335	-	-	66,700	Semiannual	3.77%	50,000	3.68%
Bank loans	89.862.200-2	Lan Airlines S.A.	Chile		CORP BANCA	Chile	CLP	643	11,993	34,991	-	-	47,627	Semiannual	2.92%	45,356	2.82%
		Lan Airlines S.A.	Chile		ITAU	Chile	CLP	-	10,348	28,504	-	-	38,852	Semiannual	3.14%	36,876	3.06%
		Lan Airlines S.A.	Chile		BCI	Chile	CLP	-	18,390	50,287	-	-	68,677	Semiannual	3.38%	64,879	3.30%
		Lan Airlines S.A.	Chile		ES TADO	Chile	CLP	-	22,721	62,520	-	-	85,241	Semiannual	3.12%	80,852	3.06%
Other loans	89.862.200-2	Lan Airlines S.A.	Chile		BOEING	U.S.A.	US\$	604	715	34,524	-	-	35,843	-	1.78%	34,524	1.78%
Derivatives	89.862.200-2	Lan Airlines S.A.	Chile	-	OTHERS	-	US\$	5,118	16,647	39,874	11,326	(2,279)	70,686	-	-	69,433	-
Non-hedging Derivatives	89.862.200-2	Lan Airlines S.A.	Chile	-	OTHERS	-	US\$	511	1,484	3,364	2,557	263	8,179	-	-	7,839	-
Accounts payable		Lan Airlines S.A.															
other accounts payable		and subsidiaries	Several	-	sundry	-	US\$	176,136	52,845	-	-	-	228,981	-	-	228,981	-
							CLP	35,023	-	-	-	-	35,023	-	-	35,023	-
							Others	113,434	-	-	-	-	113,434	-	-	113,434	-
Other accounts payable, non-currents		Lan Airlines S.A.															
		and subsidiaries	Several	-	sundry	-	US\$	-	-	54,000	18,000	-	72,000	-	-	72,000	-
Accounts payable Related parties		Lan Airlines S.A.															
		and subsidiaries	Several	-	sundry	-	US\$	297	-	-	-	-	297	-	-	297	-
Total								429,969	431,958	1,116,814	650,334	1,194,702	3,823,777			3,306,659	

The Company has fuel and interest rate hedging, strategies involving derivatives contracts with different financial institutions. The Company has margin facilities with each financial institution in order to regulate the mutual exposure produced by changes in the market valuation of the derivatives. During 2008, with the fall in the fuel price, the Company was obliged to provide cash guarantees for this concept.

At the end of 2009, the Company had provided US\$ 40.4 million in derivative margin guarantees, for cash and stand-by letters of credit. At the end of December 31, 2010, have provided US\$ 38.1 millions in security for cash due at maturity and acquisition of fuel contracts and rates, rising fuel prices and falling interest rates.

3.2. Capital risk management

The Company's objectives, with respect to the management of capital, are (i) to safeguard it in order to continue as an on-going business, (ii) to seek a return for its shareholders, and (iii) to maintain an optimum capital structure and reduce its cost.

In order to maintain or adjust the capital structure, the Company could adjust the amount of the dividends payable to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors the capital according to the leverage ratio, in line with sector practice. This ratio is calculated as net adjusted debt to capital. Net adjusted debt is total financial debt plus 8 times the operating lease payments of the last 12 months, less total cash (measured as the sum of cash and cash equivalents plus marketable securities). Capital is the amount of net equity without the impact of the market value of derivatives, plus net adjusted debt.

Currently the company's strategy, which has not changed since 2007, and has consisted of maintaining a leverage ratio of between 70% and 80% and an international credit rating of higher than BBB- (the minimum required for being considered investment grade). The leverage ratios as of December 31, 2010, and December 31, 2009, were as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Total Loans	3,259,666	3,074,425
Last twelve months Operating lease payment x 8	788,704	669,696
Less:		
Cash and marketable securities	(737,093)	(791,912)
Total net adjusted debt	3,311,277	2,952,209
Net Equity	1,296,814	1,098,827
Net coverage reserves	107,050	92,230
Total Capital	4,715,141	4,143,266
Leverage ratio	70.2%	71.3%

3.3. Estimates of fair value

At December 31, 2010, the Company maintained financial instruments that should be recorded at fair value. These include:

Investments in short-term Mutual Funds (cash equivalent),
Interest rate derivative contracts,
Fuel derivative contracts,
Currency derivative contracts, and
Investment funds.

The Company has classified the fair value measurement using a hierarchy that reflects the level of information used in the assessment. This hierarchy consists of 3 levels (I) fair value based on quoted prices in active markets for identical assets or liabilities, (II) fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (III) fair value based on inputs for the asset or liability that are not based on observable market data.

The fair value of financial instruments traded in active markets, such as investments acquired for trading, is based on quoted market prices at the close of the period used the current price buyer. The fair value of financial assets not traded in active markets (derivative contracts) is determined using valuation techniques that maximize use of available market information. Valuation techniques generally used by the Company are quoted market prices of similar instruments and / or estimating the present value of future cash flows using forward price curves of period-end market.

The following table shows the classification of financial instruments at fair value at December 31, 2010 depending on the level of information used in the assessment:

	Fair value At December 31, 2010 ThUS\$	Fair value measurements using values considered as		
		Level I ThUS\$	Level II ThUS\$	Level III ThUS\$
Assets				
Short-term mutual funds	196,620	196,620	-	-
Fair value of interest rate derivatives	422	-	422	-
Fair value of fuel derivatives	45,814	-	45,814	-
Fair value of investment funds	58,857	58,857	-	-
Liabilities				
Fair value of interest rate derivatives	119,014	-	119,014	-
Fair value of foreign currency derivatives	20,916	-	20,916	-
Interest rate derivatives not accounted for as hedging instruments	19,748	-	19,748	-

Additionally, at December 31, 2010, the Company has financial instruments which are not recorded at fair value. In order to meet the disclosure requirements of fair values the Company has valued these instruments as shown in the table below:

	As of December 31, 2010		As of December 31, 2009	
	Book value	Fair value	Book value	Fair value
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalents				
Cash and cash equivalents	3,857	3,857	2,707	2,707
Bank balance	24,432	24,432	31,176	31,176
Time Deposits	406,143	406,143	522,077	522,077
Other financial assets				
Domestic and foreign bonds	47,184	50,294	60,415	63,341
Other financial assets	80,836	80,836	27,227	27,227
Trade and other accounts receivables and right receivable, non-currents	489,233	489,233	430,929	430,929
Accounts receivable from related entities	50	50	38	38
Other financial liabilities	2,945,294	2,965,803	2,774,942	2,900,232
Trade and other accounts payable, currents	500,694	500,694	377,438	377,438
Accounts payable to related entities	184	184	297	297
Other accounts payable, non-currents	368,372	368,372	371,483	371,483

The book values of accounts receivable and payable are assumed to approximate their fair values, due to their short-term nature. In the case of cash on hand, bank balances, deposits and others accounts payables, non-currents, fair value approximates their carrying values.

The fair value of other financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate for similar financial instruments. In the case of other financial assets, valuation was performed according to market prices at year end.

NOTE 4 - ACCOUNTING ESTIMATES AND JUDGMENTS

The Company has used estimates to value and book some of the assets, liabilities, revenues, expenses and commitments; these relate principally to:

1. The evaluation of possible impairment losses for certain assets.
2. The useful lives and residual values of fixed and intangible assets.
3. The criteria employed in the valuation of certain assets.
4. Air tickets sold that are not actually used.
5. The calculation of deferred income at the period-end, corresponding to the valuation of kilometers credited to holders of the Lan Pass loyalty card which have not yet been used.
6. The need provisions and where required the determination of their values.
7. The recoverability of deferred tax assets.

These estimates are made on the basis of the best information available on the matters analyzed.

In any case, it is possible that events will require them to be modified in the future, in which case the effects would be accounted for prospectively.

NOTE 5 – SEGMENTAL INFORMATION

The Company reports information by segments as established in IFRS 8 “Operating segments”. This standard sets rules for the reporting of information by segments in the financial statements, plus reporting about products and services, geographical areas and principal customers. An operating segment is defined as a component of an entity on which financial information is held separately and which is evaluated regularly by the senior management in taking decisions with respect to the assignment of resources and evaluation of results. The Company believes that it has only one operating segment: air transportation.

Air transportation segment			
For the year ended			
December 31,			
	2010	2009	2008
	ThUS\$	ThUS\$	ThUS\$
Income from ordinary activities	4,523,328	3,655,513	4,283,187
Interest income	14,946	18,183	18,480
Interest expense	(155,279)	(153,109)	(125,488)
Total Net interest expense	(140,333)	(134,926)	(107,008)
Depreciation and amortization	(336,491)	(304,062)	(256,499)
Segment profit	419,702	231,126	336,480
Earnings on investments	132	315	696
Expenses for income tax	(81,107)	(44,487)	(65,094)
Assets of segment	6,785,897	5,771,972	5,196,866
Investments in associates	593	1,236	1,389
Purchase of non-monetary assets	1,048,394	555,279	788,906

The Company’s revenues by geographic area are as follows:

For the year ended			
December 31,			
	2010	2009	2008
	ThUS\$	ThUS\$	ThUS\$
Peru	554,072	458,384	432,979
Argentina	496,546	404,795	437,759
USA	858,630	680,179	946,235
Europe	447,702	343,819	380,824
Chile	1,239,350	1,004,291	1,149,084
Others*	927,028	764,045	936,306
Total (**)	4,523,328	3,655,513	4,283,187

The Company allocates revenues by geographic area based on the point of sale of the passenger ticket or cargo. Assets are primarily composed of aircraft and aeronautical equipment, which are used throughout the different countries, so it is not possible to assign a geographic area.

(*) Includes the rest of Latin America and Asia Pacific.

(**) Includes operating revenues and other operating income.

NOTE 6 – CASH AND CASH EQUIVALENTS

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Cash	3,857	2,707
Bank balances	24,432	31,176
Time deposits	406,143	522,077
Others	196,620	175,537
Total	631,052	731,497

Cash and cash equivalents are denominated in the following currencies at December 31, 2010, and December 31, 2009, are as follows:

Currency	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
US Dollar	194,212	228,879
Chilean peso (*)	368,360	435,514
Euro	7,844	13,255
Argentine peso	11,230	6,105
Brazilian real	4,759	3,041
Other currencies	44,647	44,703
Total	631,052	731,497

(*) The Company entered into currency derivative contracts (forward exchange controls) for ThUS \$ 169,357 at December 31, 2010 (ThUS \$ 367,412 at December 31, 2009), for conversion into dollars of investments in Chilean pesos and currency derivative contracts (cross currency swaps) for ThUS \$ 30,258 at December 31, 2010 (ThUS \$ 0 at December 31, 2009), for conversion into dollars of investment in Unidades de Fomento (“UF”).

In Venezuela, effective 2003, the authorities decreed that all remittances abroad should be approved by the Currency Management Commission (CADIVI). Despite having free availability of bolivars in Venezuela, the Company has certain restrictions for freely remitting these funds outside Venezuela. At December 31, 2010 the amount subject to such restrictions in dollar terms is ThUS\$ 26,738 (ThUS\$ 26,196 at 31 December 2009).

The Company has no significant non-monetary transactions that should be reported.

NOTE 7 - FINANCIAL INSTRUMENTS

7.1. Financial instruments by category

As of December 31, 2010

Assets

	Held to maturity	Loans and accounts receivable	Hedging derivatives	Held to trading	Designated as at fair value through profit and loss on initial recognition	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalents	-	434,432	-	196,620	-	631,052
Other financial assets (*)	47,691	80,329	80,161	-	58,857	267,038
Trade and other current accounts receivable	-	481,350	-	-	-	481,350
Current accounts receivable from related parties	-	50	-	-	-	50
Non-current rights receivable	-	7,883	-	-	-	7,883
Total	<u>47,691</u>	<u>1,004,044</u>	<u>80,161</u>	<u>196,620</u>	<u>58,857</u>	<u>1,387,373</u>

Liabilities

	Other Financial liabilities	Hedging derivatives	Held to trading	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other financial liabilities	2,945,294	139,930	19,748	3,104,972
Trade and other current accounts payable	500,694	-	-	500,694
Current accounts payable to related parties	184	-	-	184
Other non-current accounts payable	368,372	-	-	368,372
Total	<u>3,814,544</u>	<u>139,930</u>	<u>19,748</u>	<u>3,974,222</u>

(*)The value submitted in held to maturity corresponds, mainly, to domestic and foreign bonds; and in the initial time designated at fair value through profit or loss applicable to private investment funds.

As of December 31, 2009

Assets

	Held to maturity	Loans and accounts receivable	Hedging derivatives	Held to trading	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalents	-	555,960	-	175,537	731,497
Others financial assets (*)	60,923	26,719	43,049	-	130,691
Trade and other current accounts receivable	-	423,739	-	-	423,739
Current accounts receivable from related parties	-	38	-	-	38
Non-current rights receivable	-	7,190	-	-	7,190
Total	60,923	1,013,646	43,049	175,537	1,293,155

Liabilities

	Other financial liabilities	Hedging derivatives	Held to trading	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other financial liabilities	2,774,942	78,333	7,835	2,861,110
Trade and other current accounts payable	377,438	-	-	377,438
Current accounts payable to related parties	297	-	-	297
Other non-current accounts payable	371,483	-	-	371,483
Total	3,524,160	78,333	7,835	3,610,328

(*) The value submitted in held to maturity corresponds mainly to domestic and foreign bonds.

7.2. Financial instruments by currency

a) Assets	As of December 31, 2010	As of December 31, 2009
	ThUS\$	ThUS\$
Cash and cash equivalents	631,052	731,497
US Dollar	194,212	228,879
Chilean Peso	368,360	435,514
Euro	7,844	13,255
Argentine Peso	11,230	6,105
Brazilian Real	4,759	3,041
Others	44,647	44,703
Other financial Assets	267,038	130,691
US Dollar	255,808	122,122
Brazilian Real	6,731	5,334
Others	4,499	3,235
Trade and other current accounts receivable	481,350	423,739
US Dollar	354,702	319,980
Chilean Peso	28,606	52,073
Euro	8,429	5,192
Argentine Peso	6,702	15,158
Brazilian Real	31,329	11,190
Australian Dollar	12,456	7,595
Others	39,126	12,551
Non-current rights receivable	7,883	7,190
US Dollar	9	9
Chilean Peso	7,864	7,179
Others	10	2
Current accounts receivable from related parties	50	38
US Dollar	29	29
Chilean Peso	21	9
Total financial assets	1,387,373	1,293,155
US Dollar	804,760	671,019
Chilean Peso	404,851	494,775
Euro	16,273	18,447
Argentine Peso	17,932	21,263
Brazilian Real	42,819	19,565
Australian Dollar	12,456	7,595
Others	88,282	60,491

b) Liabilities

Liabilities information is detailed in the table within Note 3 section (c) Liquidity risk.

NOTE 8 – TRADE, OTHER ACCOUNTS RECEIVABLE AND NON-CURRENT RIGHTS RECEIVABLE

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Trade accounts receivable	435,576	407,320
Other accounts receivable and rights receivable	75,734	47,426
Total trade and other accounts receivable	511,310	454,746
Less: Allowance for impairment loss	(22,077)	(23,817)
Total net trade and other accounts receivable	489,233	430,929
Less: non-currents portion – rights receivable	(7,883)	(7,190)
Trade and other accounts receivable, currents	481,350	423,739

The fair value of trade and other accounts receivable does not differ significantly from their book value.

There are overdue accounts receivable but that are not impaired. Maturity of these accounts is as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Up to 3 months	12,506	10,094
Between 3 and 6 months	11,114	8,718
Total	23,620	18,812

The amounts of impaired trade and other accounts receivable are as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Judicial and extra-judicial collection	10,586	10,383
Debtors under extra-judicial collection process	5,259	5,031
Total	15,845	15,414

Currency balances that make up the trade receivables, other accounts receivables and rights receivables non-current at December 31, 2010 and December 31, 2009, are as follows:

Currency	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
US Dollar	354,711	319,989
Chilean Peso	36,470	59,252
Euro	8,429	5,192
Argentine Peso	6,702	15,158
Brazilian Real	31,329	11,190
Australian Dollar	12,456	7,595
Other	39,136	12,553
Total	489,233	430,929

The Company recorded allowances when there is evidence of impairment of trade receivables. The criteria used to determine that there is objective evidence of impairment losses are the maturity of the portfolio, specific acts of damage (default) and specific market signals.

Maturity	Impairment
Judicial and extra-judicial collection Assets	100%
Over 1 year	100%
Between 6 and 12 months	50%

The movement in the allowance for impairment loss of trade accounts and other accounts receivables from January 01, 2009 and December 31, 2010 is as follows:

ThUS\$

As of January 01, 2009	(22,790)
Write-offs	6,110
Increase in allowance	(7,137)
Balance as of December 31, 2009	(23,817)
As of January 01, 2010	(23,817)
Write-offs	5,039
Increase in allowance	(3,299)
Balance as of December 31, 2010	(22,077)

Once extra-judicial and judicial collection efforts are exhausted, the assets are written off against the allowance. The Company only uses the allowance method rather than direct write-off, to ensure control.

Historic and current re-negotiations are not relevant and the policy is to analyze case by case in order to classify them according to the existence of risk determining whether it is appropriate to re-classify accounts as in pre-judicial recovery. If such re-classification is justified, an allowance is made for the account, whether overdue or falling due.

The maximum credit-risk exposure at the date of presentation of the information is the fair value of each one of the categories of accounts receivable indicated above:

	As of December 31, 2010			As of December 31, 2009		
	Gross exposure	Gross Impaired exposure	Exposure net of risk concentrations	Gross exposure	Gross Impaired exposure	Exposure net of risk concentrations
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Trade accounts receivable	435,576	(22,077)	413,499	407,320	(23,817)	383,503
Other accounts receivable	75,734	-	75,734	47,426	-	47,426

There are no relevant guarantees covering credit risk and these are valued when they are settled; no materially important direct guarantees exist. Existing guarantees, if appropriate, are made through IATA.

NOTE 9 - ACCOUNTS RECEIVABLE FROM/PAYABLE TO RELATED PARTIES

The accounts receivable from and payable to related entities as of December 31, 2010 and December 31, 2009, respectively, are as follows:

a) Accounts Receivable

At December 31, 2010 and December 31, 2009, there have been no loan loss provisions.

Tax No.	Related Party	Relationship	Country of origin	As of December 31, 2010 MUS\$	As of December 31, 2009 MUS\$	Currency	Transaction deadlines	Nature of transaction
96.778.310-2	Concesionaria Chucumata S.A.	Associate	Chile	4	6	CLP	30 to 45 Days	Monetary
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	2	-	CLP	30 to 45 Days	Monetary
87.752.000-5	Granja Marina T ornagaleones S.A.	Others Related Parties	Chile	15	-	CLP	30 to 45 Days	Monetary
96.669.520-K	Red de T elevisión Chilevisión S.A.	Others Related Parties	Chile	-	3	CLP	30 to 45 Days	Monetary
96.812.280-0	San Alberto S.A. y Filiales	Others Related Parties	Chile	29	29	US\$	30 to 45 Days	Monetary
Total current assets				<u>50</u>	<u>38</u>			

b) Accounts payable

Tax No.	Related Party	Relationship	Country of origin	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$	Currency	Transaction deadlines	Nature of transaction
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	184	246	US\$	30 to 45 Days	Monetary
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	-	6	CLP	30 to 45 Days	Monetary
87.752.000-5	Granja Marina Tornagaleones S.A.	Other Related Parties	Chile	-	10	CLP	30 to 45 Days	Monetary
Foreign	Inversora Aeronáutica Argentina	Other Related Parties	Argentina	-	35	US\$	30 to 45 Days	Monetary
Total current liabilities				184	297			

Transactions between related parties have been carried out on free-trade conditions between interested and duly-informed parties.

NOTE 10 – INVENTORIES

The inventories at December 31, 2010 and December 31, 2009 respectively, are detailed below:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Technical stock	40,625	35,684
Non-technical stock	12,568	10,879
	<u>53,193</u>	<u>46,563</u>

The items included in this heading are spare parts and materials that will be used mainly in consumption in in-flight and maintenance services, which are valued at average cost, net of provision for obsolescence that as of December 31, 2010 amounts to ThUS\$ 3,075 (ThUS\$ 808 as of December 31, 2009). The resulting amounts do not exceed the respective net realizable values.

For the period ended December 31, 2010, the Company recorded ThUS\$ 32,915 (ThUS\$ 32,677 for the period ended December 31, 2009 and ThUS\$ 35,147 for the period ended December 31, 2008) within the income statement, mainly due to in-flight consumption and maintenance, which forms part of cost of sales.

NOTE 11 – OTHER FINANCIAL ASSETS

The composition of other financial assets, is as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Current		
a) Other financial assets	165,712	72,027
b) Hedging asset	79,739	38,640
Total Current	<u>245,451</u>	<u>110,667</u>
Non-current		
a) Other	21,165	15,615
b) Hedging assets	422	4,409
Total non-current	<u>21,587</u>	<u>20,024</u>

a) Other financial assets

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Current		
Investment Funds	58,857	-
Domestic and Foreign bonds	47,184	60,415
Guarantees for margins of derivatives	39,868	2,400
Deposits in guarantee (aircraft)	12,030	308
Other guarantees given	7,773	8,904
Total current	<u>165,712</u>	<u>72,027</u>
Non-current		
Deposits in guarantee (aircraft)	15,000	13,780
Other guarantees given	5,658	1,327
Other investments	507	508
Total non-current	<u>21,165</u>	<u>15,615</u>
Total other financial assets	<u>186,877</u>	<u>87,642</u>

b) Hedging assets

Hedging assets as of December 31, 2010 and December 31, 2009, are as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Current		
Interest accrued since last payment date currency Swap	3,691	-
Cash-flow hedge of interest-rate risk	-	501
Cash-flow hedge of currency risk	30,234	23,691
Cash-flow hedge of fuel-price risk	45,814	14,448
Total current	79,739	38,640
Non-current		
Cash-flow hedge of interest-rate risk	422	2,628
Cash-flow hedge of currency risk	-	1,781
Total non-current	422	4,409
Total hedging assets	80,161	43,049

Foreign currency derivatives include the fair value of Cross Currency Swap contracts.

The types of derivative hedging contracts maintained by the Company at the end of each period are presented in Note 20.

NOTE 12 – OTHER NON FINANCIAL ASSETS

The composition of other non financial assets is as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Current		
a) Advance Payments	17,648	15,258
b) Other assets	1,172	1,870
Total current	<u>18,820</u>	<u>17,128</u>
Non-Current		
a) Advance Payments	3,768	713
b) Other assets	28,740	28,023
Total non-current	<u>32,508</u>	<u>28,736</u>

a) Advance payments

Advance payments as of December 31, 2010 as of December 31, 2009 are as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Current		
Aircraft insurance and other	6,459	5,978
Aircraft leases	7,343	6,204
Others	3,846	3,076
Total current	<u>17,648</u>	<u>15,258</u>
Non-Current		
Handling and ground handling services	2,971	-
Others	797	713
Total non-current	<u>3,768</u>	<u>713</u>
Total advance payments	<u>21,416</u>	<u>15,971</u>

b) Other assets

Other assets as of December 31, 2010, as of December 31, 2009 are as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Current		
Others	1,172	1,870
Total current	1,172	1,870
Non-current		
Recoverable taxes	23,343	20,308
Deferred expense for aircraft rental	4,984	7,328
Others	413	387
Total non-current	28,740	28,023
Total other assets	29,912	29,893

NOTE 13 – NON-CURRENT ASSETS (OR DISPOSAL GROUPS) CLASSIFIED AS HELD FOR SALE

Non-current assets and disposal groups held for sale as of December 31, 2010, and December 31, 2009 are as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Engines	2,204	5,603
Inventories on consignment	748	2,348
Aircraft	1,537	1,537
Scrapped aircraft	970	880
Rotables	38	551
Total	<u>5,497</u>	<u>10,919</u>

During the financial year 2010 sales were made of rotables, inventories held on consignment and three engines, all of the Boeing 737 fleet.

During the same period of 2009 sales were made of rotables, inventories held on consignment, sale of an aircraft and five engines, all of the Boeing 737 fleet.

The balances have been written down by ThUS\$ 5,212 (ThUS\$ 4,179 at December 31, 2009) to fair value less costs to sell.

The Company has no discontinued operations as of December 31, 2010.

NOTE 14 - INVESTMENTS IN SUBSIDIARIES

The Company has investments in companies recognized as investments in subsidiaries. All the companies defined as subsidiaries have been consolidated within the financial statements of Lan Airlines S.A. and Subsidiaries. The consolidation also includes special-purpose entities and investment funds.

The following is a summary of financial information with respect to the sum of the financial statements of subsidiary companies, special-purpose entities and investment funds that have been consolidated:

As of December 31, 2010

	Assets ThUS\$	Liabilities ThUS\$
Current	442,743	565,606
Non-current	1,388,194	773,927
Total	<u>1,830,937</u>	<u>1,339,533</u>

As of December 31, 2009

	Assets ThUS\$	Liabilities ThUS\$
Current	261,917	359,230
Non-current	1,246,141	757,164
Total	<u>1,508,058</u>	<u>1,116,394</u>

	For the year ended December 31,	
	2010 ThUS\$	2009 ThUS\$
Total operating revenues	1,931,998	1,567,503
Total expenses	(1,849,438)	(1,483,185)
Total net income	<u>82,560</u>	<u>84,318</u>

Significant subsidiaries detailed as of December 31, 2010

Name of significant subsidiary	Country of incorporation	Functional currency	% Ownership	Nature and scope of significant restrictions on transferring funds to controller
Lan Perú S.A.	Perú	US\$	70.00000	Without significant restrictions
Lan Cargo S.A.	Chile	US\$	99.89804	Without significant restrictions
Lan Argentina S.A.	Argentina	ARS	99.00000	Without significant restrictions
Transporte Aéreo S.A.	Chile	US\$	100.00000	Without significant restrictions
Aerolane Líneas Aéreas Nacionales de Ecuador S.A.	Ecuador	US\$	71.91673	Without significant restrictions

Summary financial information of significant subsidiaries

Name of significant subsidiary	Statement of financial position as of December 31, 2010						For the year ended December 31, 2010	
	Total Assets	Current Assets	Non-current Assets	Total Liabilities	Current Liabilities	Non-current Liabilities	Revenue	Net Income
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Lan Perú S.A.	124,761	113,579	11,182	114,771	113,750	1,021	759,704	1,524
Lan Cargo S.A.	737,550	183,877	553,673	340,082	103,018	237,064	209,512	59,285
Lan Argentina S.A.	113,168	84,751	28,417	88,286	87,420	866	381,168	2,984
Transporte Aéreo S.A.	329,190	215,575	113,615	123,056	28,777	94,279	296,543	31,227
Aerolane Líneas Aéreas Nacionales de Ecuador S.A.	48,416	24,561	23,855	51,723	38,299	13,424	235,877	1,011

Significant subsidiaries detailed as of December 31, 2009

Name of significant subsidiary	Country of incorporation	Functional currency	% Ownership	Nature and scope of significant restrictions on transferring funds to controller
Lan Perú S.A.	Perú	US\$	70.00000	Without significant restrictions
Lan Cargo S.A.	Chile	US\$	99.89804	Without significant restrictions
Lan Argentina S.A.	Argentina	ARS	99.00000	Without significant restrictions
Transporte Aéreo S.A.	Chile	US\$	100.00000	Without significant restrictions
Aerolane Líneas Aéreas Nacionales de Ecuador S.A.	Ecuador	US\$	71.91673	Without significant restrictions

Summary financial information of significant subsidiaries

Name of significant subsidiary	Statement of financial position as of December 31, 2009						For the year ended December 31, 2009	
	Total Assets	Current Assets	Non-current Assets	Total Liabilities	Current Liabilities	Non-current Liabilities	Revenues	Net Income
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Lan Perú S.A.	85,773	75,886	9,887	75,221	74,607	614	683,453	4,830
Lan Cargo S.A.	744,176	174,147	570,029	374,378	87,213	287,165	175,734	97,186
Lan Argentina S.A.	96,720	66,020	30,700	73,194	72,521	673	316,859	10,205
Transporte Aéreo S.A.	319,340	202,246	117,094	118,433	21,256	97,177	251,398	38,759
Aerolane Líneas Aéreas Nacionales de Ecuador S.A.	43,638	19,137	24,501	47,955	34,953	13,002	195,718	1,651

NOTE 15 - EQUITY ACCOUNTED INVESTMENTS

The following summarized financial information is the sum of the financial statements of the investees, corresponding to the statements of financial position as of December 31, 2010 and December 31, 2009, and the statements of income for the periods ended December 31, 2010, and December 31, 2009:

As of December 31, 2010

	Assets ThUS\$	Liabilities ThUS\$
Current	1,865	301
Non-current	382	562
Total	2,247	863

As of December 31, 2009

	Assets ThUS\$	Liabilities ThUS\$
Current	5,338	414
Non-current	356	322
Total	5,694	736

	For the year ended December 31,	
	2010 ThUS\$	2009 ThUS\$
Total operating revenues	2,408	5,981
Total expenses	(2,162)	(4,486)
Sum of net income	246	1,495

The Company has shown as investment in associates its holdings in the following companies: Austral Sociedad Concesionaria S.A., Lufthansa Lan Technical Training S.A. and Concesionaria Chucumata S.A. The Company made no investments in associates during the year ended December 31, 2010.

Company	Country of incorporation	Functional currency	Percentage of ownership		Cost of investment	
			As of	As of	As of	As of
			December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
			%	%	ThUS\$	ThUS\$
Austral Sociedad Concesionaria S.A.	Chile	CLP	20.00	20.00	661	661
Lufthansa Lan Technical Training S.A.	Chile	CLP	50.00	50.00	702	702
Concesionaria Chucumata S.A.	Chile	CLP	16.70	16.70	119	119

These companies do not have significant restrictions on the ability to transfer funds.

The movement of investments in associates for the periods January 01, 2009 and December 31, 2010 is as follows:

	ThUS\$
Opening balance as of January 01, 2009	1,389
Equity accounted earnings	315
Participation in previous period items	(54)
Dividends received	(414)
Total changes in investments in associated entities	(153)
Closing balance as of December 31, 2009	1,236
Opening balance as of January 01, 2010	1,236
Equity accounted earnings	132
Other reductions	(665)
Dividends received	(110)
Total changes in investments in associated entities	(643)
Closing balance as of December 31, 2010	593

The Company records the gain or loss on its investments in associates on a monthly basis in the consolidated statement of income, using the equity method. The Company has no investments in associates which are not accounted for using the equity method.

NOTE 16 - INTANGIBLE ASSETS OTHER THAN GOODWILL

Composition and movement of intangible assets

Intangible assets are as follows:

Classes of intangible assets (net)

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Computer software	45,183	34,087
Other assets	566	727
Total	45,749	34,814

Classes of intangible assets (gross)

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Computer software	83,875	63,585
Other assets	808	808
Total	84,683	64,393

The movement in software and other assets from January 01, 2009 and December 31, 2010 is as follows:

	Software Net ThUS\$	Other assets Net ThUS\$	Total ThUS\$
Opening balance as of January 01, 2009	27,447	-	27,447
Additions	14,881	808	15,689
Withdrawals	(73)	-	(73)
Amortization	(8,168)	(81)	(8,249)
Balance as of December 31, 2009	34,087	727	34,814

	Software Net ThUS\$	Other assets Net ThUS\$	Total ThUS\$
Opening balance as of January 01, 2010	34,087	727	34,814
Additions	20,915	-	20,915
Acquisitions through business combinations	154	-	154
Withdrawals	(779)	-	(779)
Amortization	(9,194)	(161)	(9,355)
Balance as of December 31, 2010	<u>45,183</u>	<u>566</u>	<u>45,749</u>

Intangible assets with defined useful lives consist primarily of licensing and computer software, for which the Company has established useful lives of between 4 and 7 years.

The Company shows its intangible assets at cost and amortization is made on a straight-line basis over their estimated useful lives. The amortization of each period is shown in the consolidated statement of results in administrative expenses. The accumulated amortization of computer programs as of December 31, 2010 amounts to ThUS\$ 38,692 (ThUS\$ 29,498 as of December 31, 2009). The accumulated amortization of other identifiable intangible assets as of December 31, 2010 amounts to ThUS\$ 242 (ThUS\$ 81 as of December 31, 2009).

NOTE 17 – GOODWILL

The goodwill represents the excess of cost of acquisition over the fair value of the participation of the Company in the identifiable net assets of the subsidiary at the acquisition date. Goodwill at December 31, 2010 amounted to ThUS\$ 157,994 (ThUS\$ 63,793 at December 31, 2009)

The Company performed an impairment test based on the value in use and no impairment was identified.

The value in use of those cash generating units to which goodwill has been assigned has been determined assuming that yields, occupation factors and fleet capacity are maintained at current obtainable levels. The company projects cash flows for number periods which is consistent with its internal budgeting process and thereafter calculates a terminal value. Growth rates applied in determining these terminal values are consistent with long range economic forecasts for the relevant markets in which these cash generating units operate. The determined cash flows are discounted at a rate which takes into account the time value of money and risks related to those cash generating units which have not been taken into account in estimation of the units' future cash flows.

The movement of goodwill from January 01, 2009 to December 31, 2010, is as follows:

Opening balance as of January 01, 2009	62,927
Additions	920
Decrease due to exchange rate differences	(54)
Closing balance as of December 31, 2009	<u>63,793</u>
Opening balance as of January 01, 2010	63,793
Additions (*)	94,224
Decrease due to exchange rate differences	(23)
Closing balance as of December 31, 2010	<u>157,994</u>

(*) Corresponds to the goodwill generated by the purchase of Aerovías de Integración Regional, Aires S.A. (see Note 39).

NOTE 18 - PROPERTY, PLANT AND EQUIPMENT

The composition by category of property, plant and equipment is as follows:

	Gross Book Value		Acumulated depreciation		Net Book Value	
	As of	As of	As of	As of	As of	As of
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Construction in progress	715,603	264,259	-	-	715,603	264,259
Land	35,538	35,538	-	-	35,538	35,538
Buildings	101,181	100,662	(21,060)	(18,696)	80,121	81,966
Plant and equipment	4,816,723	4,051,718	(1,153,587)	(820,036)	3,663,136	3,231,682
Information technology equipment	83,711	75,185	(65,112)	(60,142)	18,599	15,043
Fixed installations and accessories	52,954	45,526	(25,951)	(21,867)	27,003	23,659
Motor vehicles	3,269	2,853	(1,979)	(1,902)	1,290	951
Leasehold improvements	87,168	76,536	(43,048)	(26,250)	44,120	50,286
Other property, plants and equipment	646,236	863,620	(283,216)	(370,448)	363,020	493,172
Total	<u>6,542,383</u>	<u>5,515,897</u>	<u>(1,593,953)</u>	<u>(1,319,341)</u>	<u>4,948,430</u>	<u>4,196,556</u>

The movement in the different categories of property, plant and equipment from January 01, 2009 to December 31, 2010 is shown below:

a) As of December 31, 2009

	Construction in progress ThUS\$	Land ThUS\$	Buildings Net ThUS\$	Plant and equipment Net ThUS\$	Information technology equipment Net ThUS\$	Fixed installations & accessories Net ThUS\$	Motor vehicles Net ThUS\$	Leasehold improvement Net ThUS\$	Other property, plant and equipment Net ThUS\$	Property, Plant and equipment Net ThUS\$
Opening balance as of January 01, 2009	267,844	35,538	78,210	3,079,911	16,336	22,027	809	46,549	418,839	3,966,063
Additions	15,232	-	20	531,038	4,025	2,109	341	863	12,951	566,579
Disposals	(7)	-	-	(6,047)	-	(16)	(25)	-	(1)	(6,096)
Transfers to (from) non-current assets (or disposal groups) classified as Held for Sale	-	-	-	(4,029)	-	-	-	-	-	(4,029)
Asset retirements	-	-	-	(2,299)	(22)	(5)	(2)	-	(864)	(3,192)
Depreciation	-	-	(2,114)	(199,673)	(5,672)	(3,777)	(179)	(13,371)	(42,069)	(266,855)
Increases (decreases) due to exchanges differences	(49)	-	-	(2,034)	278	284	(2)	-	5	(1,518)
Other increases (decreases)	(18,761)	-	5,850	(165,185)	98	3,037	9	16,245	104,311	(54,396)
Changes, total	(3,585)	-	3,756	151,771	(1,293)	1,632	142	3,737	74,333	230,493
Closing balance as of December 31, 2009	264,259	35,538	81,966	3,231,682	15,043	23,659	951	50,286	493,172	4,196,556

b) As of December 31, 2010

	Construction in progress ThUS\$	Land ThUS\$	Buildings Net ThUS\$	Plant and equipment Net ThUS\$	Information technology equipment Net ThUS\$	Fixed installations & accessories Net ThUS\$	Motor vehicles Net ThUS\$	Leasehold improvements Net ThUS\$	Other property, plant and equipment Net ThUS\$	Property, Plant and equipment Net ThUS\$
Opening balance as of January 01, 2010	264,259	35,538	81,966	3,231,682	15,043	23,659	951	50,286	493,172	4,196,556
Additions	10,229	-	115	571,422	9,516	2,341	420	2,410	6,673	603,126
Acquisitions through business combinations			1,006	490	137	335	107		480	2,555
Disposals	-	-	-	(190)	-	-	(7)	-	(2)	(199)
Transfers to (from) non-current assets (or disposal groups) classified as Held for Sale	-	-	-	2,552	-	-	-	-	-	2,552
Retirements	-	-	-	(6,633)	(536)	(2)	(12)	-	(2,550)	(9,733)
Depreciation	-	-	(2,315)	(235,800)	(5,217)	(3,997)	(172)	(16,797)	(32,315)	(296,613)
Increases (decreases) due to exchanges differences	(62)	-	-	(857)	16	(13)	(3)	-	(27)	(946)
Other increases (decreases)	441,177	-	(651)	100,470	(360)	4,680	6	8,221	(102,411)	451,132
Changes, total	451,344	-	(1,845)	431,454	3,556	3,344	339	(6,166)	(130,152)	751,874
Closing balance as of December 31, 2010	715,603	35,538	80,121	3,663,136	18,599	27,003	1,290	44,120	363,020	4,948,430

c) Composition of the fleet

Aircraft included in the company's property, plant and equipment:

Aircraft	Model	As of December 31, 2010	As of December 31, 2009
Boeing 737	200ADV (1)	-	2
Boeing 767	300ER	18	17
Boeing 767	300F	8	8
Boeing 767	200ER (2)	1	1
Airbus A318	100	15	15
Airbus A319	100	20	20
Airbus A320	200	24	16
Airbus A340	300	4	4
Total		90	83

(1) Leased to Sky Service S.A.

(2) Leased to Aerovías de México S.A.

Operating leases:

Aircraft	Model	As of December 31, 2010	As of December 31, 2009
Boeing 767	300ER	10	10
Boeing 767	300F	3	1
Boeing 777	Freighter	2	2
Airbus A320	200 (3)	5	2
Airbus A340	300	1	1
Boeing 737	700 (4)	9	-
Bombardier	Dash 8-200 (4)	11	-
Bombardier	Dash 8-Q400 (4)	4	-
Total		45	16
Total fleet		135	99

(3) Two aircraft leased to Aeroasis S.A.

(4) Aircraft incorporated through the business combination with Aires S.A.

d) Method used for the depreciation of property, plant and equipment:

	Method	Useful life	
		minimum	maximum
Buildings	Straight line without residual value	20	50
Plant and equipment	Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet (*)	5	20
Information technology equipment	Straight line without residual value	5	10
Fixed installations and accessories	Straight line without residual value	10	10
Motor vehicle	Straight line without residual value	10	10
Leasehold improvements	Straight line without residual value	5	5
Other property, plants and equipment	Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet (*)	3	20

(*) Except for certain technical components, which are depreciated on the basis of cycles and flight hours.

Depreciation charged to income in the period ended December 31, 2010, included in the consolidated statement of income, amounts to ThUS\$ 296,613 (ThUS\$ 266,855 for the period ended December 31, 2009 and ThUS\$ 222,997 for the period ended December 31, 2008). Depreciation charges for the year are recognized in Cost of Sales and Administrative Expenses in the consolidated statement of income.

e) Additional information regarding property, plant and equipment:

i) Property, plant and equipment pledged as guarantee:

In the period ended December 31, 2010 direct guarantees were added for nine aircraft, eight of them corresponding to the Airbus 320-200 fleet, and one Boeing 767-300 fleet. Additionally, the Company exercised the option to buy three Boeing 767-300 aircraft to Condor Leasing LLC.

Description of property, plant and equipment pledged as guarantee:

Creditor of guarantee	Assets committed	Fleet	As of December 31, 2010		As of December 31, 2009	
			Existing Debt	Book Value	Existing Debt	Book Value
			ThUS\$	ThUS\$	ThUS\$	ThUS\$
Wilmington Trust Company	Aircraft and engines	Boeing 767	1,061,378	1,330,614	1,091,379	1,316,103
BNP Paribas	Aircraft and engines	Airbus A319	297,320	370,476	324,584	389,071
		Airbus A318	299,422	359,944	323,947	380,928
		Airbus A320	407,275	478,082	119,567	140,501
Calyon	Aircraft and engines	Airbus A319	108,803	178,342	123,760	176,072
		Airbus A320	58,236	172,426	80,361	176,135
		Airbus A340	89,378	234,892	121,877	259,820
Total direct guarantee			2,321,812	3,124,776	2,185,475	2,838,630

The amounts of existing debt are presented at nominal value. Book value corresponds to the carrying value of the goods provided as guarantees.

Additionally, there are indirect guarantees related to assets recorded in property, plant and equipment whose total debt at December 31, 2010 amounted to ThUS \$ 227,218 (ThUS \$ 281,691 at December 31, 2009). The book value of assets with indirect guarantees as of December 31, 2010 amounts to ThUS\$ 328,838 (ThUS \$ 453,970 as of December 31, 2009).

ii) Commitments and others

Assets fully depreciated and commitments for future purchases are as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Gross book value of property, plants and equipment fully depreciated still in use (1)	57,612	53,417
Commitments for the acquisition of aircraft	12,350,000	8,880,000

(1) The amounts shown relate mainly to land support equipment, computer equipment and tools.

In December 2009, the Company signed a purchase commitment with Airbus for the purchase of another 30 aircraft of the A320 family with deliveries between 2011 and 2014. Additionally, in December 2010 the Company made another commitment to the manufacturer for the purchase of 50 new A320 family aircraft with deliveries between 2012 and 2016.

With the above, as of December 31, 2010, and as a result of different aircraft purchase contracts signed with Airbus S.A.S., there remain 87 Airbus aircraft of the A320 family to be delivered between 2011 and 2016. The approximate amount is ThUS\$ 6,300,000, according to the manufacturer's price list.

As of December 31, 2010, and as a result of different aircraft purchase contracts signed with The Boeing Company, there remain 6 B767-300ER aircraft to be delivered between 2011 and 2012, 2 B777 – Freighter aircraft for delivery in 2012 and 26 B787 Dreamliner aircraft with a delivery date within the next 10 years. The approximate amount is ThUS\$ 6,050,000, according to the manufacturer's price list. In addition, the Company has purchase options over 1 B777-Freighter aircraft and 15 B787 Dreamliner aircraft.

The acquisition of the aircraft is part of the strategic plan for long haul fleet. This plan also means the sale of 15 aircraft model Airbus 318 between 2011 and 2013. It is estimated that this sale will have no significant impact on results.

iii) Capitalized interest costs with respect to property, plant and equipment.

		For the year ended December 31,		
		2010	2009	2008
Average rate of capitalization of capitalized interest cost	%	4.31	4.33	5.26
Costs of capitalized interest	ThUS\$	18,400	9,943	18,821

iv) Financial leases

The detail of the main financial leases is as follows:

Lessor	Aircraft	As of December 31, 2010	As of December 31, 2009
Condor Leasing LLC	Boeing 767	-	3
Bluebird Leasing LLC	Boeing 767	2	2
Eagle Leasing LLC	Boeing 767	2	2
Seagull Leasing LLC	Boeing 767	1	1
Linnet Leasing Limited	Airbus A320	4	4
Total		9	12

Leasing contracts where the lessee acts as the parent company of aircraft set a duration of 12 years and quarterly payments of obligations. Additionally, the tenant will hire and have outstanding obligations of insurance coverage for the aircraft, perform maintenance on them to update their own cost and airworthiness certificates.

Fixed assets acquired under financial leases are classified as Other fixed assets in Property, plant and equipment. As of December 31, 2010, the Company has 9 aircraft and 1 spare engine recorded as financial leases (12 aircraft and 1 spare engine as of December 31, 2009).

In the period ended December 31, 2010 the Company exercised the option to buy three Boeing 767-300 aircraft to Condor Leasing LLC. Product of the above, both aircraft were reclassified from the category Other property, plant and equipment to Plant and equipment category. Additionally, during December 2010 extending the financing period of a Boeing 767-300 for a period of three years.

The book value of assets under financial leases as of December 31, 2010 amounts to ThUS\$ 319,541 (ThUS\$ 458,417 as of December 31, 2009).

The minimum payments under financial leases are as follows:

As of December 31, 2010

	Gross Value ThUS\$	Interest ThUS\$	Present Value ThUS\$
No later than one year	57,976	(3,679)	54,297
Between one and five years	127,370	(7,421)	119,949
Over five years	55,106	(1,781)	53,325
Total	<u>240,452</u>	<u>(12,881)</u>	<u>227,571</u>

As of December 31, 2009

	Gross Value ThUS\$	Interest ThUS\$	Present Value ThUS\$
No later than one year	59,871	(4,846)	55,025
Between one and five years	195,102	(9,584)	185,518
Over five years	41,395	(129)	41,266
Total	<u>296,368</u>	<u>(14,559)</u>	<u>281,809</u>

NOTE 19 – INCOME TAXES

Deferred tax assets and liabilities are offset if there is a legal right to offset assets and liabilities for income taxes relating to the same tax authority. The balances of deferred taxes are as follows:

Concept	Assets		Liabilities	
	As of	As of	As of	As of
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Depreciation	(415)	(476)	290,254	221,712
Amortization	12,286	2,103	29,606	24,556
Provisions	8,128	2,995	23,017	5,097
Post-employment benefit obligations	622	333	(982)	(850)
Revaluation of financial instruments	-	-	(21,926)	(18,891)
Tax losses	13,229	5,013	-	-
Others	4,234	684	(7,957)	8,995
Total	<u>38,084</u>	<u>10,652</u>	<u>312,012</u>	<u>240,619</u>

Movements of deferred tax assets and liabilities from January 01, 2009 to December 31, 2010 are as follows:

a) As of December 31, 2009

	Beginning balance asset (liability)	Recognized in consolidated income	Recognized in comprehensive income	Incorporation by business combinations	Ending balance asset (liability)
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Depreciation	(166,970)	(55,218)	-	-	(222,188)
Amortization	(29,831)	7,378	-	-	(22,453)
Provisions	4,082	(6,184)	-	-	(2,102)
Post-employment benefit obligations	853	330	-	-	1,183
Revaluation of financial	61,817	(1)	(42,925)	-	18,891
Tax losses	10,182	(5,169)	-	-	5,013
Others	(34,920)	25,601	1,008	-	(8,311)
Total	<u>(154,787)</u>	<u>(33,263)</u>	<u>(41,917)</u>	<u>-</u>	<u>(229,967)</u>

b) As of December 31, 2010

	Beginning balance asset (liability) ThUS\$	Recognized in consolidated income ThUS\$	Recognized in comprehensive income ThUS\$	Incorporation by business combinations ThUS\$	Ending balance asset (liability) ThUS\$
Depreciation	(222,188)	(68,481)	-	-	(290,669)
Amortization	(22,453)	(5,948)	-	11,081	(17,320)
Provisions	(2,102)	(17,968)	-	5,181	(14,889)
Post-employment benefit obligations	1,183	(196)	-	617	1,604
Revaluation of financial	18,891	-	3,035	-	21,926
Tax losses	5,013	(1,303)	-	9,519	13,229
Others	(8,311)	18,077	(120)	2,545	12,191
Total	<u>(229,967)</u>	<u>(75,819)</u>	<u>2,915</u>	<u>28,943</u>	<u>(273,928)</u>

Deferred tax assets not recognized:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Temporary differences	2,152	2,152
Tax losses	1,662	3,629
Total Deferred tax assets not recognized	<u>3,814</u>	<u>5,781</u>

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The group did not recognize deferred income tax assets of ThUS\$ 1,662 (ThUS\$ 3,629 at December 31, 2009) in respect of losses amounting to ThUS\$ 5,992 (ThUS\$ 11,456 at December 31, 2009) that can be carried against future taxable income.

Expense (income) for deferred and current income taxes for the years ended at December 31, 2010 and 2009 respectively, are as follows:

	For the year ended December 31,	
	2010	2009
	ThUS\$	ThUS\$
Expense for current income tax		
Current tax expense	8,890	8,323
Adjustment to previous year's current tax	(3,153)	(2,177)
Other current tax expense (income)	(1,881)	5,556
Current tax expense, net, total	<u>3,856</u>	<u>11,702</u>
Expense for deferred income taxes		
Deferred expense (income) for taxes related to the creation and reversal of temporary differences	75,284	31,128
Increases (reduction) in value of deferred tax assets	1,967	1,657
Deferred tax expense, net, total	<u>77,251</u>	<u>32,785</u>
Income tax expense	<u>81,107</u>	<u>44,487</u>

Composition of income tax expense (income):

	For the year ended December 31,	
	2010	2009
	ThUS\$	ThUS\$
Current tax expense, net, foreign	1,121	2,185
Current tax expense, net, Chile	2,735	9,517
Current tax expense, net, total	<u>3,856</u>	<u>11,702</u>
Deferred tax expense, net, foreign	3,724	2,024
Deferred tax expense, net, Chile	73,527	30,761
Deferred tax expense, net, total	<u>77,251</u>	<u>32,785</u>
Income tax expense	<u>81,107</u>	<u>44,487</u>

Reconciliation of tax expense using the legal rate to the tax expense using the effective rate:

	For the year ended	
	December 31,	
	2010	2009
	ThUS\$	ThUS\$
Tax expense using the legal rate	85,138	46,854
Tax effect of rates in other jurisdictions	1,491	6,792
Tax effect of non-taxable operating revenues	(4,089)	(10,556)
Tax effect of disallowable expenses	849	836
Tax effect of current period tax losses not recognized	1,967	1,801
Other increases (decreases)	(4,249)	(1,240)
Total adjustments to tax expense using the legal rate	(4,031)	(2,367)
Tax expense using the effective rate	81,107	44,487

Reconciliation of legal tax rate to effective tax rate:

	For the year ended	
	December 31,	
	2010	2009
	%	%
Legal tax rate	17.00	17.00
Effect of tax rates in other jurisdictions	0.30	2.46
Effect of tax rate on non-taxable operating revenues	(0.82)	(3.83)
Effect of tax rate on disallowable expenses	0.17	0.30
Effect of tax rate on use of not-previously recognized tax losses	0.39	0.66
Other increase (decrease)	(0.84)	(0.45)
Total adjustment to the legal tax rate	(0.80)	(0.86)
Total effective tax rate	16.20	16.14

Deferred taxes related to items charged to net equity:

	For the year ended December 31,	
	2010	2009
	ThUS\$	ThUS\$
Aggregate deferred taxation related to items charged to net equity	2,316	(42,425)
Total deferred taxes related to item charged to net equity	<u>2,316</u>	<u>(42,425)</u>

Effects on deferred taxes of the components of other comprehensive income:

	As of December 31, 2010		
	Amount before Taxes	Income tax expense (income)	Amount after Taxes
	ThUS\$	ThUS\$	ThUS\$
Cash-flow hedges	17,855	(3,035)	14,820
Translation adjustment	(708)	120	(588)
		<u>(2,915)</u>	

	As of December 31, 2009		
	Amount before Taxes	Income tax expense (income)	Amount after Taxes
	ThUS\$	ThUS\$	ThUS\$
Cash-flow hedges	(252,508)	42,925	(209,583)
Translation adjustment	5,929	(1,008)	4,921
		<u>41,917</u>	

NOTE 20 – OTHER FINANCIAL LIABILITIES

The composition of other financial liabilities is as follows:

	As of December 31, 2010 MUS\$	As of December 31, 2009 MUS\$
Current		
a) Bank loans	495,261	385,421
b) Other financial liabilities	5,321	2,031
c) Hedge liabilities	42,042	30,480
Total Current	542,624	417,932
Non-current		
a) Bank loans	2,450,033	2,389,521
b) Other financial liabilities	14,427	5,804
c) Hedge liabilities	97,888	47,853
Total Non-current	2,562,348	2,443,178

a) Interest bearing loans

Obligations with credit institutions and debt instruments:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Current		
Bank loans	150,915	71,124
Guaranteed obligations	283,637	245,717
Financial leases	54,297	68,076
Other loans	6,412	504
Total current	495,261	385,421
Non-current		
Bank loans	73,921	207,657
Guaranteed obligations	2,023,666	1,933,607
Financial leases	173,274	213,733
Other loans	179,172	34,524
Total non-current	2,450,033	2,389,521
Total obligations with financial institutions	2,945,294	2,774,942

All interest-bearing liabilities are recorded using the effective interest rate method. Under IFRS, the effective interest rate for loans with a fixed interest rate does not vary throughout the loan, while in the case of loans with variable interest rates, the effective rate changes on each repricing date.

Currency balances that make the interest bearing loans interest at December 31, 2010 and December 31, 2009, are as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
US Dollar	2,753,788	2,546,411
Chilean Peso (*)	187,101	228,531
Other currency	4,405	-
Total	<u>2,945,294</u>	<u>2,774,942</u>

(*) The Company entered into cross currency swaps, fixing the payment of ThUS\$ 128,056 of debt, in dollars.

b) Other financial liabilities

The detail of other financial liabilities as of December 31, 2010 and December 31, 2009, respectively, is as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Current		
Interest rate derivative not recognized as a hedge	5,321	2,031
Total current	<u>5,321</u>	<u>2,031</u>
Non-current		
Interest rate derivative not recognized as a hedge	14,427	5,804
Total non-current	<u>14,427</u>	<u>5,804</u>
Total other financial liabilities	<u>19,748</u>	<u>7,835</u>

c) Hedging liabilities

Hedging liabilities as of December 31, 2010 and December 31, 2009 are as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Current		
Interest accrued since last payment date swap rates	3,826	2,935
Fair value interest rate derivatives	24,522	21,580
Fair value of foreign currency derivatives	13,694	5,089
Fair value of fuel price derivatives	-	876
Total current	42,042	30,480
Non-current		
Fair value interest rate derivatives	90,666	47,853
Fair value of foreign currency derivatives	7,222	-
Total non-current	97,888	47,853
Total hedging liabilities	139,930	78,333

The foreign currency derivatives correspond to forward contracts and cross currency swaps.

Hedging operation

The fair values by type of derivative contracts held as hedging instruments are presented below:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Forward starting swaps (FSS) (1)	(54,670)	(31,928)
Interest rate options (2)	422	3,129
Interest rate Swaps (3)	(64,344)	(37,506)
Cross currency swaps (CCIRS) (4)	26,703	19,706
Fuel Collars (5)	17,782	5,329
Fuel Swap (6)	28,032	8,244
Currency forward (7)	(13,694)	677

- (1) Covers the significant variations in cash flows associated with market risk implicit in the changes in the 3-month Libor interest rate for long-term loans incurred in the acquisition of aircraft to be produced from the future contract date. These contracts are recorded as cash flow hedges.
- (2) Covers the significant variations in cash flows associated with market risk implicit in the changes in the 3-month Libor interest rate for long-term loans incurred in the acquisition of aircraft. These contracts are recorded as cash flow hedges.

- (3) Covers the significant variations in cash flows associated with market risk implicit in the increases in the 3 and 6 months Libor interest rates for long-term loans incurred in the acquisition of aircraft and bank loans. These contracts are recorded as cash flow hedges.
- (4) Covers the significant variations in cash flows associated with market risk implicit in the changes in the TAB 180 days interest rate and the dollar exchange rate. These contracts are recorded as cash flow hedges.
- (5) Covers significant variations in cash flows associated with market risk implicit in the changes in the price of future fuel purchases.
- (6) Covers the significant variations in cash flows associated with market risk implicit in the changes in the price of future fuel purchases.
- (7) Covers investments denominated in Chilean pesos to changes in the US Dollar - Chilean Peso exchange rate, with the aim of ensuring investment in dollars.

During the periods presented, the Company only maintains cash flow hedges. In the case of fuel hedges, future fuel purchases will occur and impact results from 1 to 12 months from the consolidated statement of financial position date, whereas in the case of interest rate hedging, they will occur and will impact results over the life of the related loans, which are valid for 12 years. Regarding coverage rate and currency, the impact on outcomes will occur continuously throughout the life of the contract (3 years), while cash flows will occur quarterly. Finally, the results will impact investment hedges steadily over the life of the investment (up to 3 months), while the cash flows occur at the maturity of the investment.

During the periods presented, all hedged highly probable forecast transactions have occurred.

During the periods presented, there has been no hedge ineffectiveness recognized in the consolidated statement of income.

Since none of the coverage resulted in the recognition of a nonfinancial asset, no portion of the result of the derivatives recognized in equity was transferred to the initial value of such assets.

The amounts recognized in comprehensive income and transferred from net equity to income during the year, are as follows:

	For the year ended December 31,	
	2010	2009
	ThUS\$	ThUS\$
Debit (credit) recognized in comprehensive Income during the year	(17,855)	252,508
Debit (credit) transferred from net equity to Income during the year	(35,010)	(193,534)

NOTE 21 - TRADE AND OTHER CURRENT ACCOUNTS PAYABLE

The composition of trade and other accounts payables is as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Current		
a) Trade and other accounts payable	500,694	377,438
b) Accrued liabilities of the reporting date	144,877	99,159
Total trade and other accounts payable	<u>645,571</u>	<u>476,597</u>

a) Trade and other accounts payable as of December 31, 2010 and December 31, 2009 are as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Trade creditors	389,568	311,441
Leasing obligations	26,474	9,441
Other accounts payable (*)	84,652	56,556
Total	<u>500,694</u>	<u>377,438</u>

(*) Includes agreement entitled "Plea Agreement" with the Department of Justice of the United States of America. See detail in note 22.

Trade and other payables by concept:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Aircraft fuel	104,404	71,881
Baording Fee	72,864	72,291
Landing fees	43,941	34,321
Handling and ground handling	39,915	25,885
Providers technical buying	29,594	24,784
Maintenance	28,658	15,821
Aircraft and engines lease	26,474	9,441
Professional service and advice	22,445	18,536
Other personal expenses	21,275	16,938
Marketing	21,041	11,624
U.S.A Department of Justice (*)	18,387	18,097
Achievement of objectives	15,263	13,228
In-flight services	11,761	10,253
Crew	8,188	6,400
Aviation insurance	5,931	4,976
Others	30,553	22,962
Total trade and other accounts payable	500,694	377,438

(*) Includes agreement entitled "Plea Agreement" with the Department of Justice of the United States of America. See detail in note 22.

b) The liabilities accrued at December 31, 2010 and December 31, 2009 , are as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Aircraft and engine maintenance	26,133	29,055
Accounts payable to personnel	52,441	33,890
Accrued personnel expenses	40,974	24,576
Others accrued liabilities	25,329	11,638
Total accrued liabilities	144,877	99,159

NOTE 22 - OTHER PROVISIONS

The detail of other provisions as of December 31, 2010 and December 31, 2009 is as follows:

	As of December 31, 2010 <u>ThUS\$</u>	As of December 31, 2009 <u>ThUS\$</u>
Current		
Provision legal claims (1)	753	970
Total other provisions, Current	<u>753</u>	<u>970</u>
Non-current		
Provision legal claims (1)	21,204	1,834
Provision for European Commission investigation (2)	10,916	25,000
Total other provisions, non-current	<u>32,120</u>	<u>26,834</u>
Total other provisions	<u>32,873</u>	<u>27,804</u>

(1) The amount represents a provision for certain demands made against the Company by former employees, regulatory agencies and others. The charge for the provision is shown in the consolidated statement of income in Administrative expenses. It is expected that the current balance as of December 31, 2010 will be applied during the next 12 months. Within other non-current provisions, provisions for legal claims relating to Aires S.A are included.

(2) Provision made for proceedings brought by the European Commission for possible breaches of free competition in the freight market.

The movement of provisions from January 01, 2009 and December 31, 2010 is as follows:

	Legal claims <u>ThUS\$</u>	European Commission Investigation <u>ThUS\$</u>	Total <u>ThUS\$</u>
Opening balance as of January 01, 2009	3,561	25,000	28,561
Increase in provisions	1,607	-	1,607
Provision used	(2,679)	-	(2,679)
Exchange difference	315	-	315
Balance as of December 31, 2009	<u>2,804</u>	<u>25,000</u>	<u>27,804</u>

	Legal claims ThUS\$	European Commission Investigation ThUS\$	Total ThUS\$
Opening balance as of January 01, 2010	2,804	25,000	27,804
Increase in provisions	2,872	-	2,872
Acquisition through business combination	17,174	-	17,174
Provision used	(681)	-	(681)
Reversal of not used provision	-	(14,084)	(14,084)
Exchange difference	(212)	-	(212)
Balance as of December 31, 2010	<u>21,957</u>	<u>10,916</u>	<u>32,873</u>

European Commission Provision:

(a) This provision was established because of the investigation begun by the Directorate General for Competition of the European Commission against more than 25 cargo airlines, including Lan Cargo S.A., as part of a global investigation begun in 2006 regarding possible unfair competition on the air cargo market. This was a joint investigation by the European and U.S.A. authorities. The start of the investigation was disclosed through a material event notice dated December 27, 2007. The U.S.A. portion of the global investigation concluded with respect to Lan Cargo S.A. and its subsidiary, Aerolíneas Brasileiras S.A. ("ABSA") by the signature of a *Plea Agreement* with the U.S.A. Department of Justice, as disclosed in a material event notice on January 21, 2009.

(b) A significant matter report dated November 9, 2010, reported that the General Direction of Competition had issued its decision on this case (the "decision"), under which it imposed fines totaling € 799,445,000 (seven hundred and ninety nine million four hundred and forty-five thousand Euro) for infringement of European Union regulations on free competition against eleven (11) airlines, among which are Lan Airlines S.A. and Lan Cargo S.A., Air Canada, Air France, KLM, British Airways, Cargolux, Cathay Pacific, Japan Airlines, Qanta Airways, SAS and Singapore Airlines.

(c) Jointly, Lan Airlines S.A. and Lan Cargo S.A., have been fined in the amount of € 8,220,000 (approximately equivalent to ThUS\$ 10,916) for such infractions, which was provisioned in the financial statements of LAN. This is a minor fine in comparison to the original decision, as there was a significant reduction in fine because Lan cooperated during the investigation.

(d) On January 25, 2011, Lan Airlines S.A. and Lan Cargo S.A. appealed the decision before the Court of Justice of the European Union. According to the above, the Company decided to make a provision for the amount of ThUS\$ 10,916.

NOTE 23 – OTHER CURRENT NON-FINANCIAL LIABILITIES

Other non-financial liabilities as of December 31, 2010 and December 31, 2009 are as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Deferred revenues	810,524	542,832
Dividends payable	125,435	70,387
Other sundry liabilities	3,192	3,037
Total other non-financial liabilities, current	<u>939,151</u>	<u>616,256</u>

NOTE 24 - EMPLOYEE BENEFITS

Provisions for employee benefit as of December 31, 2010 and December 31, 2009, respectively, are as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Pension payments	3,164	2,588
Termination payments	1,161	1,053
Other obligations	5,332	1,914
Total provisions for employee benefits, non-current	<u>9,657</u>	<u>5,555</u>

(a) The movement in payments for termination indemnities and other obligations between January 01, 2009 and December 31, 2010 is as follows:

	ThUS\$
Opening balance as of January 01, 2009	3,865
Increase (decrease) current service provision	3,705
Benefits paid	(2,015)
Balance as of December 31, 2009	5,555
Opening balance as of January 01, 2010	5,555
Increase (decrease) current service provision	4,825
Benefits paid	(723)
Balance as of December 31, 2010	9,657

(b) The provision for short-term benefits as of December 31, 2010 and December 31, 2009 respectively, is detailed below:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Profit-sharing and bonuses	52,441	29,596

The participation in profits and bonuses are annual incentives plan for achievement the objectives.

Employment expenses are detailed below:

	2010 ThUS\$	For the year ended December 31, 2009 ThUS\$	2008 ThUS\$
Salaries and wages	587,148	476,404	456,599
Short-term employee benefits	73,335	58,530	54,148
Termination benefits	11,751	17,408	13,757
Other personnel expenses	121,030	84,329	83,433
Total	793,264	636,671	607,937

NOTE 25 – OTHER NON-CURRENT ACCOUNTS PAYABLE

Other liabilities non-current as of December 31, 2010 and December 31, 2009 are as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Fleet financing(JOL)	314,372	299,483
Other accounts payable (*)	54,000	72,000
Aircraft and engine maintenance	47,607	46,644
Provision for vacations and bonuses	7,949	6,212
Other sundry liabilities	1,753	2,182
Total non-current liabilities	<u>425,681</u>	<u>426,521</u>

(*) Agreement entitled "Plea Agreement" with the Department of Justice of United States of America, and its short-term part in trade payables and other payables. See details in Note 22.

NOTE 26 - EQUITY

a) Capital

The capital of the company is in the following form:

The Company's objective is to maintain an appropriate level of capitalization that enables it to ensure access to the financial markets for carrying out its medium and long-term objectives, optimizing the return for its shareholders and maintaining a solid financial position.

The capital of the Company at the end of each period amounts to ThUS\$ 453,444, divided into 338,790,909 common stock of a same series, of ordinary character, no par value. There are no special series of shares and no privileges. The form of its stock certificates and their issuance, exchange, disuse, loss, replacement and other circumstances, and the transfer of the shares, is governed by the provisions of Corporations Law and its regulations.

b) Subscribed and paid shares

As of December 31, 2010 and December 31, 2009, the total number of authorized common shares is 341 million shares of no par value. Of the total shares subscribed 338,790,909 shares have been fully paid, leaving 2,209,091 shares reserved for issuance under option contracts.

c) Other equity interests

The movement of other equity interest from January 01, 2009 and December 31, 2010 is as follows:

	Stock options plans ThUS\$	Other reserves ThUS\$	Total ThUS\$
Opening balance as of January 01, 2009	1,801	(52)	1,749
Stock option plans	1,183	-	1,183
Deferred tax	(507)	-	(507)
Legal reserves	-	65	65
Balance as of December 31, 2009	2,477	13	2,490

	Stock options plans ThUS\$	Other reserves ThUS\$	Total ThUS\$
Opening balance as of January 01, 2010	2,477	13	2,490
Stock option plans	3,523	-	3,523
Deferred tax	(599)	-	(599)
Legal reserves	-	49	49
Balance as of December 31, 2010	5,401	62	5,463

(c.1) Reserves for stock option plans

These reserves are related to the share-based payments explained in Note 36.

(c.2) Other reserves

The balance of other sundry reserves comprises the following:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Reserve for the adjustment of the value of fixed assets (1)	2,620	2,620
Share issuance and placement costs (2)	(2,672)	(2,672)
Others	114	65
Total	<u>62</u>	<u>13</u>

(1) Corresponds to the technical revaluation of fixed assets authorized by the Superintendence of Securities and Insurance in 1,979, in Circular No. 1,529. The revaluation was optional and could be taken only once, the reserve is not distributable and can only be capitalized.

(2) As established in Circular 1,736 of the Superintendence of Securities and Insurance, the next extraordinary shareholders meeting to be held by the parent Company should approve that the share issuance and placement costs be deducted from the paid in capital.

d) Other reserves

The movement of other reserves from January 01, 2009 and December 31, 2010 is as follows:

	Currency translation reserve ThUS\$	Cash flow hedging reserve ThUS\$	Total ThUS\$
Opening balance as of January 01, 2009	(6,192)	(301,813)	(308,005)
Derivatives valuation gains	-	252,508	252,508
Deferred tax	1,009	(42,925)	(41,916)
Currency translation differences	259	-	259
Balance as of December 31, 2009	<u>(4,924)</u>	<u>(92,230)</u>	<u>(97,154)</u>
	Currency translation reserve ThUS\$	Cash flow hedging reserve ThUS\$	Total ThUS\$
Opening balance as of January 01, 2010	(4,924)	(92,230)	(97,154)
Derivatives valuation losses	-	(17,855)	(17,855)
Deferred tax	(137)	3,035	2,898
Currency translation differences	804	-	804
Balance as of December 31, 2010	<u>(4,257)</u>	<u>(107,050)</u>	<u>(111,307)</u>

(d.1) Currency translation reserve

These originate from exchange differences arising on the translation of any investment in foreign entities (or Chilean with a functional currency different to that of the parent), and from loans and other instruments in foreign currency designated as hedges for such investments. When the investment (all or part) is sold or disposed, and loss of control occurs, these reserves are shown in the consolidated statement of income as part of the loss or gain on the sale or disposal. If the sale does not involve loss of control, these reserves are transferred to non-controlling interests.

(d.2) Cash flow hedging reserve

These originate from the at fair value valuation the end of each period of the outstanding derivative contracts that have been defined as cash flow hedges. When these contracts expire, these reserves should be adjusted and the corresponding results recognized.

e) Retained earnings

The movement of retained earnings between January 01, 2009 and December 31, 2010 is as follows:

ThUS\$

Opening balance as of January 01, 2009	614,587
Result for the period	231,126
Other decreases	(1,044)
Dividends	(104,622)
Balance as of December 31, 2009	<u>740,047</u>

Opening balance as of January 01, 2010	740,047
Result for the period	419,702
Other decreases	(129)
Dividends	(210,406)
Balance as of December 31, 2010	<u>949,214</u>

f) Dividends per share

As of December 31, 2010

Description	Final dividend 2009	Interim dividend 2010	Interim dividend 2010
Date of dividend	4/29/2010	7/27/2010	12/23/2010
Amount of the dividend (ThUS\$)	10,940	74,466	125,000
Number of shares among which the dividend is distributed	338,790,909	338,790,909	338,790,909
Dividend per share (US\$)	0.03229	0.2198	0.36896

As of December 31, 2009

Description	Interim dividend 2009	Interim dividend 2009
Date of dividend	7/28/2009	12/29/2009
Amount of the dividend (ThUS\$)	34,621	70,001
Number of shares among which the dividend is distributed	338,790,909	338,790,909
Dividend per share (US\$)	0.10219	0.20662

The Company's dividend policy is that these be equal to the minimum required by law, i.e. 30% of the net income according to current regulations. This policy does not preclude the Company from distributing dividends in excess of this obligatory minimum, based on the events and circumstances that may occur during the course of the year.

At December 31, 2010 interim dividends have been declared for 47.5% of 2010 net income.

NOTE 27 - REVENUES

The detail of revenues is as follows:

	For the year ended December 31,		
	2010	2009	2008
	ThUS\$	ThUS\$	ThUS\$
Passengers	3,109,797	2,623,608	2,820,830
Cargo	1,280,705	895,554	1,319,415
Total	4,390,502	3,519,162	4,140,245

NOTE 28 - COSTS AND EXPENSES BY NATURE

a) Costs and operating expenses

The main operating costs and administrative expenses are detailed below:

	2010	For the year ended December 31, 2009	2008
	ThUS\$	ThUS\$	ThUS\$
Other rentals and landing fees	595,214	490,921	544,247
Aircraft Fuel	1,161,927	959,608	1,388,826
Comissions	173,397	143,900	190,224
Other operating expenses	506,730	387,106	413,973
Aircraft rentals	98,588	83,712	70,527
Aircraft maintenance	120,642	121,037	105,920
Passenger service	114,221	92,796	85,257
Total	<u>2,770,719</u>	<u>2,279,080</u>	<u>2,798,974</u>

b) Depreciation and amortization

Depreciation and amortization are detailed below:

	2010	For the year ended December 31, 2009	2008
	ThUS\$	ThUS\$	ThUS\$
Depreciation (*)	327,136	295,894	249,708
Amortization	9,355	8,168	6,791
Total	<u>336,491</u>	<u>304,062</u>	<u>256,499</u>

(*) Includes the depreciation of property, plant and equipment and the maintenance cost of aircraft held under operating leases.

c) Personnel expenses

The costs for this item are disclosed in provisions for employee benefits (Note 24).

d) Financial costs

The detail of financial costs is as follows:

	For the year ended December 31,		
	2010	2009	2008
	ThUS\$	ThUS\$	ThUS\$
Bank loan interest	117,405	113,827	102,768
Financial leases	5,880	4,406	10,042
Other financial instruments	31,994	34,876	12,678
Total	<u>155,279</u>	<u>153,109</u>	<u>125,488</u>

Costs and expenses by nature presented in this note are equivalent to the sum of cost of sales, distribution costs, and administrative expenses, other expenses by function and financing costs presented in the consolidated statement income by function.

NOTE 29 - GAINS (LOSSES) ON THE SALE OF NON-CURRENT ASSETS NOT CLASSIFIED AS HELD FOR SALE

The gains (losses) on sales of non-current assets not classified as Held for Sale as of December 31, 2010 and 2009 are as follows:

	For the year ended December 31,		
	2010	2009	2008
	ThUS\$	ThUS\$	ThUS\$
Property, plant and equipment	1,413	4,278	2,546
Investments in companies, associates and joint businesses	-	(2)	3,664
Total	<u>1,413</u>	<u>4,276</u>	<u>6,210</u>

The gain (loss) on sales of the period is presented in other operating income, by function.

NOTE 30 - OTHER INCOME, BY FUNCTION

Other incomes, by function are as follows:

	For the year ended December 31,		
	2010	2009	2008
	ThUS\$	ThUS\$	ThUS\$
Duty free	11,983	9,593	15,668
Aircraft leasing	13,130	20,696	41,417
Logistics and courier	36,778	33,132	32,161
Customs and warehousing	24,673	18,682	25,375
Tours	28,216	31,088	3,187
Other miscellaneous income	18,046	23,160	25,134
Total	<u>132,826</u>	<u>136,351</u>	<u>142,942</u>

NOTE 31 – FOREIGN CURRENCY AND EXCHANGE RATE DIFFERENCES

a) Foreign currency

The foreign currency detail of current and non-current assets is as follows:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Current assets		
Cash and cash equivalents	436,840	502,618
Chilean peso	368,360	435,514
Euro	7,844	13,255
Argentine peso	11,230	6,105
Brazilian real	4,759	3,041
Other currency	44,647	44,703
Other current financial assets	6,726	8,041
Brazilian real	4,740	5,288
Other currency	1,986	2,753
Other current non-financial assets	2,692	1,983
Chilean peso	1,247	784
Argentine peso	419	273
Brazilian real	96	-
Other currency	930	926
Trade and other current accounts receivable	126,648	103,759
Chilean peso	28,606	52,073
Euro	8,429	5,192
Argentine peso	6,702	15,158
Brazilian real	31,329	11,190
Australian dollar	12,456	7,595
Other currency	39,126	12,551
Current accounts receivable from related entities	21	9
Chilean peso	21	9
Current tax assets	62,455	50,734
Chilean peso	16,805	11,420
Argentine peso	14,477	8,668
Brazilian real	6,735	5,575
Mexican peso	17,477	16,554
Other currency	6,961	8,517
Total current assets	635,382	667,144
Chilean peso	415,039	499,800
Euro	16,273	18,447
Argentine peso	32,828	30,204
Brazilian real	47,659	25,094
Mexican peso	17,477	16,554
Australian dollar	12,456	7,595
Other currency	93,650	69,450

Non-current assets	As of December 31, 2010	As of December 31, 2009
	ThUS\$	ThUS\$
Other non-current financial assets,	4,504	528
Brazilian real	1,991	46
Other currency	2,513	482
Other non-current non-financial assets	1,681	4
Argentine peso	1,681	-
Other currency	-	4
Non-current rights receivable	7,874	7,181
Chilean peso	7,864	7,179
Other currency	10	2
Investment recorded using the method of participation	593	1,236
Chilean peso	593	1,236
Deferred tax assets	28,493	-
Other currency	28,493	-
Total non-current assets	43,595	8,949
Chilean peso	8,457	8,415
Argentine peso	1,681	-
Brazilian real	1,991	46
Other currency	31,466	488

The foreign currency detail of current and non-current liabilities is as follows:

	Up to 90 days		91 days to 1 year	
	As of	As of	As of	As of
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Current liabilities				
Other current financial liabilities	46,043	1,231	112,672	56,991
Chilean peso	41,638	1,231	112,672	56,991
	4,405	-	-	-
Trade and other current accounts payable	240,419	155,819	14,012	11,150
Chilean peso	52,779	35,326	9,559	8,209
Euro	9,438	9,138	14	-
Argentine peso	43,214	33,377	3,725	2,211
Brazilian real	22,633	13,334	-	-
Other currency	112,355	64,644	714	730
Current accounts payable to related entities	-	6	-	10
Chilean peso	-	6	-	10
Current tax liabilities	9,700	6,230	2,621	4,262
Chilean peso	3,007	2,920	1,064	945
Argentine peso	240	1,223	1,202	751
Brazilian real	1,994	1,487	-	-
Other currency	4,459	600	355	2,566
Other current non-financial liabilities	27,729	375	1,071	934
Brazilian real	-	-	1,041	930
Other currency	27,729	375	30	4
Total current liabilities	323,891	163,661	130,376	73,347
Chilean peso	97,424	39,483	123,295	66,155
Euro	9,438	9,138	14	-
Argentine peso	43,454	34,600	4,927	2,962
Brazilian real	24,627	14,821	1,041	930
Other currency	148,948	65,619	1,099	3,300

Non-current liabilities	More than 1 to 3 years		More than 3 to 5 years		More than 5 years	
	As of	As of	As of	As of	As of	As of
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other non-current financial liabilities	61,477	170,309	-	-	-	-
Chilean peso	61,477	170,309	-	-	-	-
Other non-current accounts payable	7,696	5,776	71	1,256	5	39
Chilean peso	6,721	5,114	71	195	5	39
Brazilian real	-	-	-	844	-	-
Other currency	975	662	-	217	-	-
Other long-term provisions	-	-	1,554	-	-	-
Brazilian real	-	-	1,401	-	-	-
Other currency	-	-	153	-	-	-
Non-current provisions for employee benefits	3,153	-	-	-	698	457
Argentine peso	-	-	-	-	698	457
Other currency	3,153	-	-	-	-	-
Total Non-current liabilities	72,326	176,085	1,625	1,256	703	496
Chilean peso	68,198	175,423	71	195	5	39
Argentine peso	-	-	-	-	698	457
Brazilian real	-	-	1,401	844	-	-
Other currency	4,128	662	153	217	-	-

General summary of foreign currency:	As of December 31, 2010	As of December 31, 2009
	ThUS\$	ThUS\$
Total assets	678,977	676,093
Chilean peso	423,496	508,215
Euro	16,273	18,447
Argentine peso	34,509	30,204
Brazilian real	49,650	25,140
Mexican peso	17,477	16,554
Australian dollar	12,456	7,595
Other currency	125,116	69,938
Total liabilities	528,921	414,845
Chilean peso	288,993	281,295
Euro	9,452	9,138
Argentine peso	49,079	38,019
Brazilian real	27,069	16,595
Mexican peso	-	-
Australian dollar	-	-
Other currency	154,328	69,798
Net position	150,056	261,248
Chilean peso	134,503	226,920
Euro	6,821	9,309
Argentine peso	(14,570)	(7,815)
Brazilian real	22,581	8,545
Mexican peso	17,477	16,554
Australian dollar	12,456	7,595
Other currency	(29,212)	140

b) Exchange differences

Exchange rate differences, other than those relating to financial instruments at fair value through profit and loss, generated a gain of ThUS \$13,792 and a loss of ThUS \$11,237 for the periods ended December 31, 2010 and December 31, 2009 respectively, recorded on the Income Statement.

Exchange rate differences shown in equity as translation reserves for the years ended December 31, 2010 and 2009 represented a gain of ThUS\$ 708 and a loss of ThUS\$ 1,442, respectively.

The following shows the current exchange rates for the US dollar at the end of each period:

	As of December 31, 2010	As of December 31, 2009
Chilean peso	468.01	507.10
Argentine peso	3.97	3.80
Brazilian real	1.66	1.74
Peruvian Sol	2.81	2.89
Australian dollar	0.99	1.12
Strong Bolivar	4.30	2.14
Boliviano	6.94	7.00
Uruguayan peso	19.80	19.45
Mexican peso	12.38	13.06
Colombian peso	1,905.10	2,043.07
New Zealand dollar	1.30	1.39
Euro	0.75	0.70

NOTE 32 - EARNINGS PER SHARE

Basic earnings	For the year ended December 31,	
	2010	2009
	ThUS\$	ThUS\$
Earnings attributable to controlling company's equity holders (ThUS\$)	419,702	231,126
Weighted average number of shares, basic	338,790,909	338,790,909
Basic earnings per share (US\$)	1.23882	0.68221

Diluted earnings	For the year ended December 31,	
	2010	2009
	ThUS\$	ThUS\$
Earnings attributable to controlling company's equity holders (ThUS\$)	419,702	231,126
Weighted average number of shares, basic	338,790,909	338,790,909
Adjustment diluted weighted average shares		
Stock options	954,544	-
Weighted average number of shares, diluted	339,745,453	338,790,909
Diluted earnings per share (US\$)	1.23534	0.68221

NOTE 33 - CONTINGENCIES

a) Lawsuits

a1) Actions brought by Lan Airlines S.A. and Subsidiaries.

Company	Court	Case No.	Origin	Stage and level of proceeding	Amounts involved ThUS\$
Atlantic Aviation Investments LLC (AAI)	Supreme Court of the State of New York County of New York	07-6022920	Atlantic Aviation Investments LLC., an indirect subsidiary of Lan Airlines S.A. constituted under the laws of the state of Delaware, sued Varig Logística S.A. ("Variglog") for the non-payment of four loans under loan agreements governed by the law of New York. These agreements provide for the acceleration of the loans in the event of sale of the original debtor, VRG Linhas Aéreas S.A.	Stage of execution in Switzerland of judgment condemning Variglog to repay the principal, interest and costs in favor of AAI. An embargo is held over the bank account of Variglog in Switzerland by AAI. Varilog is seeking recovery through the courts in Brazil.	17,100 plus interest and costs
Atlantic Aviation Investments LLC	Supreme Court of the State of New York County of New York	602286-09	Atlantic Aviation Investments LLC. Sued Matlin Patterson Global Advisers LLC, Matlin Patterson Global Opportunities Partners II LP, Matlin Patterson Global Opportunities Partners (Cayman) II LP y Volo Logistics LLC (a) as alter egos for Variglog, for failure to pay the four loans indicated in the previous note; and (b) for a default on their obligations of guarantors and other obligations under the Memorandum of Understanding signed by the parties on September 29, 2006	The court dismissed in part and upheld in part the motion to dismiss counterclaims brought by defendants in the case. The parties continue to conduct the test stage (discovery).	17,100 plus interest costs and damages

Company	Court	Case No.	Origin	Stage and level of proceeding	Amounts involved ThUS\$
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A.	Distrital Tax Court N°2 (Guayaquil)	6319-4064-05	Against the regional director of the Guayaquil Internal Revenue Service for payment of VAT credit.	Delivered at first instance decision pending appeal against.	4,210
Lan Airlines S.A.	T ax Tribunal of Quito	23493-A	Against the regional director of the Quito Internal Revenue Service for payment of VAT credit.	Requested sentencing issue.	3,958
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A.	Distrital Tax Court N°2 (Guayaquil)	09504-2010- 0114	Against the regional director of the Internal Revenue Service Guayaquil, to determine tax credit reduction by 2006.	Pending opening of term evidence.	4,565
Lan Argentina S.A.	15th National Court of first instance commercial, Buenos Aires.	10587/09	Request for bankruptcy of Southern Winds S.A. for various unpaid loans.	Successfully completed direct negotiations with the debtor, proceeding to desist the bankruptcy petition. Signed two agreements, one for Lan Argentina S.A. and another for LAN Airlines S.A. Recognized all debts. In the case of Lan Argentina S.A. the agreement was signed for U.S. \$66,428 payable in 30 quotas. There is no expectation of a recovery.	66

a2) Lawsuits against Lan Airlines S.A. and Subsidiaries

Company	Court	Cause No.	Origin	Stage and level of proceeding	Amounts involved ThUS\$
Aerolinhas Brasileiras S.A.	Secretary of Finance of State of Rio de Janeiro	2003	The administrative authority of Rio de Janeiro, Brazil, notified breach action or fine for alleged non-payment of ICMS (VAT) on import of Boeing-767 aircraft registered No. PR-ABB.	Pending resolution of the revision group to annul the fine.	3,000
Lan Argentina S.A.	Laboral, Salta, Argentina	24826/10	Labor demand initiated by a custom agent.	In order to answer demand	700
Lan Cargo S.A.	Civil Court of Asunción, Paraguay	78-362	Request of indemnification for damages interposed by his who had been general agent in Paraguay.	Pending appeal of the decision to reject one of the exceptions to lack of overt action, made by lawyers for the defendant.	437
Lan Airlines S.A. y Lan Cargo S.A.	European commission and Canada	-	Investigation of possible breaches of free Competition of cargo airlines, especially the fuel surcharge. On December 26, 2007, the Director General for Competition of the European Commission notified Lan Cargo S.A. and Lan Airlines S.A. of the instruction of a process against twenty-five cargo airlines, including Lan Cargo S.A., for alleged breaches of free competition in the European air cargo market, especially the intended fixing of a surcharge for fuel and cargo. Dated November 09, 2010 the Direction General for Competition of the European Commission notified Lan Cargo SA and Lan Airlines SA the imposition of fines in the amount of ThUS\$ 10,916. This fine is being appealed by Lan Cargo SA and Lan Airlines SA We can not predict the outcome of the appeal process.	On 14 April 2008, answered the European Commission's notification. Appeal will be filed before the next day January 25, 2011.	10,916
Lan Cargo S.A. and Lan Airlines S.A.	Competent tribunal of the United States and Canada to hear class actions	-	As a consequence of the investigation into alleged breaches of free competition of cargo airlines, especially fuel surcharge	Case is in the process of discovery of evidence	Undetermined

Company	Court	Case No.	Origin	Stage and level of proceeding	Amounts involved ThUS\$
Lan Logistics, Corp	Federal Court, Florida, United States	-	In mid June 2008 a demand was presented for purchase option right for sale of LanBox.	Failed against Lanlogistics, Corp. for \$ 5 million, which is appealing to the court of appeals. Appeal process takes between six months to a year.	Undetermined
Aerolinhas Brasileiras S.A.	Competent court of United States for hearing class actions	-	As a consequence of the investigation into alleged breaches of free competition of cargo airlines, especially fuel surcharge	Investigation pending.	Undetermined
Aerolinhas Brasileiras S.A.	Conselho Administrativo de Defesa Econômica, Brasil	-	Investigation of alleged breaches of free competition of cargo airlines, especially fuel surcharge.	Investigation pending.	Undetermined
Lan Airlines S.A. "Brazil"	Instituto de Defesa do Consumidor de Sao Paulo	-	The Department of Consumer Protection and Defense ("PROCON") has applied a fine to Lan Airlines S.A. in the amount of R\$ 1,688,240.00 equivalent to approximately ThUS\$ 970. T his penalty relates to the cancellation of flights to Chile as a product of the 2010 earthquake, holding that Lan Airlines S.A. did not act in accordance with the rules applicable to the facilities and offered no compensation to passengers who could not travel as a result of this extraordinary	Fine imposed by the consumer entity Sao Paulo	970

Considering the stage of process for each of the cases mentioned above and/or the improbable event of obtaining an adverse sentence, as of December 31, 2010 the Company has estimated that is not necessary to make a provision for any case, with the exception of the significant matter relating to the European Commission which was reported to the SVS. A provision of ThUS\$ 10,916 has been recorded for the decision issued by the European Commission on November 9, 2010.

NOTE 34 - COMMITMENTS

(a) Loan covenants

With respect to various loans signed by the Company for the financing of Boeing 767 aircraft, which carry the guarantee of the United States Export-Import Bank, limits have been set on some of the parent Company's financial indicators on a consolidated basis. Restrictions are also in place on the Company's management in terms of its ownership and disposal of assets. These same restrictions also exist with respect to several contracts signed by its subsidiary Lan Cargo S.A. for the financing of Boeing 767 aircraft with the guarantee of the US Export-Import Bank, this time applied to both the parent Company and its subsidiary Lan Cargo S.A. Regarding the various contracts of the Company for the financing of Airbus A320 aircraft, which are guaranteed by European export credit agencies, limits have been established on some of the Company's financial indicators, together with management restrictions in terms of its ownership and asset disposals. In connection with the financing of spare engines for its fleet Boeing 767 and 777, which are guaranteed by the Export - Import Bank of the United States, restrictions have been placed on the shareholding of its guarantors and their legal successor in case of merger.

In relation to credit agreements entered into by the Company, for the present year local banks have set limits to some financial indicators of the parent company on a consolidated basis. At December 31, 2010, the Company is in compliance with these covenants.

(b) Commitments under operating leases as lessee

Details of the main operating leases are as follows:

Lessor		Aircraft	As of December 31, 2010	As of December 31, 2009
Delaware Trust Company, National Association (CRAFT)	(*)	Bombardier Dhc8-200	9	-
International Lease Finance Corporation		Boeing 767	8	8
KN Operating Limited (NAC)	(*)	Bombardier Dhc8-400	4	-
Orix Aviation Systems Limited		Airbus 320	2	2
Pembroke B737-7006 Leasing Limited	(*)	Boeing 737	2	-
International Lease Finance Corp. (ILFC)	(*)	Boeing 737	2	-
Sunflower Aircraft Leasing Limited - AerCap		Airbus 320	2	-
Celestial Aviation Trading 35 Limited		Boeing 767	1	1
M SN 167 Leasing Limited		Airbus 340	1	1
Celestial Aviation Trading 16 Limited		Boeing 767	1	1
CIT Aerospace International		Boeing 767	1	1
Celestial Aviation Trading 39 Ltd. GECAS (WFBN)		Boeing 777	1	1
Celestial Aviation Trading 23 Ltd. GECAS (WFBN)		Boeing 777	1	1
Celestial Aviation Trading 47 Ltd. GECAS (WFBN)		Boeing 767	1	-
Celestial Aviation Trading 51 Ltd. GECAS (WFBN)		Boeing 767	1	-
AerCap (WFBN)		Airbus 320	1	-
M SN 32415, LLC - AWAS	(*)	Boeing 737	1	-
JB 30244, Inc. - AWAS	(*)	Boeing 737	1	-
NorthStar AvLease Ltd.	(*)	Bombardier Dhc8-200	1	-
JB 30249, Inc. - AWAS	(*)	Boeing 737	1	-
TIC Trust (AVM AX)	(*)	Bombardier Dhc 8-200	1	-
ACS Aircraft Finance Bermuda Ltd. - Aircastle (WFBN)	(*)	Boeing 737	1	-
M CAP Europe Limited - Mitsubishi (WTC)	(*)	Boeing 737	1	-
Total			45	16

(*) Aircraft incorporated through the business combination with Aires S.A.

The rentals are shown in profit and loss for the period as they are incurred.

The minimum future lease payments not yet payable are the following:

	As of December 31, 2010 ThUS\$	As of December 31, 2009 ThUS\$
Up to a year	151,781	90,731
More than one year and five years.	440,632	273,055
More than five years	107,593	80,165
Total	<u>700,006</u>	<u>443,951</u>

The minimum lease payments charged to income are the following:

	2010 ThUS\$	For year ended December 31, 2009 ThUS\$	2008 ThUS\$
Minimum operating lease payments	93,219	81,425	67,781
Total	<u>93,219</u>	<u>81,425</u>	<u>67,781</u>

In April 2009, the first B777-Freighter aircraft was incorporated and in May 2009 the second of these aircraft arrived. In September 2009 the leasing of the Boeing 767-300F, registration CC-CGN, will end, aircraft was returned in October 2009. In September 2010 the Company added two Airbus A320-200 aircraft for a period of six years, while in December 2010 the Company added an aircraft of the same fleet for a period of eight years. Additionally, in November and December 2010, The Company added two Boeing 767-300F aircraft, with terms of contract for seven and six years respectively.

From October 2009 lease terms were modified for 7 Boeing 767-300ER aircraft. Five aircraft were extended from three to seven years and two aircraft were reduced by two to three years.

Later, in June 2010, the term of income was extended for another Boeing 767-300ER aircraft for two years, ending in May 2013.

The operating lease agreements signed by the Company and its subsidiaries state that maintenance of the aircraft should be done according to the manufacturer's technical instructions and within the margins agreed in the leasing agreements, a cost that must be assumed by the lessee. The lessee should also contract insurance for each aircraft to cover associated risks and the amounts of these assets. Regarding rental payments, these are unrestricted and may not be netted against other accounts receivable or payable between the lessor and lessee.

(c) Other commitments

At December 31, 2010 the Company has existing letters of credit, guarantee ballots and guarantee insurance policies as follows:

Creditor Guaranteed	Debtor	Type	Value ThUS\$	Release date
Deutsche Bank A.G.	Lan Airlines S.A.	Two letters of credit	20,000	31-Jan-11
The Royal Bank of Scotland plc	Lan Airlines S.A.	Two letters of credit	18,000	08-Jan-11
Dirección General de Aviación Civil de Chile	Lan Airlines S.A.	Forty-three guarantee ballots	5,833	18-Jan-11
Dirección Seccional de Aduanas de Bogota	Línea Aérea Carguera de Colombia S.A.	Two guarantee insurance policies	2,430	07-Apr-14
Washington International Insurance	Lan Airlines S.A.	Seven Letter of credit	3,040	05-Apr-11
Metropolitan Dade County	Lan Airlines S.A.	Five letters of credit	1,675	31-May-11

NOTE 35 – TRANSACTIONS WITH RELATED PARTIES

a) Transactions with related parties for the period ended December 31, 2010

Tax No.	Related parties	Relationship	Country of origin	Other information on related party	Transaction	Currency	Amount of transactions ThUS\$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	Controlling Shareholder	Chile	Investments	Property rental granted Passenger services provided	CLP CLP	77 13
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Building rental granted Training received Assignment of debt granted Other prepayments received	US\$ US\$ US\$ US\$	17 (363) 18 (467)
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	Concessionaire	Aviation rates received Basic consumptions received Aeronautical concession received Dividend distribution	CLP CLP CLP CLP	(35) (8) (153) 73
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Fish farming	Passenger services provided	CLP	63
96.669.520-K	Red de Televisión Chilevisión S.A.	Other related parties	Chile	Television	Passenger services provided Publicity services received	CLP CLP	65 (100)
96.894.180-1	Bancard Inversiones Ltda.	Other related parties	Chile	Professional advice	Professional advice received	CLP	(7)
Foreign	Inversora Aeronáutica Argentina	Other related parties	Argentina	Investments	Building rental received Other services provided	US\$ US\$	(271) 13

b) Transactions with related parties for the period ended December 31, 2009

Tax No.	Related parties	Relationship	Country of origin	Other information on related party	Transaction	Currency	Amount of transactions ThUS\$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	Controlling Shareholder	Chile	Investments	Property rental granted	CLP	65
					Passenger services provided	CLP	15
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Building rental granted	US\$	17
					Training received	US\$	(1,103)
					Assignment of debt granted	US\$	2
					Other prepayments provided	US\$	137
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	Concessionaire	Aviation rates received	CLP	(93)
					Basic consumptions received	CLP	(11)
					Aeronautical concession received	CLP	(297)
78.005.760-2	Sociedad de Seguridad Aérea S.A.	Other related parties	Chile	Safety services	Safety service received	CLP	(575)
					Other prepayments provided	CLP	1,018
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Fish farming	Passenger services provided	CLP	29
96.669.520-K	Red de Televisión Chilevisión S.A.	Other related parties	Chile	Television	Publicity services received	CLP	(949)
					Passenger services provided	CLP	623
96.894.180-1	Bancard Inversiones Ltda.	Other related parties	Chile	Professional advice	Professional advice received	CLP	(82)
					Other prepayments received	CLP	(12)
Foreign	Inversora Aeronáutica Argentina	Other related parties	Argentina	Investments	Building rental received	US\$	(386)

c) Compensation of key management

The Company has defined for these purposes that key management personnel are the executives who define the Company's policies and major guidelines and who directly affect the results of the business, considering the levels of vice-presidents, chief executives and directors.

	For the year ended December 31,	
	2010 ThUS\$	2009 ThUS\$
Remuneration	7,505	6,226
Management fees	150	131
Corrections of value and non-monetary benefits	352	340
Short-term benefits	4,680	4,480
Share-based payments	3,523	1,183
Others	-	780
Total	<u>16,210</u>	<u>13,140</u>

NOTE 36 - SHARE-BASED PAYMENTS

The compensation plans implemented through the granting of options to subscribe and pay for shares, which have been granted since the last quarter of 2007, are shown in the consolidated statements of financial position in accordance with IFRS 2 "Share-based payments", booking the effect of the fair value of the options granted as a charge to remuneration on a straight-line basis between the date of granting the options and the date on which these become vested.

During the last quarter of 2009, the original terms of the plan were amended regarding subscription and payment options. These modifications were carried out during the first quarter of 2010 and established a new term and exercise price.

The original grant and subsequent amendments have been formalized through the signing of option contracts for the subscription of shares according to the proportions shown in the accrual schedule and which are related to the permanence of the executive on those dates for exercising the options:

Percentage	Period
30%	From the October 29, 2010 and until December 31, 2011
70%	From the October 30, 2011 and until December 31, 2011

These options have been valued and booked at their fair value on the grant date, determined using the "Black-Scholes-Merton" method.

All options expire on December 31, 2011.

	Number of share options
Stock options under a share-based payment agreement balance as of January 1, 2010	1,311,000
Stock options granted	898,091
Stock options annulled	-
Stock options exercised	-
Stock options under a share-based payment agreement balance as of December 31, 2010	2,209,091

Entry data of valuation model of options used for stock options conceded during the period.

Weighted average share price	Exercise price	Expected volatility	Life of option	Dividends expected	Risk-free interest
US\$ 17.3	US\$ 14.5	33.20%	1.9 years	50%	0.0348

NOTE 37 - THE ENVIRONMENT

In accordance with the General Environment Bases Law issued in Chile and its complementary regulations, there are no provisions that affect the operation of air transport services

NOTE 38 – SUBSEQUENT EVENTS

The consolidated financial statements of Lan Airlines S.A. and Subsidiaries as of December 31, 2010 have been approved in ordinary session of the Board on March 01, 2011, which was attended by the following directors:

1. Jorge Awad Mehech,
2. Darío Calderón González,
3. José Cox Donoso,
4. Ramón Eblen Kadis,
5. Bernardo Fontaine Talavera,
6. Carlos Heller Solari, and
7. Juan Gerardo Jofré Miranda.

On January 25, 2011 direct subsidiaries Lan Cargo S.A. and Inversiones Lan S.A., signed a promise of sale, as promissory sellers with Bethia S.A., as promissory purchaser, for 100% of the shares of companies Blue express Intl SA and Blue Express SA, companies dedicated to ground courier services, operating brands and certain computer programs. In the same promise, contemplates the future sale by Lan Airlines S.A. trademarks and Internet domains associated with Blue Express Intl S.A. and Blue Express S.A. along with some computer systems. The final price is subject to the completion of a due diligence process and the fulfillment of certain conditions of the promissory agreement. The price stated in the promissory agreement is ThUS\$ 54,000 subject to any adjustments arising as a result of the due diligence realized on behalf of Bethia S.A.

Bethia S.A. is an entity related to Lan Airlines SA in the terms provided in Article 100 of Law 18,045 Securities Market.

On January 18, 2011 the parties of the MOU (1) and Mrs. Maria Cláudia Oliveira Amaro, Maurício Rolim Amaro, Noemy Almeida Olivera Amaro and Joao Francisco Amaro (“Amaro Family”), as the only shareholders of TEP, signed (a) an *Implementation Agreement* and (b) a binding *Exchange Offer Agreement* (“Contracts Signed”) containing the final terms and conditions of the proposed partnership between LAN and TAM

(1) On August 13, 2010 LAN reported as a significant matter to the Superintendency of Securities and Insurance that LAN, Costa Verde Aeronáutica S.A. and Inversiones Mineras del Cantábrico S.A. (the last two, “Cueto subsidiaries”), TAM S.A. (“TAM”) and TAM Empreendimentos e Participacoes S.A. (“TEP”) signed a non-binding *Memorandum of Understanding* (“MOU”) for which the primary terms were outlined.

Except as mentioned above, subsequent to December 31, 2010 until the date of issuance of these financial statements, the Company has no knowledge of any other subsequent events, that may significantly affect the balances or their interpretation.

NOTE 39 – BUSINESS COMBINATIONS

On November 26, 2010 Lan Pax Group S.A., a subsidiary of Lan Airlines S.A., acquired 98.942% of the Colombian company Aerovías de Integración Regional, AIRES S.A. This acquisition was made through the purchase of 100% of the shares of the Panamanian corporations AKEMI Holdings S.A. and SAIPAN Holding S.A., which owned the aforementioned percentage of AIRES S.A. The purchase price was ThUS\$ 12,000.

Aerovías de Integración Regional, AIRES S.A., is a Colombian airline founded in 1980, which is currently the second largest operator within the Colombian domestic market with a market share of 22%. AIRES offers regular service to 27 domestic destinations within Colombia as well as 3 international destinations. Synergies are expected between the combination of AIRES S.A. in the Colombian market and efficiency of the business model of LAN Airlines S.A. Additionally, better performance is expected by the business of Lan Airlines S.A. (passengers and cargo) through an increase in coverage in Latin America.

The Company has measured the non-controlling interest in Aires S.A. using the proportionate share of the non-controlling interest in net identifiable assets of the acquired.

The business combination is recognized in the statement of financial position of Lan Airlines S.A. and Subsidiaries as goodwill of ThUS\$ 94,224.

Summary statement of financial position

	ThUS\$		ThUS\$
Current assets	27,315	Current liabilities	125,193
Non-current assets	31,652	Non-current liabilities	20,327
		Equity	(86,553)
Total assets	58,967	Total liabilities & equity	58,967
Controlling interest	(82,224)		

Goodwill determination

	ThUS\$
Controlling interest	82,224
Purchase price	12,000
Goodwill	94,224

In accordance with IFRS 3, the determined value of goodwill is provisional.

Subsidiaries

Legal Name	Place of Incorporation	Doing Business As	Ownership % ¹
Lan Argentina S.A.	Argentina	Lan Argentina	99%
Aerolinhas Brasileiras S.A.	Brazil	ABSA	73.3%
Inmobiliaria Aeronáutica S.A.	Chile	Inmobiliaria Aeronáutica	100%
Inversiones Lan S.A.	Chile	Inverlan	99.7%
Lan Cargo S.A.	Chile	Lan Cargo	99.89%
Lan Pax Group S.A.	Chile	Lan Pax Group	100%
Transporte Aéreo S.A.	Chile	LanExpress	100%
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A.	Ecuador	Lan Ecuador	71.92%
Aerotransporte Mas de Carga S.A. de C.V.	Mexico	Mas Air	69.15%
Lan Perú S.A.	Peru	Lan Perú	70%
Lantours División Servicios Terrestres S.A.	Chile	Lantours	100%
Línea Aérea Carguera de Colombia S.A.	Colombia	LANCO	9%
Aerovías de Integración Regional, AIRES S.A.	Colombia	Aires	94.99%

1 Percentage of equity owned by Lan Airlines S.A. directly or indirectly through subsidiaries or affiliates

CEO Certification

I, Enrique Cueto Plaza, certify that:

1. I have reviewed the annual report on Form 20-F, as amended by this Amendment No. 1, of Lan Airlines S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: December 1, 2011

/s/ Enrique Cueto Plaza

Name: Enrique Cueto Plaza

Title: Chief Executive Officer

CFO Certification

I, Alejandro de la Fuente Goic, certify that:

1. I have reviewed the annual report on Form 20-F, as amended by this Amendment No. 1, of Lan Airlines S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: December 1, 2011

/s/ Alejandro de la Fuente Goic

Name: Alejandro de la Fuente Goic

Title: Chief Financial Officer

Officer Certifications
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Lan Airlines S.A. (the “Company”), does hereby certify to such officer’s knowledge that:

The annual report on Form 20-F for the year ended December 31, 2010, as amended by this Form 20-F/A (the “Form 20-F”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 1, 2011

/s/ Enrique Cueto Plaza

Name: Enrique Cueto Plaza

Title: Chief Executive Officer

Dated: December 1, 2011

/s/ Alejandro de la Fuente Goic

Name: Alejandro de la Fuente Goic

Title: Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form F-3 (No. 333-142665) of Lan Airlines S.A. of our report dated March 1, 2011, relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the annual report on Form 20-F, as amended by Amendment No. 1.

/s/ PricewaterhouseCoopers

Santiago, Chile
December 1, 2011
