

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2017

OR

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

OR

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

Commission File Number: 1-14728

**LATAM Airlines Group S.A.**

(Exact name of registrant as specified in its charter)

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

Republic of Chile  
(Jurisdiction of incorporation or organization)

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

Andrés del Valle  
Tel.: 56-2-2565-8765 · E-mail: InvestorRelations@latam.com  
Presidente Riesco 5711, 20<sup>th</sup> 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:	Name of each exchange on which registered:
American Depositary Shares (as evidenced by American Depositary Receipts), each representing one share of Common Stock, without par value	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: 606,407,693.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ 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 ☒

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 ☒ 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 ☒ Accelerated filer ☐ Non-Accelerated filer ☐  
Emerging Growth Company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

†The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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 ☒ 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 ☒

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## PRESENTATION OF INFORMATION

Throughout this annual report on Form 20-F we make numerous references to “LATAM”. Unless the context otherwise requires, references to “LATAM Airlines Group” are to LATAM Airlines Group S.A., the unconsolidated operating entity, and references to “LATAM,” “we,” “us” or the “Company” are to LATAM Airlines Group S.A. and its consolidated affiliates: Transporte Aéreo S.A. (“LATAM Airlines Chile”), LAN Perú S.A. (“LATAM Airlines Peru”), Aerolane, Líneas Aéreas Nacionales del Ecuador S.A. (“LATAM Airlines Ecuador”), LAN Argentina S.A. (“LATAM Airlines Argentina,” previously Aero 2000 S.A.), Aerovías de Integración Regional, Aires S.A. (“LATAM Airlines Colombia”), TAM S.A. (“TAM” or “LATAM Airlines Brazil”), LAN Cargo S.A. (“LATAM Cargo”) and its three regional affiliates: Aero Transportes Mas de Carga S.A. de C.V. (“MasAir”) in Mexico, Linea Aerea Carguera de Colombia S.A. (“LANCO”) in Colombia and Aerolinhas Brasileiras S.A. (“ABSA”) in Brazil. Other references to “LATAM”, as the context requires, are to the LATAM brand which was launched in 2016 and brings together, under one internationally recognized name, all of the affiliate brands such as LATAM Airlines Chile, LATAM Airlines Peru, LATAM Airlines Argentina, LATAM Airlines Colombia, LATAM Airlines Ecuador and LATAM Airlines Brazil.

References to “LAN” are to LAN Airlines S.A., currently known as LATAM Airlines Group S.A., and its consolidated affiliates, in connection with circumstances and facts occurring prior to the completion date of the combination between LAN Airlines S.A. and TAM S.A. See “Item 4. Information on the Company—A. History and Development of the Company.

In this annual report on Form 20-F, unless the context otherwise requires, references to “TAM” are to TAM S.A., and its consolidated affiliates, including TAM Linhas Aereas S.A. (“TLA”), which does business under the name “LATAM Airlines Brazil”, Multiplus S.A. (“Multiplus”), Fidelidade Viagens e Turismo Limited (“TAM Viagens”) and Transportes Aéreos Del Mercosur S.A. (“TAM Mercosur”).

LATAM Airlines Group and the majority of our affiliates maintain their accounting records and prepare their financial statements in U.S. dollars. Some of our affiliates, however, maintain their accounting records and prepare their financial statements in Chilean pesos, Argentinean pesos, Colombian pesos or Brazilian real. In particular, TAM maintains its accounting records and prepares its financial statements in Brazilian real. Our audited consolidated financial statements include the results of these affiliates translated into U.S. dollars. International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), require assets and liabilities to be translated at period-end exchange rates, while revenue and expense accounts are translated at each transaction date, although a monthly rate may also be used if exchange rates do not vary widely.

In this annual report on Form 20-F, all references to “Chile” are references to the Republic of Chile. This annual report contains conversions of certain Chilean peso and Brazilian real amounts into U.S. dollars at specified rates solely for the convenience of the reader. These conversions should not be construed as representations that the Chilean peso and the Brazilian real amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless we specify otherwise, all references to “\$”, “US\$”, “U.S. dollars” or “dollars” are to United States dollars, references to “pesos,” “Chilean pesos” or “Ch\$” are to Chilean pesos. References to “real,” “Brazilian real” or “R\$” are to Brazilian real, and references to “UF” are to *Unidades de Fomento*, a daily indexed Chilean peso-denominated monetary unit that takes into account the effect of the Chilean inflation rate. Unless we indicate otherwise, the U.S. dollar equivalent for information in Chilean pesos used in this annual report and in our audited consolidated financial statements is based on the “*dólar observado*” or “observed” exchange rate published by *Banco Central de Chile* (which we refer to as the Central Bank of Chile) on December 31, 2017, which was Ch\$615.22 = US\$1.00. The observed exchange rate on, April 3, 2018, was Ch\$604.06 = US\$1.00. Unless we indicate otherwise, the U.S. dollar equivalent for information in Brazilian real used in this annual report and in our audited consolidated financial statements is based on the average “*bid and offer rate*” published by Banco Central do Brasil (which we refer to as the Central Bank of Brazil) on December 31, 2017, which was R\$3.31 = US\$1.00. The observed exchange rate on April 3, 2018, was R\$3.32 = US\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos or Brazilian real.

We have rounded percentages and certain U.S. dollar, Chilean peso and Brazilian real amounts contained in this annual report for ease of presentation. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

LATAM’s audited consolidated financial statements for the periods ended December 31, 2013, 2014, 2015, 2016 and 2017 were prepared in accordance with IFRS.

This annual report contains certain terms that may be unfamiliar to some readers. You can find a glossary of these terms on page 3 of this annual report.

## FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. Such statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” or other similar expressions. Forward-looking statements, including statements about our beliefs and expectations, are not statements of historical facts. These statements are based on current plans, estimates and projections, and, therefore, you should not place undue reliance on them. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. These factors include, but are not limited to:

- the factors described in “Item 3. Key Information—Risk Factors”;
- our ability to service our debt and fund our working capital requirements;
- future demand for passenger and cargo air services in Chile, Brazil, other countries in Latin America and the rest of the world;
- the determination of relationships with customers;
- the state of the Chilean, Brazilian, other Latin American and world economies and their impact on the airline industry;
- the effects of competition;
- future terrorist incidents, cyberattacks or related activities affecting the airline industry;
- future outbreak of diseases, or the spread of already existing diseases, affecting traveling behavior and/or exports;
- natural disasters affecting traveling behavior and/or exports;
- the relative value of the Chilean peso and other Latin American currencies compared to other world currencies;
- inflation;
- competitive pressures on pricing;
- our capital expenditure plans;
- changes in labor costs, maintenance costs and insurance premiums;
- fluctuation of crude oil prices and its effect on fuel costs;
- cyclical and seasonal fluctuations in our operating results;
- defects or mechanical problems with our aircraft;
- our ability to successfully implement our growth strategy;
- increases in interest rates; and
- changes in regulations, including regulations related to access to routes in which we operate and environmental regulations.

Forward-looking statements speak only as of the date they are made, and we undertake no obligation to publicly update any of them, whether in light of new information, future events or otherwise. You should also read carefully the risk factors described in “Item 3. Key Information—Risk Factors.”

## GLOSSARY OF TERMS

The following terms, as used in this annual report, have the meanings set forth below.

### Consolidated Affiliates of LATAM:

“ABSA”	Aerolinhas Brasileiras S.A., incorporated in Brazil.
“LANCO”	Línea Aérea Carguera de Colombia S.A., incorporated in Colombia.
“LATAM Airlines Argentina”	LAN Argentina S.A., incorporated in Argentina.
“LATAM Airlines Chile”	Transporte Aéreo S.A., incorporated in Chile.

“LATAM Airlines Colombia”	Aerovías de Integración Regional, Aires S.A., incorporated in Colombia.
“LATAM Airlines Ecuador”	Aerolane, Líneas Aéreas Nacionales del Ecuador S.A., incorporated in Ecuador.
“LATAM Airlines Peru”	LAN Perú S.A., incorporated in Peru.
“LATAM Cargo”	LAN Cargo S.A., incorporated in Chile.
“MasAir”	Aero Transportes Mas de Carga S.A. de C.V., incorporated in Mexico.
“TAM”	TAM S.A., incorporated in Brazil.
<b>Capacity Measurements:</b>	
“available seat kilometers” or “ASKs”	The sum, across our network, of the number of seats made available for sale on each flight multiplied by the kilometers flown by the respective flight.
“available ton kilometers” or “ATKs”	The sum, across our network, of the number of tons available for the transportation of revenue load (cargo) on each flight multiplied by the kilometers flown by the respective flight.
<b>Traffic Measurements:</b>	
“revenue passenger kilometers” or “RPKs”	The sum, across our network, of the number of revenue passengers on each flight multiplied by the number of kilometers flown by the respective flight.
“revenue ton kilometers” or “RTKs”	The sum, across our network, of the load (cargo) in tons on each flight multiplied by the kilometers flown by the respective flight.
“traffic revenue”	Revenue from passenger and cargo operations.
<b>Yield Measurements:</b>	
“cargo yield”	Revenue from cargo operations divided by RTKs.
“passenger yield”	Revenue from passenger operations divided by RPKs.
<b>Load Factors:</b>	
“cargo load factor”	RTKs expressed as a percentage of ATKs.
“passenger load factor”	RPKs expressed as a percentage of ASKs.
<b>Other:</b>	
“Airbus A320-Family Aircraft”	The Airbus A319, Airbus A320, Airbus A320 neo and Airbus A321 models of aircraft.
“m <sup>2</sup> ”	Square meters.
“ton”	A metric ton, equivalent to 2,204.6 pounds.
“utilization rates”	The actual number of service hours per aircraft per operating day.

“operating expenses”	Operating expenses, which are calculated in accordance with IFRS, comprise the sum of the line items “cost of sales” plus “distribution costs” plus “administrative expenses” plus “other operating expenses,” as shown on our consolidated statement of comprehensive income. These operating expenses include: wages and benefits, fuel, depreciation and amortization, commissions to agents, aircraft rentals, other rental and landing fees, passenger services, aircraft maintenance and other operating expenses.
“MiSchDynamicDT”	Market Intelligence Schedule Dynamic Table.
“Diiio Mi”	Data In Intelligence Out Market Intelligence.
“CO2”	Carbon Dioxide Gas

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

*LATAM's Historical Financial Information*

The summary consolidated annual financial information of LATAM as of December 31, 2017, 2016, 2015, 2014 and 2013 has been prepared in accordance with IFRS(\*).

**LATAM's Annual Financial Information**

	2017	2016	2015	2014	2013
	Year ended December 31, (in US\$ millions, except per share and capital stock data)				
The Company <sup>(1)(2)</sup>					
Statement of Income Data:					
Operating revenues					
Passenger	8,494.5	7,877.7	8,410.6	10,380.1	11,061.5
Cargo	1,119.4	1,110.6	1,329.4	1,713.4	1,863.0
Total operating revenues	9,613.9	8,988.3	9,740.0	12,093.5	12,924.5
Cost of sales	(7,441.8)	(6,967.0)	(7,636.7)	(9,624.5)	(10,054.2)
Gross margin	2,172.1	2,021.3	2,103.3	2,469.0	2,870.3
Other operating income <sup>(3)</sup>	549.9	538.7	385.8	377.6	341.6
Distribution costs	(699.6)	(747.4)	(783.3)	(957.1)	(1,025.9)
Administrative expenses	(938.9)	(873.0)	(878.0)	(980.7)	(1,136.1)
Other expenses	(368.9)	(373.7)	(324.0)	(401.0)	(408.7)
Other gains/(losses)	(7.8)	(72.6)	(55.3)	33.5	(55.4)
Financial income	78.7	74.9	75.1	90.5	72.8
Financial costs	(393.3)	(416.3)	(413.4)	(430.0)	(462.5)
Equity accounted earnings	0.0	0.0	0.0	(6.5)	2.0
Exchange rate differences	(18.7)	121.7	(467.9)	(130.2)	(482.2)
Result of indexation units	0.7	0.3	0.6	0.1	0.3
Income (loss) before income taxes	374.2	273.9	(357.1)	65.2	(283.8)
Income (loss) tax expense/benefit	(173.5)	(163.2)	178.4	(292.4)	20.0
Net (loss) income for the period	200.7	110.7	(178.7)	(227.2)	(263.8)
Income (loss) attributable to the parent company's equity holders	155.3	69.2	(219.3)	(260.0)	(281.1)
Income (loss) attributable to non-controlling interests	45.4	41.5	40.5	32.8	17.3
Net income (loss) for the year	200.7	110.7	(178.7)	(227.2)	(263.8)
Earnings per share					
Average number of Shares	606,407,693	546,559,599	545,547,819	545,547,819	487,930,977
Basic earnings (loss) per share (US\$)	0.25610	0.12665	(0.40193)	(0.47656)	(0.57613)
Diluted earnings (loss) per share (US\$)	0.25610	0.12665	(0.40193)	(0.47656)	(0.57613)



	Year ended December 31,				
	2017	2016	2015	2014	2013
	(in US\$ millions, except per share and capital stock data)				
Balance Sheet Data:					
Cash, and cash equivalents	1,142.0	949.3	753.5	989.4	1,984.9
Other current assets in operation	2,312.4	2,340.3	2,067.4	2,644.1	2,992.2
Non-current assets and disposal groups held for sale	291.1	337.2	2.0	1.1	2.4
Total current assets	3,745.5	3,626.8	2,822.9	3,634.6	4,979.5
Property and equipment	10,065.3	10,498.1	10,938.7	10,773.1	10,982.8
Other non-current assets	4,987.2	5,073.3	4,339.8	6,076.7	6,668.8
Total non-current assets	15,052.5	15,571.4	15,278.5	16,849.8	17,651.6
Total assets	18,798.0	19,198.2	18,101.4	20,484.4	22,631.1
Total current liabilities	5,842.7	6,222.2	5,641.0	5,829.7	6,509.1
Total non-current liabilities	8,688.0	8,790.7	9,522.9	10,151.0	10,795.6
Total liabilities	14,530.7	15,012.9	15,163.9	15,980.7	17,304.7
Issued capital	3,146.3	3,149.6	2,545.7	2,545.7	2,389.4
Net equity attributable to the parent company's equity holders	4,176.1	4,096.7	2,856.5	4,401.9	5,238.8
Non-controlling interest	91.1	88.6	81.0	101.8	87.7
Total net equity	4,267.2	4,185.3	2,937.5	4,503.7	5,326.5
Shares Outstanding	606,407,693	606,407,693	545,547,819	545,547,819	535,243,229

(1) For more information on the affiliates included in this consolidated information, see Note 1 to our audited consolidated financial statements.

(2) The addition of the items may differ from the total amount due to rounding.

(3) Other operating income included in this Statement of Income Data is equivalent to the sum of income derived from Coalition and Loyalty Program, Tours, Duty free, aircraft leasing, Maintenance, customs and warehousing operations, and other miscellaneous income. For more information, see Note 28 to our audited consolidated financial statements.

(\*)Law No. 20,780 issued on September 29, 2014, introduced modifications to the income tax system in Chile and other tax matters. On October 17, 2014 the Chilean Commission for the Finance Market (the "CMF") (previously, the Superintendency of Securities) issued Circular No. 856, which established that the effects of the change in the income tax rates on deferred tax assets and liabilities must be recognized directly on the Balance Sheet within "Retained earnings" instead of on the Income Statement as required by IAS 12. In order to comply with IAS 12, the financial statements in this document for the period ended December 31, 2014 are different from those presented to the CMF as the modifications introduced by Law No. 20,780 have been recognized within the income statement. For more information on the reconciliation of such differences see Note 18 to our audited consolidated financial statements.

The table below presents LATAM's unaudited operating data as of and for the year ended December 31, 2013, December 31, 2014, December 31, 2015, December 31, 2016 and December 31, 2017. LATAM believes this operating data is useful in reporting the operating performance of its business and may be used by certain investors in evaluating companies operating in the global air transportation sector. However, these measures may differ from similarly titled measures reported by other companies, and should not be considered in isolation or as a substitute for measures of performance in accordance with IFRS. This unaudited operating data is not included in or derived from LATAM's financial statements.

Operating Data:	For the year ended and as of December 31,				
	2017	2016	2015	2014	2013
ASKs (million)	136,398.4	134,967.7	134,167.1	130,200.9	131,690.9
RPKs (million)	115,692.7	113,626.9	111,509.9	108,534.0	106,466.5
ATKs (million)	6,230.1	6,704.1	7,082.8	7,219.7	7,651.9
RTKs (million)	3,421.2	3,465.9	3,797.0	4,317.2	4,466.7

#### Dividend Policy

In accordance with the *Ley sobre Sociedades Anónimas No. 18,046* (“Chilean Corporation Act”) and the *Reglamento de Sociedades Anónimas* (“Regulation to the Chilean Corporation Act”, and together with the Chilean Corporation Act, the “Chilean Corporation Law”), we must pay annual cash dividends equal to at least 30.0% of our annual consolidated net income for the prior year, subject to limited exceptions. LATAM Airlines Group’s board of directors has the authority to declare interim dividends. Year-end dividends, if any, are declared by our shareholders at our annual meeting. For a description of our dividend policy, see “Item 8. Financial Information—Consolidated Financial Statements and Other Financial Information—Dividend Policy” and “Item 10. Additional Information—Dividend and Liquidation Rights” LATAM did not pay dividends in 2014, 2015 or 2016. On May 18, 2017, LATAM paid US\$20,766,119 in dividends in respect of the year ended December 31, 2016. In addition, dividend reserves of US\$46,591,193 were set aside for 2017, to be paid in 2018.

We declare cash dividends in U.S. dollars, but make dividend payments in Chilean pesos, converted from U.S. dollars at the observed exchange rate two business days prior to the day we first make payment to shareholders. Payments of cash dividends to holders of ADSs, if any, are made in Chilean pesos to the custodian, who converts those Chilean pesos into U.S. dollars and delivers U.S. dollars to the depositary for distribution to holders of ADS. The amount of U.S. dollars distributed to holders of ADSs may be adversely affected by a devaluation of the Chilean currency that may occur before such dividends are converted and remitted.

#### LATAM’s Dividend Payments

The table below sets forth the cash dividends per common share and per ADS paid by LATAM, as well as the number of common shares entitled to such dividends, for the years indicated. Dividends per common share amounts reflect common share amounts outstanding immediately prior to the distribution of such dividend.

Dividend for year:	Payment date(s)	Total dividend payment (U.S. dollars)	Number of common shares entitled to dividend (in millions)	Cash dividend per common share (U.S. dollars)	Cash dividend per ADS (U.S. dollars)
2016	May 18, 2017	20,766,119	606.41	0.03424	0.03424

#### Chilean Peso Exchange Rates

The following table sets forth, for the periods indicated, the high, low, average and period-end observed exchange rate for the purchase of U.S. dollars, expressed in Chilean pesos per U.S. dollar. The rates have not been restated in constant currency units. On April 3, 2018 the observed exchange rate was Ch\$604.06 = US\$1.00.

Year Ended December 31,	Daily Observed Exchange Rate			
	High	Low	Average <sup>(1)</sup>	Period-End
	Ch\$ per US\$			
2013	533.95	466.50	495.00	523.76
2014	621.41	524.61	570.01	607.38
2015	715.66	597.10	654.25	707.34
2016	730.31	645.22	676.83	667.29
2017	679.05	615.22	649.33	615.22
2017				
October	640.52	619.68	629.55	636.49
November	642.41	629.21	633.77	642.41
December	655.74	615.22	636.92	615.22
2018				
2018				
January	614.75	599.33	605.53	604.42
February	603.25	588.28	596.84	589.15
March	609.58	593.61	603.45	605.26

Source: Central Bank of Chile

(1) For each year, the average daily exchange rates for the relevant year. For each month, the average daily exchange rate for the relevant month.

#### B. Capitalization and Indebtedness

Not applicable.

#### C. Reasons for the Offer and Use of Proceeds

Not applicable.

#### D. Risk Factors

The following important factors, and those important factors described in other reports we submit to or file with the Securities and Exchange Commission (“SEC”), could affect our actual results and could cause our actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. In particular, as we are a non-U.S. company, there are risks associated with investing in our ADSs that are not typical for investments in the shares of U.S. companies. Prior to making an investment decision, you should carefully consider all of the information contained in this document, including the following risk factors.

##### Risk Factors Relating to our Company

*LATAM does not control the voting shares or board of directors of TAM*

Due to Brazilian law restrictions on foreign ownership of Brazilian airlines, LATAM does not control the voting shares or board of directors of TAM. As of February 28, 2018, the ownership structure of TAM is as follows:

- Holdco I owns 100% of the TAM common shares previously outstanding;
- the Amaro family (the “Amaro Group”) own approximately 51% of the outstanding Holdco I voting shares through TEP Chile S.A. (“TEP Chile”, a Chilean entity wholly owned by the TAM Controlling Shareholders) and LATAM owns the remainder of the voting shares;

- LATAM owns 100% of the outstanding Holdco I non-voting shares, entitling it to substantially all of the economic rights in respect of the TAM common shares held by Holdco I as well as approximately 49% of the outstanding Holdco I voting shares; and
- LATAM owns 100% of the TAM preferred shares previously outstanding.

As a result of this ownership structure:

- The Amaro Group retains voting and board control of TAM and each subsidiary of TAM; and
- LATAM is entitled to substantially all of the economic rights in TAM.

LATAM Airlines Group and TEP Chile and other parties have entered into shareholders' agreements that establish agreements and restrictions relating to corporate governance with respect to TAM. Certain specified actions require supermajority approval, which in turn means they require the prior approval of both LATAM and TEP Chile. Examples of actions requiring supermajority approval by the board of directors of Holdco I or TAM include, among others, entering into acquisitions or business collaborations, amending or approving budgets, business plans, financial statements and accounting policies, incurring indebtedness, encumbering assets, entering into certain agreements, making certain investments, modifying rights or claims, entering into settlements, appointing executives, creating security interests, issuing, redeeming or repurchasing securities and voting on matters as a shareholder of affiliates of TAM. Actions requiring supermajority shareholder approval of Holdco I or TAM include, among others, certain changes to the by-laws of Holdco I, TAM or TAM's affiliates or any dissolution/liquidation, corporate reorganization, payment of dividends, issuance of securities, disposal or encumbrance of certain assets, creation of security interests or entering into guarantees and agreements with related parties. For more information on the shareholders' agreements, see "Item 7. Controlling Shareholders and Related Party Transactions—Shareholders' Agreements".

*Our assets include a significant amount of goodwill.*

Our assets included US\$2,672.6 million of goodwill as of December 31, 2017. Under IFRS, goodwill is subject to an annual impairment test and may be required to be tested more frequently if events or circumstances indicate a potential impairment. In 2017, mainly as a result of the depreciation of the Brazilian real against the U.S. dollar during 2017, the value of our goodwill decreased by 1.4% as compared with 2016. Any impairment could result in the recognition of a significant charge to earnings in our statement of income, which could materially and adversely impact our consolidated results for the period in which the impairment occurs.

*A failure to successfully implement our strategy or a failure adjusting the strategy to the current economic situation would harm our business and the market value of our ADSs and common shares.*

We have developed a strategic plan with the goal of becoming one of the most admired airlines in the world and renewing our commitment to sustained profitability and superior returns to shareholders. Our strategy requires us to identify value propositions that are attractive to our clients, to find efficiencies in our daily operations, and to transform ourselves into a stronger and more risk-resilient company. A tenet of our strategic plan is the adoption of a new travel model for domestic services (in the six countries where we have domestic operations) to address the changing dynamics of customers and the industry, and to increase our competitiveness. The new travel model is based on a continued reduction in air fares that makes air travel accessible to a wider audience, and in particular to those wish to fly more frequently. This model requires continued cost reduction efforts and increasing revenues from ancillary activities. In connection with these efforts, the Company is implementing a series of initiatives to reduce cost per ASK in all its domestic operations as well as developing new ancillary revenue initiatives.

Difficulties in implementing our strategy may adversely affect our business, results of operation and the market value of our ADSs and common shares.

*A failure to successfully transfer the value proposition of the LAN and TAM brands to a new single brand, may adversely affect our business and the market value of our ADSs and common shares.*

Following the combination in 2012, LAN and TAM continued to operate with their original brands. During 2016, we began the transition of LAN and TAM into a single brand. LAN and TAM had different value propositions, and there can be no assurances that we will be able to fully transfer the value of the original LAN and TAM brands to our new single brand "LATAM". Difficulties in implementing our single brand may prevent us from consolidating as a customer preferred carrier and may adversely affect our business and results of operations and the market value of our ADSs and common shares.

*It may take time to combine the frequent flyer programs of LAN and TAM.*

We have integrated the separate frequent flyer programs of LAN and TAM so that passengers can use frequent flyer miles or points earned with either LAN or TAM interchangeably. During 2016, LAN and TAM announced their revamped frequent flyer programs, which have new names: LATAM Pass and LATAM Fidelidade, respectively. The change is part of the process of consolidating the airline group's new brand identity (LATAM) and the evolution of the programs, which enhances existing benefits and introduces new benefits for program members. However, there is no guarantee that full integration of the two plans will be completed in the near term or at all. Even if the integration occurs, the successful integration of these programs will involve some time and expense. Moreover, during 2016, LATAM Pass and LATAM Fidelidade approved changes in their mileage earning policy which may impact the attractiveness of the programs to passengers. Until we effectively combine these programs, passengers may prefer frequent flyer programs offered by other airlines, which may adversely affect our business.

*Our financial results are exposed to foreign currency fluctuations.*

We prepare and present our consolidated financial statements in U.S. dollars. LATAM and its affiliates operate in numerous countries and face the risk of variation in foreign currency exchange rates against the U.S. dollar or between the currencies of these various countries. Changes in the exchange rate between the U.S. dollar and the currencies in the countries in which we operate could adversely affect our business, financial condition and results of operations. If the value of the Brazilian real, Chilean peso or other currencies in which revenues are denominated declines against the U.S. dollar, our results of operations and financial condition will be affected. The exchange rate of the Chilean peso, Brazilian real and other currencies against the U.S. dollar may fluctuate significantly in the future.

Changes in Chilean, Brazilian and other governmental economic policies affecting foreign exchange rates could also adversely affect our business, financial condition, results of operations and the return to our shareholders on their common shares or ADSs. For further information, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Risk of Variation in Foreign Exchange Rates."

*We depend on strategic alliances or commercial relationships in many of the countries in which we operate, and our business may suffer if any of our strategic alliances or commercial relationships terminates.*

We maintain a number of alliances and other commercial relationships in many of the jurisdictions in which LATAM and its affiliates operate. These alliances or commercial relationships allow us to enhance our network and, in some cases, to offer our customers services that we could not otherwise offer. If any of our strategic alliances or commercial relationships deteriorates, or any of these agreements are terminated, our business, financial condition and results of operations could be adversely affected.

*Our business and results of operations may suffer if we fail to obtain and maintain routes, suitable airport access, slots and other operating permits. Also, technical and operational problems with the airport infrastructure of cities in which we have a focus may have a material adverse effect on us.*

Our business depends upon our access to key routes and airports. Bilateral aviation agreements between countries, open skies laws and local aviation approvals frequently involve political and other considerations outside of our control. Our operations could be constrained by any delay or inability to gain access to key routes or airports, including:

- limitations on our ability to process more passengers;
- the imposition of flight capacity restrictions;
- the inability to secure or maintain route rights in local markets or under bilateral agreements; or
- the inability to maintain our existing slots and obtain additional slots.

We operate numerous international routes subject to bilateral agreements, as well as domestic flights within Chile, Peru, Brazil, Argentina, Ecuador and Colombia, subject to local route and airport access approvals. See "Item 4. Information on the Company—B. Business Overview—Regulation."

There can be no assurance that existing bilateral agreements with the countries in which our companies are based and permits from foreign governments will continue. A modification, suspension or revocation of one or more bilateral agreements could have a material adverse effect on our business, financial condition and results of operations. The suspension of our permission to operate in certain airports, destinations or slots, or the imposition of other sanctions could also have a material adverse effect. A change in the administration of current laws and regulations or the adoption of new laws and regulations in any of the countries in which we operate that restrict our route, airport or other access may have a material adverse effect on our business, financial condition and results of operations.

Moreover, our operations and growth strategy are dependent on the facilities and infrastructure of key airports, including Santiago's International Airport, São Paulo's Guarulhos and Congonhas International Airports, Brasília's International Airport and Lima's Jorge Chavez International Airport.

Santiago's Comodoro Arturo Merino Benítez International Airport is currently facing an important expansion, which is expected to be completed by 2020. If the expansion is not carried out timely, this will likely reduce significantly our operations and adversely affect our ability to remain competitive.

One of the major operational risks we face on a daily basis at Lima's Jorge Chavez International Airport is the limited number of parking positions. Additionally, the indoor infrastructure of the airport limits our ability to manage connections and launch new flights due to the lack of gates and increasing security and immigration controls. We expect that for the next few years, Lima's airport's capacity will remain as it is today, limiting our ability to grow and affecting our competitiveness in the country and in the region.

Brazilian airports, such as the Brasília, and São Paulo (Guarulhos) international airports, have limited the number of slots per day due to infrastructural limitations. Any condition that would prevent or delay our access to airports or routes that are vital to our strategy, or our inability to maintain our existing slots and obtain additional slots, could materially adversely affect our operations.

*A significant portion of our cargo revenue comes from relatively few product types and may be impacted by events affecting their production, trade or demand.*

Our cargo demand, especially from Latin American exporters, is concentrated in a small number of product categories, such as exports of fish, sea products and fruits from Chile, asparagus from Peru and fresh flowers from Ecuador and Colombia. Events that adversely affect the production, trade or demand for these goods may adversely affect the volume of goods that we transport and may have a significant impact on our results of operations. Future trade protection measures by or against the countries for which we provide cargo services may have an impact in cargo traffic volumes and adversely affect our financial results. Some of our cargo products are sensitive to foreign exchange rates and, therefore, traffic volumes could be impacted by the appreciation or depreciation of local currencies.

*Our operations are subject to fluctuations in the supply and cost of jet fuel, which could adversely impact our business.*

Higher jet fuel prices could have a materially adverse effect on our business, financial condition and results of operations. Jet fuel costs have historically accounted for a significant amount of our operating expenses, and accounted for 24.5% of our operating expenses in 2017. For additional information, see "Item 4. Information on the Company – B. Business Overview – Fuel Supplies". Both the cost and availability of fuel are subject to many economic and political factors and events that we can neither control nor predict, including international political and economic circumstances such as the political instability in major oil-exporting countries. Any future fuel supply shortage (for example, as a result of production curtailments by the Organization of the Petroleum Exporting Countries, or "OPEC"), a disruption of oil imports, supply disruptions resulting from severe weather or natural disasters, the continued unrest in the Middle East or other events could result in higher fuel prices or further reductions in scheduled airline services. We cannot ensure that we would be able to offset any increases in the price of fuel by increasing our fares. In addition, lower fuel prices may result in lower fares through the reduction or elimination of fuel surcharges. We have entered into fuel hedging arrangements, but there can be no assurance that such arrangements will be adequate to protect us from an increase in fuel prices in the near future or in the long term. Also, while these hedging arrangements are designed to limit the effect of an increase in fuel prices, our hedging methods may also limit our ability to take advantage of any decrease in fuel prices, as was the case in 2015 and, to a lesser extent, in 2016. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Risk of Variation in Fuel Prices."

*We rely on maintaining a high aircraft utilization rate to increase our revenues and absorb our fixed costs, which makes us especially vulnerable to delays.*

A key element of our strategy is to maintain a high daily aircraft utilization rate, which measures the number of hours we use our aircraft per day. High daily aircraft utilization allows us to maximize the amount of revenue we generate from our aircraft and absorb the fixed costs associated with our fleet and is achieved, in part, by reducing turnaround times at airports and developing schedules that enable us to increase the average hours flown per day. Our rate of aircraft utilization could be adversely affected by a number of different factors that are beyond our control, including air traffic and airport congestion, adverse weather conditions, unanticipated maintenance and delays by third-party service providers relating to matters such as fueling and ground handling. If an aircraft falls behind schedule, the resulting delays could cause a disruption in our operating performance and have a financial impact on our results.

*We fly and depend upon Airbus and Boeing aircraft, and our business could suffer if we do not receive timely deliveries of aircraft, if aircraft from these companies become unavailable or if the public negatively perceives our aircraft.*

As our fleet has grown, our reliance on Airbus and Boeing has also grown. As of December 31, 2017, LATAM Airlines Group has a fleet of 235 Airbus and 80 Boeing aircraft. Risks relating to Airbus and Boeing include:

- our failure or inability to obtain Airbus or Boeing aircraft, parts or related support services on a timely basis because of high demand or other factors;
- the interruption of fleet service as a result of unscheduled or unanticipated maintenance requirements for these aircraft;
- the issuance by the Chilean or other aviation authorities of directives restricting or prohibiting the use of our Airbus or Boeing aircraft, or requiring time-consuming inspections and maintenance;
- adverse public perception of a manufacturer as a result of safety concerns, negative publicity or other problems, whether real or perceived, in the event of an accident; or
- delays between the time we realize the need for new aircraft and the time it takes us to arrange for Airbus and Boeing or for a third-party provider to deliver this aircraft.

The occurrence of any one or more of these factors could restrict our ability to use aircraft to generate profits, respond to increased demands, or could otherwise limit our operations and adversely affect our business. For further information related to current contractual obligations, see “Item 5. Operating and Financial Review and Prospects—F. Long term Indebtedness- Tabular Disclosure of Contractual Obligations.”

*If we are unable to incorporate leased aircraft into our fleet at acceptable rates and terms in the future, our business could be adversely affected.*

A large portion of our aircraft fleet is subject to long-term operating leases. Our operating leases typically run from three to 12 years from the date of delivery. We may face more competition for, or a limited supply of, leased aircraft, making it difficult for us to negotiate on competitive terms upon expiration of our current operating leases or to lease additional capacity required for our targeted level of operations. If we are forced to pay higher lease rates in the future to maintain our capacity and the number of aircraft in our fleet, our profitability could be adversely affected.

*Our business may be adversely affected if we are unable to service our debt or meet our future financing requirements.*

We have a high degree of debt and payment obligations under our aircraft operating leases and financial debt arrangements. We require significant amounts of financing to meet our aircraft capital requirements and may require additional financing to fund our other business needs. We cannot guarantee that we will have access to or be able to arrange for financing in the future on favorable terms. Higher financing costs could affect our ability to expand or renew our fleet, which in turn could adversely affect our business.

In addition, the majority of our property and equipment is subject to liens securing our indebtedness. In the event that we fail to make payments on secured indebtedness, creditors’ enforcement of liens could limit or end our ability to use the affected property and equipment to fulfill our operational needs and thus generate revenue. For further information related to current contractual obligations, see “Item 5. Operating and Financial Review and Prospects—F. Long term Indebtedness- Tabular Disclosure of Contractual Obligations.”

Moreover, external conditions in the financial and credit markets may limit the availability of funding at particular times or increase its costs, which could adversely affect our profitability, our competitive position and result in lower net interest margins, earnings and cash flows, as well as lower returns on shareholders’ equity and invested capital. Factors that may affect the availability of funding or cause an increase in our funding costs include global macro-economic crises, reduction of our credit rating, and other potential market disruptions.

*We have significant exposure to LIBOR and other floating interest rates; increases in interest rates will increase our financing costs and may have adverse effects on our financial condition and results of operations.*

We are exposed to the risk of interest rate variations, principally in relation to the U.S. dollar London Interbank Offer Rate (“LIBOR”). Many of our financial leases are denominated in U.S. dollars and bear interest at a floating rate. 36.9% of our outstanding consolidated debt as of December 31, 2017 bears interest at a floating rate after giving effect to interest rate hedging agreements. Volatility in LIBOR or other reference rates could increase our periodic interest and lease payments and have an adverse effect on our total financing costs. We may be unable to adequately adjust our prices to offset any increased financing costs, which would have an adverse effect on our revenues and our results of operations.

*Increases in insurance costs and/or significant reductions in coverage could harm our financial condition and results of operations.*

Major events affecting the aviation insurance industry (such as terrorist attacks, hijackings or airline crashes) may result in significant increases of airlines' insurance premiums or in significant decreases of insurance coverage, as occurred after the September 11, 2001 terrorist attacks. As a result, further increases in insurance costs or reductions in available insurance coverage could have an adverse impact on our financial results and results of operations and increases the risk that we experience uncovered losses.

*Problems with air traffic control systems or other technical failures could interrupt our operations and have a material adverse effect on our business.*

Our operations, including our ability to deliver customer service, are dependent on the effective operation of our equipment, including our aircraft, maintenance systems and reservation systems. Our operations are also dependent on the effective operation of domestic and international air traffic control systems and the air traffic control infrastructure by the corresponding authorities in the markets in which we operate. Equipment failures, personnel shortages, air traffic control problems and other factors that could interrupt operations could adversely affect our operations and financial results as well as our reputation.

*We depend on a limited number of suppliers for certain aircraft and engine parts.*

We depend on a limited number of suppliers for aircraft, aircraft engines and many aircraft and engine parts. As a result, we are vulnerable to any problems associated with the supply of those aircraft, parts and engines, including design defects, mechanical problems, contractual performance by the suppliers, or adverse perception by the public that would result unscheduled maintenance requirements, in customer avoidance or in actions by the aviation authorities resulting in an inability to operate our aircraft. During the year 2017, LATAM Airlines's main suppliers were aircraft manufacturers Airbus and Boeing.

In addition to Airbus and Boeing, LATAM Airlines has a number of other suppliers, primarily related to aircraft accessories, spare parts, and components, including Pratt & Whitney, MTU Maintenance, Rolls-Royce, and Pratt and Whitney Canada.

As of February 9, 2018, Airbus has been experiencing difficulties in the delivery of A320neo aircraft worldwide which we understand is stated to be due to problems with the aircraft's Pratt & Whitney engines. We are currently expecting delivery of seven A320neo and 2 A321neo aircraft during 2018, and any delays in the delivery of these could adversely affect our operations. In addition, we currently have four A320neo aircraft in our fleet, and problems associated with the lack of availability of these engines could potentially prevent these aircrafts from remaining operational.

We understand that Rolls Royce is experiencing problems with the availability of Rolls Royce Trent 1000 engines in connection with engine maintenance programs, affecting our Boeing 787 aircraft and potentially our A350 aircraft. Any prolonged problems, could adversely affect our operations.

*Our business relies extensively on third-party service providers. Failure of these parties to perform as expected, or interruptions in our relationships with these providers or their provision of services to us, could have an adverse effect on our financial position and results of operations.*

We have engaged a significant number of third-party service providers to perform a large number of functions that are integral to our business, including regional operations, operation of customer service call centers, distribution and sale of airline seat inventory, provision of information technology infrastructure and services, provision of aircraft maintenance and repairs, catering, ground services, and provision of various utilities and performance of aircraft fueling operations, among other vital functions and services. We do not directly control these third-party service providers, although we do enter into agreements with many of them that define expected service performance. Any of these third-party service providers, however, may materially fail to meet their service performance commitments, may suffer disruptions to their systems that could impact their services, or the agreements with such providers may be terminated. For example, flight reservations booked by customers and/or travel agencies via third-party GDSs (Global Distribution Systems) may be adversely affected by disruptions in our business relationships with GDS operators. Such disruptions, including a failure to agree upon acceptable contract terms when contracts expire or otherwise become subject to renegotiation, may cause the carriers' flight information to be limited or unavailable for display, significantly increase fees for both us and GDS users, and impair our relationships with customers and travel agencies. The failure of any of our third-party service providers to adequately perform their service obligations, or other interruptions of services, may reduce our revenues and increase our expenses or prevent us from operating our flights and providing other services to our customers. In addition, our business, financial performance and reputation could be materially harmed if our customers believe that our services are unreliable or unsatisfactory.



*Disruptions or security breaches of our information technology infrastructure or systems could interfere with our operations, compromise passenger or employee information, and expose us to liability, possibly causing our business and reputation to suffer.*

A serious internal technology error, failure, or cybersecurity incident impacting systems hosted internally at our data centers or externally at third-party locations, or large-scale interruption in technology infrastructure we depend on, such as power, telecommunications or the internet, may disrupt our technology network with potential impact on our operations. Our technology systems and related data may also be vulnerable to a variety of sources of interruption, including natural disasters, terrorist attacks, telecommunications failures, computer viruses, cyber attacks and other security issues. These systems include our computerized airline reservation system, flight operations system, telecommunications systems, website, maintenance systems, check-in kiosks, in-flight entertainment systems and data centers.

In addition, as a part of our ordinary business operations, we collect and store sensitive data, including personal information of our passengers and employees and information of our business partners. The secure operation of the networks and systems on which this type of information is stored, processed and maintained is critical to our business operations and strategy. Unauthorized parties may attempt to gain access to our systems or information through fraud, deception, or cybersecurity incident. Hardware or software we develop or acquire may contain defects that could unexpectedly compromise information security. The compromise of our technology systems resulting in the loss, disclosure, misappropriation of, or access to, customers', employees' or business partners' information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disruption to our operations and damage to our reputation, any or all of which could adversely affect our business.

*Increases in our labor costs, which constitute a substantial portion of our total operating expenses, could directly impact our earnings.*

Labor costs constitute a significant percentage of our total operating expenses (21.4% in 2017) and at times in our operating history we have experienced pressure to increase wages and benefits for our employees. A significant increase in our labor costs could result in a material reduction in our earnings.

*Our business may experience adverse consequences if we are unable to reach satisfactory collective bargaining agreements with our unionized employees.*

As of December 31, 2017, approximately 86% of our employees, including administrative personnel, cabin crew, flight attendants, pilots and maintenance technicians are members of unions and have contracts and collective bargaining agreements which expire on a regular basis. Our business, financial condition and results of operations could be materially adversely affected by a failure to reach agreement with any labor union representing such employees or by an agreement with a labor union that contains terms that are not in line with our expectations or that prevent us from competing effectively with other airlines. For further information regarding the unions representing our employees in each country in which we operate and with which we have established collective bargaining agreements, see "Item 6. Directors, Senior Management and Employees—D. Employees – Labor Relations."

*Collective action by employees could cause operating disruptions and adversely impact our business.*

Certain employee groups such as pilots, flight attendants, mechanics and our airport personnel have highly specialized skills. As a consequence, actions by these groups, such as strikes, walk-outs or stoppages, could severely disrupt our operations and adversely impact our operating and financial performance, as well as our image.

A strike, work interruption or stoppage or any prolonged dispute with our employees who are represented by any of these unions could have an adverse impact on our operations. These risks are typically exacerbated during periods of renegotiation with the unions, which typically occurs every two to four years depending on the jurisdiction and the union. Any renegotiated collective bargaining agreement could feature significant wage increases and a consequent increase in our operating expenses. Any failure to reach an agreement during negotiations with unions may require us to enter into arbitration proceedings, use financial and management resources, and potentially agree to terms that are less favorable to us than our existing agreements. Employees who are not currently members of unions may also form new unions that may seek further wage increases or benefits.

*We may experience difficulty finding, training and retaining employees.*

Our business is labor intensive. We employ a large number of pilots, flight attendants, maintenance technicians and other operating and administrative personnel. The airline industry has, from time to time, experienced a shortage of qualified personnel, especially pilots and maintenance technicians. In addition, as is common with most of our competitors, we may, from time to time, face considerable turnover of our employees. Should the turnover of employees, particularly pilots and maintenance technicians, sharply increase, our training costs will be significantly higher. We cannot assure you that we will be able to recruit, train and retain the managers, pilots, technicians and other qualified employees that we need to continue our current operations or replace departing employees. An increase in turnover or failure to recruit, train and retain qualified employees at a reasonable cost could materially adversely affect our business, financial condition, and results of operations.

## Risks Related to the Airline Industry and the Countries in Which We Operate

*Our performance is heavily dependent on economic conditions in the countries in which we do business. Negative economic conditions in those countries could adversely impact our business and results of operations and cause the market price of our common shares and ADSs to decrease.*

Passenger and cargo demand is heavily cyclical and highly dependent on global and local economic growth, economic expectations and foreign exchange rate variations, among other things. In the past, our business has been adversely affected by global economic recessionary conditions, weak economic growth in Chile, recession in Brazil and Argentina and poor economic performance in certain emerging market countries in which we operate. The occurrence of similar events in the future could adversely affect our business. We plan to continue to expand our operations based in Latin America and our performance will, therefore, continue to depend heavily on economic conditions in the region.

Any of the following factors could adversely affect our business, financial condition and results of operations in the countries in which we operate:

- changes in economic or other governmental policies;
- changes in regulatory, legal or administrative practices;
- weak economic performance, including, but not limited to, a slowdown in the Brazilian economy and political instability low economic growth, low consumption and/or investment rates, and increased inflation rates; or
- other political or economic developments over which we have no control.

No assurance can be given that capacity reductions or other steps we may take in response to weakened demand will be adequate to offset any future reduction in our cargo and/or air travel demand in markets in which we operate. Sustained weak demand may adversely impact our revenues, results of operations or financial condition.

An adverse economic environment, whether global, regional or in a particular country, could result in a reduction in passenger traffic, as well as a reduction in our cargo business, and could also impact our ability to raise fares, which in turn would materially and negatively affect our financial condition and results of operations.

*We are exposed to increases in landing fees and other airport service charges that could adversely affect our margin and competitive position. Also, it cannot be assured that in the future we will have access to adequate facilities and landing rights necessary to achieve our expansion plans*

We must pay fees to airport operators for the use of their facilities. Any substantial increase in airport charges, including at Guarulhos International Airport in São Paulo, Jorge Chavez International Airport in Lima or Comodoro Arturo Merino Benitez International Airport in Santiago, could have a material adverse impact on our results of operations. Passenger taxes and airport charges have increased substantially in recent years. We cannot assure you that the airports in which we operate will not increase or maintain high passenger taxes and service charges in the future. Any such increases could have an adverse effect on our financial condition and results of operations.

Certain airports that we serve (or that we plan to serve in the future) are subject to capacity constraints and impose various restrictions, including slot restrictions during certain periods of the day and limits on aircraft noise levels. We cannot be certain that we will be able to obtain a sufficient number of slots, gates and other facilities at airports to expand our services in line with our growth strategy. It is also possible that airports not currently subject to capacity constraints may become so in the future. In addition, an airline must use its slots on a regular and timely basis or risk having those slots re-allocated to others. Where slots or other airport resources are not available or their availability is restricted in some way, we may have to amend our schedules, change routes or reduce aircraft utilization. Any of these alternatives could have an adverse financial impact on our operations. We cannot ensure that airports at which there are no such restrictions may not implement restrictions in the future or that, where such restrictions exist, they may not become more onerous. Such restrictions may limit our ability to continue to provide or to increase services at such airports.

*Our business is highly regulated and changes in the regulatory environment in the countries in which we operate may adversely affect our business and results of operations.*

Our business is highly regulated and depends substantially upon the regulatory environment in the countries in which we operate or intend to operate. For example, price controls on fares may limit our ability to effectively apply customer segmentation profit maximization techniques (“passenger revenue management”) and adjust prices to reflect cost pressures. High levels of government regulation may limit the scope of our operations and our growth plans. The possible failure of aviation authorities to maintain the required governmental authorizations or our failure to comply with applicable regulations, may adversely affect our business and results of operations.

Our business, financial condition, results of operations and the price of preferred shares and ADSs may be adversely affected by changes in policy or regulations at the federal, state or municipal level in the countries in which we operate, involving or affecting factors such as:

- interest rates;
- currency fluctuations;
- monetary policies;
- inflation;
- liquidity of capital and lending markets;
- tax and social security policies;
- labor regulations;
- energy and water shortages and rationing; and
- other political, social and economic developments in or affecting Brazil, Chile, Peru, and the United States, among others.

For example, the Brazilian federal government has frequently intervened in the domestic economy and made drastic changes in policy and regulations to control inflation and affect other policies and regulations. This required the federal government to increase interest rates, change taxes and social security policies, implement price controls, currency exchange and remittance controls, devaluations, capital controls and limits on imports.

Uncertainty over whether the Brazilian federal government will implement changes in policy or regulation affecting these or other factors may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian companies. These and other developments in the Brazilian economy and governmental policies may adversely affect us and our business and results of operations and may adversely affect the trading price of our preferred shares and ADSs.

We are also subject to international bilateral air transport agreements that provide for the exchange of air traffic rights between the countries where we operate, and we must obtain permission from the applicable foreign governments to provide service to foreign destinations. There can be no assurance that such existing bilateral agreements will continue, or that we will be able to obtain more route rights under those agreements to accommodate our future expansion plans. Any modification, suspension or revocation of one or more bilateral agreements could have a material adverse effect on our business, financial condition and results of operations. The suspension of our permits to operate to certain airports or destinations, the inability for us to obtain favorable take-off and landing authorizations at certain high-density airports or the imposition of other sanctions could also have a negative impact on our business. We cannot be certain that a change in a foreign government’s administration of current laws and regulations or the adoption of new laws and regulations will not have a material adverse effect on our business, financial condition and results of operations.

*Losses and liabilities in the event of an accident involving one or more of our aircraft could materially affect our business.*

We are exposed to potential catastrophic losses in the event of an aircraft accident, terrorist incident or any other similar event. There can be no assurance that, as a result of an aircraft accident or significant incident:

- we will not need to increase our insurance coverage;
- our insurance premiums will not increase significantly;
- our insurance coverage will fully cover all of our liability; or
- we will not be forced to bear substantial losses.

Substantial claims resulting from an accident or significant incident in excess of our related insurance coverage could have a material adverse effect on our business, financial condition and results of operations. Moreover, any aircraft accident, even if fully insured, could cause the negative public perception that our aircraft are less safe or reliable than those operated by other airlines, or by other flight operators, which could have a material adverse effect on our business, financial condition and results of operations.

Insurance premiums may also increase due to an accident or incident affecting one of our alliance partners or other airlines, or due to a perception of increased risk in the industry related to concerns about war or terrorist attacks.

*High levels of competition in the airline industry, such as the presence of low-cost carriers in the domestic markets in which we operate, may adversely affect our level of operations.*

Our business, financial condition and results of operations could be adversely affected by high levels of competition within the industry, particularly the entrance of new competitors into the markets in which we operate. Airlines compete primarily over fare levels, frequency and dependability of service, brand recognition, passenger amenities (such as frequent flyer programs) and the availability and convenience of other passenger or cargo services. New and existing airlines (and companies providing ground cargo or passenger transportation) could enter our markets and compete with us on any of these bases, including by offering lower prices, more attractive services or increasing their route offerings in an effort to gain greater market share. For more information regarding our main competitors, see “Item 4. Information of the Company—B. Business Overview – Passenger Operations – International Passenger Operations” and “Item 4. Information of the Company—B. Business Overview – Passenger Operations - Business Model for Domestic Operations.”

Low-cost carriers have an important impact in the industry’s revenues given their low unit costs. Lower costs allow low-cost carriers to offer inexpensive fares which, in turn, allow price sensitive customers to fly or to shift from large to low cost carriers. In past years we have seen more interest in the development of the low-cost model throughout Latin America. For example, in the Chilean domestic market, Sky Airlines, our main competitor, has been migrating to a low-cost model since 2015, while in July 2017, JetSmart, a new low-cost airline, started operations. In the Peruvian domestic market, VivaAir Peru, a new low-cost airline, started operations in May 2017. In Colombia, low-cost competitor VivaColombia has been operating in the domestic market since May 2012. Low-cost competitor Flybondi began operations in the Argentinian domestic market during 2018, while Norwegian began international operations between London and Buenos Aires in 2018. A number of low-cost carriers have announced growth strategies including commitments to acquire significant numbers of aircraft for delivery in the next few years. The entry of the low-cost carriers local into markets in which we compete, including those described above, could have a material adverse effect on our operations and financial performance.

Our international strategic growth plans rely, in part, upon receipt of regulatory approvals of the countries in which we plan to expand our operations of certain Joint Business Agreements (JBAs). We may not be able to obtain those approvals, while other competitors might be approved. Accordingly, we might not be able to compete for the same routes as our competitors, which could diminish our market share and adversely impact our financial results. No assurances can be given as to any benefits, if any, that we may derive from such agreements.

*Some of our competitors may receive external support, which could adversely impact our competitive position.*

Some of our competitors may receive support from external sources, such as their national governments, which may be unavailable to us. Support may include, among others, subsidies, financial aid or tax waivers. This support could place us at a competitive disadvantage and adversely affect our operations and financial performance. For example, Aerolineas Argentinas has historically been government subsidized.

Moreover, as a result of the competitive environment, there may be further consolidation in the Latin American and global airline industry, whether by means of acquisitions, joint ventures, partnerships or strategic alliances. We cannot predict the effects of further consolidation on the industry. Furthermore, consolidation in the airline industry and changes in international alliances will continue to affect the competitive landscape in the industry and may result in the development of airlines and alliances with increased financial resources, more extensive global networks and reduced cost structures.

*Our operations are subject to local, national and international environmental regulations; costs of compliance with applicable regulations, or the consequences of noncompliance, could adversely affect our results, our business or our reputation.*

Our operations are affected by environmental regulations at local, national and international levels. These regulations cover, among other things, emissions to the atmosphere, disposal of solid waste and aqueous effluents, aircraft noise and other activities incident to our business. Future operations and financial results may vary as a result of such regulations. Compliance with these regulations and new or existing regulations that may be applicable to us in the future could increase our cost base and adversely affect our operations and financial results. In addition, failure to comply with these regulations could adversely affect us in a variety of ways, including adverse effects on our reputation.

In 2016, the International Civil Aviation Organization (“ICAO”) adopted a resolution creating the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), providing a framework for a global market-based measure to stabilize carbon dioxide (“CO<sub>2</sub>”) emissions in international civil aviation (i.e., civil aviation flights that depart in one country and arrive in a different country). CORSIA will be implemented in phases, starting with the participation of ICAO member states on a voluntary basis during a pilot phase (from 2021 through 2023), followed by a first phase (from 2024 through 2026) and a second phase (from 2027). Currently, CORSIA focuses on defining standards for monitoring, reporting and verification of emissions from air operators, as well as on defining steps to offset CO<sub>2</sub> emissions after 2020. To the extent most of the countries in which we operate continue to be ICAO member states, in the future we may be affected by regulations adopted pursuant to the CORSIA framework.

The proliferation of national regulations and taxes on CO<sub>2</sub> emissions in the countries that we have domestic operations, including environmental regulations that the airline industry is facing in Colombia, may also affect our costs of operations and our margins.

*Our business may be adversely affected by a downturn in the airline industry caused by exogenous events that affect travel behavior or increase costs, such as outbreak of disease, weather conditions and natural disasters, war or terrorist attacks.*

Demand for air transportation may be adversely impacted by exogenous events, such as adverse weather conditions and natural disasters, epidemics (such as Ebola and Zika), terrorist attacks, war or political and social instability. Situations such as these in one or more of the markets in which we operate could have a material impact on our business, financial condition and results of operations. Furthermore, these types of situations could have a prolonged effect on air transportation demand and on certain cost items.

After the terrorist attacks in the United States on September 11, 2001, the Company made the decision to reduce its flights to the United States. In connection with the reduction in service, the Company reduced its workforce resulting in additional expenses due to severance payments to terminated employees during 2001. Therefore, any future terrorist attacks or threat of attacks, whether or not involving commercial aircraft, any increase in hostilities relating to reprisals against terrorist organizations or otherwise and any related economic impact could result in decreased passenger traffic and materially and negatively affect our business, financial condition and results of operations.

After the 2001 terrorist attacks, airlines have experienced increased costs resulting from additional security measures that may be made even more rigorous in the future. In addition to measures imposed by the U.S. Department of Homeland Security and the TSA, IATA and certain foreign governments have also begun to institute additional security measures at foreign airports we serve.

Revenues for airlines depend on the number of passengers carried, the fare paid by each passenger and service factors, such as the timeliness of flight departures and arrivals. During periods of fog, ice, low temperatures, storms or other adverse weather conditions, some or all of our flights may be cancelled or significantly delayed, reducing our profitability. In addition, fuel prices and supplies, which constitute a significant cost for us, may increase as a result of any future terrorist attacks, a general increase in hostilities or a reduction in output of fuel, voluntary or otherwise, by oil-producing countries. Such increases may result in both higher airline ticket prices and decreased demand for air travel generally, which could have an adverse effect on our revenues and results of operations.

*We are subject to risks related to litigation and administrative proceedings that could adversely affect our business and financial performance in the event of an unfavorable ruling.*

The nature of our business exposes us to litigation relating to labor, insurance and safety matters, regulatory, tax and administrative proceedings, governmental investigations, tort claims and contract disputes. Litigation is inherently costly and unpredictable, making it difficult to accurately estimate the outcome among other matters. Currently, as in the past, we are subject to proceedings or investigations of actual or potential litigation. Although we establish provisions as we deem necessary, the amounts that we reserve could vary significantly from any amounts we actually pay due to the inherent uncertainties in the estimation process. We cannot assure you that these or other legal proceedings will not materially affect our business. For further information, see “Item 8. Financial Information—Legal and Arbitration Proceedings.” and Note 31 of our audited consolidated financial statements included in this report.

*We are subject to anti-corruption, anti-bribery, anti-money laundering and antitrust laws and regulations in Chile, the United States and in the various countries we operate. Violations of any such laws or regulations could have a material adverse impact on our reputation and results of operations and financial condition.*

We are subject to anti-corruption, anti-bribery, anti-money laundering, antitrust and other international laws and regulations and are required to comply with the applicable laws and regulations of all jurisdictions where we operate. In addition, we are subject to economic sanctions regulations that restrict our dealings with certain sanctioned countries, individuals and entities. There can be no assurance that our internal policies and procedures will be sufficient to prevent or detect all inappropriate practices, fraud or violations of law by our affiliates, employees, directors, officers, partners, agents and service providers or that any such persons will not take actions in violation of our policies and procedures. Any violations by us of anti-bribery and anti-corruption laws or sanctions regulations could have a material adverse effect on our business, reputation, results of operations and financial condition.

*The Brazilian government has exercised, and may continue to exercise, significant influence over the Brazilian economy, which may have an adverse impact on our business, financial condition and results of operations.*

The Brazilian economy has been characterized by the significant involvement of the Brazilian government, which often changes monetary, credit, fiscal and other policies to influence Brazil's economy. The Brazilian government's actions to control inflation and implement other policies have involved wage and price controls, depreciation of the real, controls over remittance of funds abroad, intervention by the Central Bank to affect base interest rates and other measures. We have no control over, and cannot predict what measures or policies the Brazilian government may take in the future.

*The Peruvian government has exercised, and may continue to exercise, significant influence over the Peruvian economy, which may have an adverse impact on our business, financial condition and results of operations.*

In the past, Peru has experienced periods of severe economic recession, currency devaluation, high inflation, and political instability, which have led to adverse economic consequences. We cannot assure you that Peru will not experience similar adverse developments in the future even though for some years now, several democratic procedures have been completed without any violence. We cannot assure you that the current or any future administration will maintain business-friendly and open-market economic policies or policies that stimulate economic growth and social stability. Any changes in the Peruvian economy or the Peruvian government's economic policies may have a negative effect on our business, financial condition and results of operations.

*Instability and political unrest in Latin America may adversely affect our business.*

We operate primarily within Latin America and are thus subject to a full range of risks associated with our operations in this region. These risks may include unstable political or economic conditions, lack of well-established or reliable legal systems, exchange controls and other limits on our ability to repatriate earnings and changeable legal and regulatory requirements. In Venezuela, for example, foreign companies may only repatriate cash through specific governmental programs, which may effectively preclude us from repatriating cash for periods of time.

Although conditions throughout Latin America vary from country to country, our customers' reactions to developments in Latin America generally may result in a reduction in passenger traffic, which could materially and negatively affect our financial condition and results of operations

#### **Risks Related to our Common Shares and ADSs**

*Our major shareholders may have interests that differ from those of our other shareholders.*

One of our major shareholder groups, the Cueto Group (the "LATAM Controlling Shareholders"), which as of February 28, 2018, beneficially owned 27.91% of our common shares, is entitled to elect three of the nine members of our board of directors and is in a position to direct our management. In addition, the LATAM Controlling Shareholders have entered into a shareholders agreement with the Amaro Group, which as of February 28, 2018, held 2.58% of LATAM shares through TEP Chile, in addition to the indirect stake it has through the 21.88% interest it holds in Costa Verde Aeronáutica S.A., the main legal vehicle through which the Cueto Group holds LATAM shares, pursuant to which these two major shareholder groups have agreed to vote together to elect individuals to our board of directors in accordance with their direct and indirect shareholder interest in LATAM. Pursuant to a shareholders' agreement, the LATAM Controlling Shareholders and the Amaro Group have also agreed to use their good faith efforts to reach an agreement and act jointly on all actions to be taken by our board of directors or shareholders meeting, and if unable to reach to such agreement, to follow the proposals made by our board of directors. Decisions by the Company that require supermajority votes under Chilean law are also subject to voting arrangements by the LATAM Controlling Shareholders and the Amaro Group. In addition, another major shareholder, Qatar Airways Investments (UK) Ltd., which as of February 28, 2018, held 10.03%<sup>1</sup> of our common shares, is entitled to appoint one individual to our board of directors. The interests of our major shareholders may differ from those of our other shareholders. See "Item 7. Controlling Shareholders and Related Party Transactions—A. Major Shareholders."

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(1) Qatar owns 9.999999918% of total issued shares of LATAM.

Under the terms of the deposit agreement governing the ADSs, if holders of ADSs do not provide JP Morgan Chase Bank, N.A., in its capacity as depositary for the ADSs, with timely instructions on the voting of the common shares underlying their ADRs, the depositary will be deemed to have been instructed to give a person designated by the board of directors the discretionary right to vote those common shares. The person designated by the board of directors to exercise this discretionary voting right may have interests that are aligned with our controlling shareholders, which may differ from those of our other shareholders. Historically, our board of directors has designated its chairman. The members of the new board of Directors elected by the shareholders in 2017 designated Ignacio Cueto, to serve in this role.

*Trading of our ADSs and common shares in the securities markets is limited and could experience further illiquidity and price volatility.*

Our common shares are listed on the various Chilean stock exchanges. Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. In addition, Chilean securities markets may be materially affected by developments in other emerging markets, particularly other countries in Latin America. Accordingly, although you are entitled to withdraw the common shares underlying the ADSs from the depositary at any time, your ability to sell the common shares underlying ADSs in the amount and at the price and time of your choice may be substantially limited. This limited trading market may also increase the price volatility of the ADSs or the common shares underlying the ADSs.

*Holders of ADRs may be adversely affected by currency devaluations and foreign exchange fluctuations.*

If the Chilean peso exchange rate falls relative to the U.S. dollar, the value of the ADSs and any distributions made thereon from the depositary could be adversely affected. Cash distributions made in respect of the ADSs are received by the depositary (represented by the custodian bank in Chile) in pesos, converted by the custodian bank into U.S. dollars at the then-prevailing exchange rate and distributed by the depositary to the holders of the ADRs evidencing those ADSs. In addition, the depositary will incur foreign currency conversion costs (to be borne by the holders of the ADRs) in connection with the foreign currency conversion and subsequent distribution of dividends or other payments with respect to the ADSs.

*Future changes in Chilean foreign investment controls and withholding taxes could negatively affect non-Chilean residents that invest in our shares.*

Equity investments in Chile by non-Chilean residents have been subject in the past to various exchange control regulations that govern investment repatriation and earnings thereon. Although not currently in effect, regulations of the Central Bank of Chile have in the past required, and could again require, foreign investors acquiring securities in the secondary market in Chile to maintain a cash reserve or to pay a fee upon conversion of foreign currency to purchase such securities. Furthermore, future changes in withholding taxes could negatively affect non-Chilean residents that invest in our shares.

We cannot assure you that additional Chilean restrictions applicable to the holders of ADRs, the disposition of the common shares underlying ADSs or the repatriation of the proceeds from an acquisition, a disposition or a dividend payment, will not be imposed or required in the future, nor could we make an assessment as to the duration or impact, were any such restrictions to be imposed or required. For further information, see “Item 10. Additional Information—D. Exchange Controls—Foreign Investment and Exchange Controls in Chile.”

*Our ADS holders may not be able to exercise preemptive rights in certain circumstances.*

The Chilean Corporation Law provides that preemptive rights shall be granted to all shareholders whenever a company issues new shares for cash, giving such holders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. We will not be able to offer shares to holders of ADSs and shareholders located in the United States pursuant to the preemptive rights granted to shareholders in connection with any future issuance of shares unless a registration statement under the U.S. Securities Act of 1933, as amended, (the “Securities Act”), is effective with respect to such rights and shares, or an exemption from the registration requirements of the Securities Act is available. At the time of any rights offering, we will evaluate the potential costs and liabilities associated with any such registration statement in light of any indirect benefit to us of enabling U.S. holders of ADRs evidencing ADSs and shareholders located in the United States to exercise preemptive rights, as well as any other factors that may be considered appropriate at that time, and we will then make a decision as to whether we will file a registration statement. We cannot assure you that we will decide to file a registration statement or that such rights will be available to ADS holders and shareholders located in the United States.

*We are not required to disclose as much information to investors as a U.S. issuer is required to disclose and, as a result, you may receive less information about us than you would receive from a comparable U.S. company.*

The corporate disclosure requirements that apply to us may not be equivalent to the disclosure requirements that apply to a U.S. company and, as a result, you may receive less information about us than you would receive from a comparable U.S. company. We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The disclosure requirements applicable to foreign issuers under the Exchange Act are more limited than the disclosure requirements applicable to U.S. issuers. Publicly available information about issuers of securities listed on Chilean stock exchanges also provides less detail in certain respects than the information regularly published by listed companies in the United States or in certain other countries. Furthermore, there is a lower level of regulation of the Chilean securities market and of the activities of investors in such markets as compared with the level of regulation of the securities markets in the United States and in certain other developed countries. For further information, see “Item 16. Reserved—G. Corporate Governance.”

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. HISTORY AND DEVELOPMENT OF THE COMPANY**

###### **General**

LATAM Airlines Group is a Chilean-based airline holding company formed through the combination of LAN of Chile and TAM of Brazil in 2012. Following the combination, LAN Airlines S.A. became “LATAM Airlines Group S.A.” and TAM continues to exist as a subsidiary of LATAM. The Company is primarily involved in the transportation of passengers and cargo and operates as one unified business enterprise. During 2016, we began the transition of LAN and TAM into a single brand: LATAM.

LATAM’s airline holdings include LATAM and its affiliates in Chile, Peru, Argentina, Colombia and Ecuador, and LATAM Cargo and its affiliates MasAir (in Mexico) and LANCO (in Colombia), as well as TAM S.A. and its affiliates TAM Linhas Aereas S.A (LATAM Airlines Brazil), TAM Transportes Aereos del Mercosur S.A., (LATAM Airlines Paraguay), LATAM Cargo and Multiplus. LATAM is a publicly traded corporation listed on the Santiago Stock Exchange (“SSE”), the Valparaiso Stock Exchange, the Chilean Electronic Exchange and the New York Stock Exchange (“NYSE”).

LATAM’s history goes back to 1929, when the Chilean government founded LAN. In 1989, the Chilean government sold 51.0% of LAN’s capital stock to Chilean investors and to the Scandinavian Airlines System. In 1994, LATAM’s current controlling shareholders, together with other major shareholders, acquired 98.7% of LAN’s stock, including the remaining shares then held by the Chilean government. In 1997, LAN became the first Latin American airline to list its shares (which trade in the form of ADSs) on the New York Stock Exchange.

Over the past decade, LATAM has significantly expanded its operations in Latin America, initiating services in Peru in 1999, Argentina in 2005, Ecuador in 2009, and Colombia in 2010 through the acquisition of Aerovias de Integracion Regional, Aires S.A. (“LAN Colombia”). The business combination of LAN and TAM in June 2012 further expanded the Company’s operations in Brazil, where TAM Linhas Aéreas S.A. (“TLA” or “LATAM Airlines Brazil”), the TAM operating entity, is a leading domestic and international airline offering flights throughout Brazil with a strong domestic market share, international passenger services and significant cargo operations. TAM was founded in May 1997 (under the name *Companhia de Investimentos em Transportes*), for the purpose of participating in, managing and consolidating shareholdings in airlines. In September 2002, TAM’s name was changed to TAM S.A. and its shares were listed on the Brazilian Stock Exchange (“Bovespa”) in June 2005. From 2006 until the combination with LAN in 2012, TAM ADSs were also listed on the NYSE.

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) 2565-8765. We have designated LATAM Airlines Group as our agent in the United States, located at 970 South Dixie Highway, Miami, Florida 33156. Our website address is [www.latamairlinesgroup.net](http://www.latamairlinesgroup.net). Information obtained on, or accessible through, this website is not incorporated by reference herein and shall not be considered part of this annual report. For more information contact Andrés del Valle, Senior Vice President of Corporate Finance and Investor Relations, at [InvestorRelations@latam.com](mailto:InvestorRelations@latam.com).

###### **Capital Expenditures**

For a description of our capital expenditures, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Expenditures.”



**B. BUSINESS OVERVIEW**

**General**

LATAM Airlines Group is the largest passenger and cargo airline in South America. We are also one of the largest airline groups in the world in terms of network connections, providing passenger transport services to approximately 137 destinations in 24 countries and cargo services to approximately 144 destinations in 29 countries, with a fleet of 307 aircraft and a set of bilateral alliances. In total, LATAM Airlines Group has approximately 43,000 employees. For the year 2017, LATAM transported 67 million passengers. LATAM Airlines Group and its affiliates currently provide domestic services in Brazil, Chile, Perú, Argentina, Colombia and Ecuador; we also provide intra-regional and long-haul operations. The cargo affiliate carriers of LATAM in Chile, Brazil, Colombia and Mexico carry out cargo operations through the use of belly spaces on the passenger flights and dedicated cargo operations using freight aircraft. We also offer other services, such as ground handling, courier, logistics and maintenance.

As of December 31, 2017, we provided scheduled passenger service to 17 destinations in Chile, 18 destinations in Peru, five destinations in Ecuador, 15 destinations in Argentina, 14 destinations in Colombia, 41 destinations in Brazil, 11 destinations in other Latin American countries and the Caribbean, five destinations in North America, six destinations in Europe, four destinations in the South Pacific and one destination in Africa. In addition, as of December 31, 2017, through our various code-sharing and interline agreements, we offer service to 70 destinations in North America, 44 destinations in Europe, 17 destinations in Australasia, 13 destinations in Asia and four destinations in Africa.

**Competitive Strengths**

Our strategy is to maintain LATAM Airlines Group’s position as the leading airline in South America by leveraging our unique position in the airline industry. LATAM Airlines Group is the only airline group in the region with a domestic presence in six markets, as well as intra-regional and long-haul operations. As a result, the Company has geographical diversity and operational flexibility, as well as a proven track record of acting quickly to adapt its business to economic challenges. Moreover, LATAM’s unique leadership position in a region with growth potential and the focus on our existing competitive strengths, will allow us to continue building our business model and fuel our future growth, ensuring LATAM’s long term sustainability. We believe our most important competitive strengths are:

*Leader in the South America Airlines Space, with a Unique Leadership Position among Global Airlines*

Through a successful regional expansion strategy, LATAM Airlines Group has become the leading international and domestic passenger airline group in South America, as well as the largest cargo operator in Latin America. LATAM and its affiliates have domestic passenger operations in Chile, Brazil, Peru, Argentina, Colombia and Ecuador. We are also the largest operator of intra-regional routes, connecting the main cities and also some secondary cities in South America. Furthermore, through our significant presence in the largest hubs in South America—Lima and São Paulo—we are able to offer the best connectivity options between South America and the rest of the world. In addition, our cargo companies are the largest air cargo operators within, to and from Latin America, and particularly in Brazil.

*Geographically Diversified Revenue Base, including both Passenger and Cargo Operations*

Our operations are highly geographically diversified, including domestic operations in six different countries, as well as operations within South America and connecting South America with various international destinations. We believe this provides resilience to external shocks that may occur in any particular market. Furthermore, 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 freighter 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, reducing our break-even load factors and enhancing our per flight profitability. Additionally, this revenue diversification helps offset seasonal revenue fluctuations and reduces the volatility of our business over time. For the year ended December 31, 2017, passenger, cargo and other revenues accounted for 83.6%, 11.0% and 5.4% of total revenues respectively.

*Modern Fleet and Optimized Fleet Strategy*

The average age of our fleet is approximately eight years, making it one of the most modern in Latin America and in the world. 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, and also in noise levels.

We 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 different aircraft types we operate.

The Company's current fleet plan envisage a short-haul fleet formed exclusively by aircraft from the A320 family, with a focus on the A321 and A320neo, a re-engined A320 that the Company received for the first time in 2016, becoming the first airline in Latin America to fly this model. During 2017, LATAM incorporated two additional A320neos into its fleet.

For long-haul passenger flights, we operate the Boeing 767-300ER, the Boeing 787-8, the Boeing 787-9, the Boeing 777-300ER and the Airbus A350-900 which started operations in 2016. The Boeing 787 and Airbus A350 models allow us to achieve important savings in fuel consumption, while incorporating modern technology to deliver the best travel experience for our passengers. In 2017, we incorporated two Boeing 787-9 into our fleet.

LATAM continues to take a flexible approach to its fleet plan in order to better align it to market conditions. During 2017, the Company received four aircraft, the lowest number in the history of LATAM, and subleased some aircraft to third parties to adjust to demand during the year.

#### *Strong Brand Teamed with Key Global Strategic Alliances*

In May 2016 our new brand, LATAM, was officially launched. We believe that our new brand is associated with superior service and technologically advanced operations, and is well recognized and respected in the markets in which we operate. In 2017, LATAM Airlines was named Best Airline to South America in the 14th annual Global Traveler GT Tested Reader Survey Awards, and South America's Leading Airline in the World Travel Awards 2017, recognizing customers' preference for LATAM's brand over other South American Airlines.

LAN joined the **oneworld**<sup>®</sup> alliance, one of the world's leading airline alliances, in 2000. TAM (now LATAM Airlines Brazil) joined **oneworld**<sup>®</sup> in 2014, marking a significant milestone and completing the entry of all LATAM Airlines into **oneworld**<sup>®</sup>. To our passengers, this means greater convenience when traveling, since they will have the same standard of high-quality customer service, regardless of their international destination. Our strategic global alliances and existing commercial agreements provide our customers with access to more than 1,000 destinations worldwide, a combined reservations system, itinerary flexibility and various other benefits, which substantially enhance our competitive position within the Latin American market.

In 2016 LATAM entered into two joint business agreements: an agreement with American Airlines and an agreement with British Airways and Iberia. These agreements further strengthen our relationship with other **oneworld**<sup>®</sup> partners. Both agreements will allow LATAM to expand its network to more than 420 destinations worldwide, operating routes from South America to the United States and Canada with American Airlines and routes from South America to Europe with British Airways and Iberia. Some approvals have already been granted during 2017. The administrative court of economic defense of the CADE (Administrative Council for Economic Defense) in Brazil and the Civil Aviation Authority in Colombia approved the agreements with American Airlines and British Airways and Iberia. During the review, the authorities evaluated the scope of the agreement in terms of free competition and the benefits that it will bring to passengers, including improved connectivity, expansion of the destination network and reduced prices. Both agreements were approved in Uruguay in 2016. The agreements remain subject to the sign off by the Executive branch in Brazil and to regulatory approval in Chile and in the United States (LATAM – American Airlines).

#### *Financial Flexibility*

We have historically managed our business to maintain financial flexibility and a strong balance sheet, seeking to accommodate our growth objectives while having the ability to respond to changing market conditions. Our financial flexibility has allowed us to secure large aircraft deliveries, including an important part of our current re-fleeting program, at attractive financing rates.

#### *Recognized Loyalty Programs*

Our frequent flyer programs, LATAM Fidelidade and LATAM Pass together represent the leading frequent flyer programs in South America, with strong participation rates and brand recognition by our customers. Customers in each program earn points or miles based on the price paid for the ticket, class of ticket purchased, and elite level, as well as by using the services of outside partners in the program. In addition, in 2009 TAM launched its affiliate Multiplus, a coalition of loyalty programs, which allows members to accumulate points not just by flying with LATAM, but also by making purchases through credit cards or using services and products at partner establishments, and allows members to redeem points for LATAM Airlines flights and other products at partner establishments.

We believe these flexible programs are attractive to customers because they do not impose restrictions on those flights for which points can be redeemed, or limit the number of seats available on any particular flight to members using the loyalty program. LATAM Pass and LATAM Fidelidade members can also accrue and redeem points for flights on other **oneworld**<sup>®</sup> member airlines.

Business Strategy

Our mission is to connect people safely, with operational excellence and a personal touch, seeking to become one of the most admired airline groups in the world. In order to achieve our mission, the principal areas on which we plan to focus our efforts going forward are as follows:

Continually Strengthen Our Network

We intend to continue to strengthen our route network in South America, offering the best connectivity within the region at competitive prices and ensuring that we are the most convenient option for our passengers. We are the only airline group in the world with a local presence in six home markets and an international and intra-regional operation. This position is bolstered by our enhanced infrastructure in several of our key hubs, allowing us to further strengthen our network. We intend to leverage our position to create a leading portfolio of services and destinations, providing more options to our passengers and building a platform to support continued growth.

Enhance Brand Leadership and Customer Experience

We will always seek to be the preferred choice of passengers in South America. Our efforts are supported by a differentiated passenger experience and our leveraging of mobile digital technologies. We continue working on the implementation of our single, unified brand, culture, product and value proposition for our passengers. Additionally, we are focused on defining LATAM's digital strategy, including applications to achieve ancillary revenues and improving the management of contingencies, so that we are able to provide information and solutions to our customers in a timely and transparent manner. We continually assess opportunities to incorporate service improvements in order to respond effectively to our customers' needs.

Improving Efficiency and Cost Competitiveness

We are continually working to maintain a competitive cost structure and further improve our efficiency, simplify our organization and increase flexibility and speed in decision-making. Cost savings include reductions in fuel and fees, procurement, operations, overhead and distribution costs, among others, as well as the implementation of a customized service in domestic markets. We are currently working at an accelerated pace on cost initiatives in all these areas.

Organizational Strength

We aspire to be a group of passionate people, working in a simple and aligned manner, with inspiring leaders making agile decisions. This will allow us to deliver a distinctive value proposition to our customers and operate sustainably over the long term.

Proactive Risk Management

We strive to have a holistic and responsible view of risk in decision-making. We put special focus on risks that have high potential impact and low probability of occurrence, which could significantly affect LATAM's strategic objectives.

Airline Operations and Route Network

The following tables set forth our operating revenues by activity and point of sale for the periods indicated:

	Year ended December 31,		
	2017	2016	2015
	(in US\$ millions)		
Total passenger revenues	8,494.5	7,877.7	8,410.6
Total cargo revenues	1,119.4	1,110.6	1,329.4
Total traffic revenues	9,613.9	8,988.3	9,740.0

	Year ended December 31,		
	2017	2016	2015
	(in US\$ millions)		
Peru	626.3	627.2	681.3
Argentina	1,113.5	1,031.0	979.3
United States	900.4	933.1	1,025.5
Europe	676.3	714.4	723.1
Colombia	359.3	343.0	353.0
Brazil	3,436.4	2,974.2	3,464.3
Ecuador	190.3	198.2	238.5
Chile	1,527.2	1,512.6	1,575.5
Asia Pacific and rest of Latin America	784.3	654.6	699.5
Total Operating Revenues	9,613.9	8,988.3	9,740.0

## Passenger Operations

### General

As of December 31, 2017, our passenger operations were performed through airlines in Chile, Brazil, Peru, Argentina, Colombia and Ecuador, where we operate both domestic and international services. We collect and report operating data for our passenger operations in three categories: international (connecting more than one country), Domestic operations in Spanish speaking countries or “SSC” (including Chile, Peru, Argentina, Colombia, and Ecuador), and Domestic Brazil (wholly within Brazil).

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

	Year ended and as at December 31		
	2017	2016	2015
<b>ASKs (million) (at period end)</b>			
International	76,366.1	73,541.9	69,615.9
SSC	23,821.0	23,847.1	22,072.8
Domestic Brazil	36,211.3	37,578.7	42,478.5
Total	136,398.4	134,967.7	134,167.1
<b>RPKs (million)</b>			
International	66,344.2	63,392.6	59,003.4
SSC	19,407.9	19,293.7	17,858.4
Domestic Brazil	29,940.6	30,940.5	34,648.1
Total	115,692.7	113,626.9	111,509.9
<b>Passengers (thousands)</b>			
International	16,057	15,107	14,156
SSC	22,775	22,829	21,540
Domestic Brazil	28,314	29,024	32,139
Total	67,146	66,960	67,835

	Year ended and as at December 31		
	2017	2016	2015
Passenger RASK (passenger revenues/ASK, in US cents)			
International <sup>(1)</sup>	US¢6.2	US¢5.8	US¢6.5
SSC <sup>(1)</sup>	US¢7.3	US¢6.9	US¢8.3
Domestic Brazil <sup>(1)</sup>	US¢6.6	US¢5.8	US¢5.9
Combined Passenger RASK <sup>(2)</sup>	US¢6.2	US¢5.8	US¢6.3
Passenger load factor (%)			
International	86.9%	86.2%	84.8%
SSC	81.5%	80.9%	80.9%
Domestic Brazil	82.7%	82.3%	81.6%
Combined load factor	84.8%	84.2%	83.1%

(1) RASK information for each of our business units is provided because LATAM believes that it is useful information to understand trends in each of our operations. We use our revenues as defined under IFRS to calculate this metric. The revenues per business unit include ticket revenue, breakage, excess baggage fee, frequent flyer program revenues and other revenues. These operating measures may differ from similarly titled measures reported by other companies and should not be considered in isolation or as a substitute for measures of performance in accordance with IFRS. This unaudited operating data is not included in or derived from LATAM's financial statements.

(2) The combined Passenger RASK for LATAM is calculated by dividing passenger revenues by total passenger ASKs.

#### International Passenger Operations

Our international network combines the international operations of our Chilean, Peruvian, Ecuadorian, Argentinean, Colombian and Brazilian affiliates. We have operated international services out of Chile since 1946 and have greatly expanded our international services, offering flights out of Peru, Ecuador, Argentina, Colombia and Brazil. As of December 31, 2017, we offer 27 international destinations in 18 countries, in addition to our domestic destinations and international flights and connections between our domestic destinations.

Our general strategy to expand our international network is aimed at enhancing our value proposition by offering customers more destinations and routing alternatives, and promoting tourism to and within South America. Sustained development of our international network is a crucial factor in our long-term strategy. The group provides long-haul services out of Santiago, Lima, Guayaquil, Buenos Aires, Bogota, Sao Paulo and Rio de Janeiro. The group also provides regional services from Chile, Peru, Ecuador, Argentina, Colombia and Brazil.

During 2017, we received two Boeing 787-9 Dreamliners (we have orders for eight more), which will allow us to achieve important savings on fuel consumption, while incorporating modern technology, to deliver the best travel experience for our passengers and reduce our carbon footprint, as the Dreamliner produces up to 20% less CO<sub>2</sub> than similar aircraft. We also took delivery of two Airbus A320neos, out of an order of 32 aircraft of this model, becoming the first airline in Latin America to fly this model.

During 2017, the group has continued to grow at Guarulhos Airport in Sao Paulo, Jorge Chavez Airport in Lima and Comodoro Arturo Merino Benítez Airport in Santiago, launching 11 new international routes (excluding new seasonal routes) during the year and announcing 11 new routes to be launched during 2018 (excluding new seasonal routes operated by LATAM Brazil and LATAM Chile), including additional destinations such as San José in Costa Rica, Boston in the U.S. and Rome in Europe.

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

## Market Share Information

The following table presents air passenger traffic information for international flights (including intra-regional flights) and LATAM's market share in each geographic market in which we operate:

Country	LATAM passenger figures	LATAM's Market Share		
	% variation 2017-2016	2017	2016	% variation
Brazil <sup>(1)</sup>	+6.3%	74.9%	78.9%	-4.0 p.p.
Chile <sup>(2)</sup>	+10.3%	58.4%	61.3%	-2.9 p.p.
Argentina <sup>(3)</sup>	+9.5%	12.7%	11.7%	+1.0 p.p.
Peru <sup>(4)</sup>	+9.8%	44.8%	43.1%	+1.7 p.p.
Colombia <sup>(5)</sup>	+8.7%	8.7%	8.0%	+0.7 p.p.
Ecuador <sup>(3)</sup>	+14.0%	15.6%	18.4%	-2.8 p.p.

(1) Source: ANAC Brazil's website. Variation and market share considering RPK. Figures are considering only Brazilian airlines

(2) Source: JAC Chile's website. Variation and market share considering number of passengers carried.

(3) Source: Diiio.net. Variation and market share considering ASKs.

(4) Source: Ministry of Transportation Peru's website. Variation and market share considering number of passengers carried.

(5) Source: DGAC Colombia's website. Variation and market share considering RPK.

## Competitors in international routes

The following table shows LATAM's main competitors in each geographic market in which we operate:

Country	Route	Competitors
Brazil	North America	American Airlines, United Airlines, Delta Air Lines, Azul Linhas Aereas and Avianca Brazil.
	Latin America	Copa, Gol, Avianca, Aerolineas Argentinas, Aeromexico, Azul Linhas Aereas and Avianca Brazil.
	Europe	TAP Portugal, Air France-KLM, Lufthansa, Alitalia, British Airways, Iberia and Air Europa.
	Africa	South African Airways, Royal Air Maroc, Ethiopian Airlines and TAAG Angola Airlines.
Chile	North America	American Airlines, United Airlines and Delta Air Lines.
	Latin America	Copa, Avianca, Sky Airline, JetSmart, Aeromexico, Gol and Aerolineas Argentinas..
	Europe	Air France-KLM, Iberia, Alitalia, British Airways and Air Europa.
	Pacific	Qantas Airways.
Argentina	North America	American Airlines, Aerolíneas Argentinas, Copa, United Airlines and Delta Air Lines.
	Latin America	Aerolineas Argentinas, Gol, Copa, Avianca and Aeromexico.
Peru	North America	American Airlines, United Airlines, Delta Air Lines, Avianca and JetBlue Airways.
	Latin America	Avianca, Copa, Aeromexico.
	Europe	Air France-KLM, Iberia, Air Europa and British Airways.
Colombia	North America	Avianca, American Airlines, United Airlines, JetBlue Airways. Spirit Airlines and Delta Air Lines.
	Latin America	Avianca, Copa, Aeromexico, ABC Aerolineas S.A. de C.V. and Aerolineas Argentinas.
Ecuador	North America	American Airlines, TAME Linea Aerea del Ecuador, Delta Air Lines, United Airlines and JetBlue Airways.
	Latin America	Avianca, Copa, Aeromexico, TAME Linea Aerea del Ecuador and Avior Airlines
	Europe	Air France-KLM, Iberia and Air Europa.

Source: Diio.net considering ASKs.

## Domestic Passenger Operations

As of December 31, 2017, domestic passenger services within Chile, Brazil, Peru, Ecuador, Argentina and Colombia were operated by LATAM Airlines Chile, LATAM Airlines Brazil, LATAM Airlines Peru, LATAM Airlines Ecuador, LATAM Airlines Argentina and LATAM Airlines Colombia, respectively.

## Business Model for Domestic Operations

In November 2016, the group announced an important project to revamp the business model of our domestic services offerings in the six domestic markets where the group operates in South America. The purpose of this change is to increase our competitiveness and ensure the long-term sustainability of our domestic business model. As of December 2017, LATAM implemented this new travel model in its domestic operations in Brazil, Chile, Colombia, Ecuador and Peru. This project seeks to increase our operational efficiency, allowing us to provide more competitive fares, and contributing to the development of tourism and the growth of air travel per capita in the region. The new domestic service model requires continuous cost reduction efforts, and we are implementing a series of initiatives to reduce cost per ASK in all domestic operations. These efforts are aimed at significantly reducing selling and distribution expenses, increasing fleet utilization and operational productivity and simplifying back-office and support functions, thereby allowing us to expand our operations while controlling fixed costs.

Another key element of this business model is initiatives to increase our ancillary revenues, while allowing passengers to customize their journey. Customers on domestic flights now are able to access a simpler sales platform, which allows them to choose their fare depending on the type of journey they want, and to purchase additional services such as extra luggage, a variety of food and beverage options on board, preferred seating options and the flexibility to change tickets.

We continue to develop digital initiatives to empower passengers providing them an enhanced digital experience with end-to-end control of their reservation. LATAM customers will be able to buy, check-in and manage the after sale service in a simpler and faster manner through their smartphones.

The new domestic strategy was implemented by the affiliate airlines in five out of six countries during 2017.

The following table shows LATAM's number of destinations, passengers transported, market share and main competitors in each domestic market in which we operate:

	<b>Brazil</b>	<b>Chile</b>	<b>Argentina<sup>(6)</sup></b>	<b>Peru</b>	<b>Colombia</b>	<b>Ecuador</b>
Destinations	41	16	15	18	14	5
Passengers Transported (million) <i>Change (YoY)</i>	28.3 (2.4%)	7.7 (2.2%)	2.5 (2.5%)	6.7 1.8%	4.8 0.4%	1.0 4.6%
Market share	33% <sup>(1)</sup>	71% <sup>(2)</sup>	18% <sup>(3)</sup>	58% <sup>(4)</sup>	23% <sup>(5)</sup>	36% <sup>(3)</sup>
Main competitors	Gol, Azul, Avianca Brazil	Sky Airlines, JetSmart	Aerolíneas Argentinas, Andes	Peruvian Airlines, Avianca, LC Peru, Star Perú, Viva Air Peru	Avianca, Viva Colombia, Satena, Copa Airlines Colombia ("Wingo")	Tame, Avianca

(1) Source: ANAC Brazil's website. Market share considers RPKs.

(2) Source: JAC Chile's website. Market share considers RPKs.

(3) Source: Diio.net. Market share considers ASKs.

(4) Source: Ministry of Transportation Peru's website. Market share considers number of passengers carried as of December 2017.

(5) Source: DGAC Colombia's website. Market share considers RPKs

(6) Business model not yet implemented

## Passenger Alliances and Commercial Agreements

LATAM is currently a member of the global marketing alliance **oneworld**, which includes American Airlines, British Airways, Cathay Pacific Airways, Finnair, Iberia, Japan Airlines, Malaysia Airlines, Qantas, Qatar Airways, Royal Jordanian, Sri Lankan and S7 Airlines. In the aggregate, **oneworld**® members serve more than 1,000 destinations in 150 countries, operating approximately 13,000 daily departures.



LATAM and its affiliates have ongoing passenger commercial agreements with several airlines, including American Airlines, Iberia, Qantas, British Airways, Lufthansa, Swiss, Interjet, All Nippon Airways, Cathay Pacific, Japan Airlines and Jetstar Airways, among others. These commercial agreements allow us to provide additional benefits to our passengers, including access to a wider network, more flight options with better connection times, more competitive fares to destinations not served by LATAM, and increased potential for developing new routes and adding direct flights to new destinations and to destinations already served by LATAM.

Moreover, on January 14, 2016, we entered into two joint business agreements: an agreement with American Airlines and an agreement with British Airways and Iberia. These agreements further strengthen our relationship with these **oneworld®** partners. The agreements remain subject to regulatory approval in different countries. Both agreements have been approved in Uruguay on 2016. During 2017, joint business agreement with American Airlines was approved without mitigation measures by the competition authorities of Colombia and Brazil in May and September, respectively. The agreement with airlines of the IAG group (Iberia and British Airways) was authorized by the antitrust authorities of Brazil and Colombia in March and July, respectively. In Chile, the agreements are in a consultation process with TDLC (“*Tribunal de la Libre Competencia*”). Finally, the Department of Transportation of the United States (US - DOT) requires the ratification by Brazil of open skies with the United States to review the JBA with American Airlines notified in May 2016. In this regard, in December 2017 and in March 2018, the Chamber of Deputies and the Senate of Brazil, respectively, approved the ratification of the open skies agreement between both countries, which remains subject to approval by the Executive branch.

#### *Passenger Marketing and Sales*

Our long-haul marketing strategy emphasizes attributes valued by our international customers: reliable, high-quality service centered on comfort and entertainment for long-haul travel. We also highlight our extensive network, which covers the most important destinations in South America and the Caribbean and provides frequent service to major overseas gateways such as New York, Los Angeles, Miami, Orlando, London, Madrid, Paris, Frankfurt, Milan, Barcelona, Johannesburg and Sydney. In a continuing effort to strengthen our network, during 2017 we launched a new direct route between Santiago and Melbourne (our longest flight).

Our short-haul operations are designed to fit our customers’ needs: punctuality, reliability, frequency, modern aircraft and efficient operations. To deliver this value proposition, we have been increasing our fleet and frequencies with more point-to-point flights, and streamlined processes including Internet sales, web and mobile check-in and airport self-check-in and self-bag-tag. We also launched Mercado LATAM, a new buy on board service for food and beverages in our domestic flights in Brazil, Chile, Peru, Colombia and Ecuador.

We strive to deliver on our promise to our customers. Therefore, we constantly monitor customer satisfaction with in-flight surveys and research, and measure our performance against the highest standards. This commitment to excellence is reflected in the numerous prizes and recognitions earned by the Company. For the fourth consecutive year, LATAM Airlines was named the ‘Best Airline to South America’ at the Global Traveler GT Tested Reader Survey Awards. LATAM was also recognized as ‘South America’s Leading Airline’ in the World Travel Awards 2017 for the second year in a row.

#### *Branding*

Our brand, “LATAM”, was officially launched in May 2016. The new brand brings together all the passenger and cargo airline operations of the LATAM Airlines Group carriers. We seek to continue the legacy of leadership started decades ago by LAN, TAM and their respective affiliate carriers.

We are committed to the future of South America and to connecting it to the world. Our new brand allows us to offer a better, more consistent service throughout our network, which in turn strengthens our position in the region.

Using a single brand enables LATAM’s customers to better understand the common service and operating standards among its airlines. LATAM’s unified image has improved its visibility, thereby increasing the efficiency of its marketing efforts.

Since the launch of our new brand, we have made significant progress on its implementation, making our brand visible to our passengers. The new brand has been adopted at most of our airports, and we now offer a new single website for all of our different points of sale. The LATAM brand has also been applied to 63 aircraft. We also launched new uniforms for our crew, adopting the Company’s colors of indigo and coral while providing elegance and comfort for our crew.

#### *Distribution Channels*

We are committed to being the preferred choice of our customers, placing the passenger at the center of our decision making. Our distribution structure is divided into direct and indirect distribution channels, both focused on improving their respective platforms to allow for easy interaction for our client in sales and services alike. Direct channels owned by LATAM are comprised of city ticket offices, contact-centers and e-Business (including website, mobile and smart business), and accounted for approximately 55% of total passengers in 2017 (including award passenger). These direct channels support sales and service, both before and after the flight.

The e-Business channel is an integral part of our commercial, marketing and service efforts, and during 2017 our Internet-related sales increased by 8.5% compared to 2016. The Company will continue to improve its e-Business platforms to support expected future growth and simplify our customer's purchasing experience.

Our digital strategy includes mobile applications that provide trip information to our passengers. These applications improve management of contingencies, enable us to provide information and solutions to our customers in a timely and transparent manner and serve as a new direct sales channel.

Our city ticket offices include additional services in order to complement the experience of our customers. Our contact centers are a multi-service channel providing support in six languages (Spanish, English, Portuguese, French, German and Italian).

Indirect channels currently include travel agencies, general sales agencies, direct channels from other airlines and online agencies, and accounted for a 45% of total passengers in 2017.

#### **Frequent Flyer Programs**

Our frequent flyer programs are a key element of our marketing and loyalty strategy. These programs reward customer loyalty, and, as a result, generate incremental revenue and customer retention.

In 2016, we announced our revamped frequent flyer programs named LATAM Pass and LATAM Fidelidade. This change is part of the process of consolidating our new brand identity (LATAM) and the evolution of the programs, which enhances existing benefits and introduces new benefits for program members.

During 2017 LATAM Pass and LATAM Fidelidade improved the way members earn points and kilometers from the prior system (based on the distance flown) to a new method based on the price paid for the ticket. In addition, during 2017, LATAM Pass announced the change of the currency of the program from kilometers to miles, effective January 3, 2018, in line with industry standards

As of December 31, 2017, LATAM Pass and LATAM Fidelidade had 29.7 million members, which represents an increase of 13.7% compared to 2016. Members of LATAM's loyalty programs receive benefits and increased points for ticket purchases in accordance with their elite level status, as well as by purchasing the services of other partners in the LATAM Pass and LATAM Fidelidade programs. Customers of the program can redeem miles or points for free tickets as well as for other products. LATAM Pass and LATAM Fidelidade members are classified in four elite levels: Gold, Platinum, Black and Black Signature. These different groups determine which benefits customers are eligible to receive, including mile earning bonuses, free upgrades, VIP lounge access and preferred boarding and check-in.

#### **Multiplus**

In 2009, TAM launched Multiplus, a company designed to create a broader network in which LATAM Airlines Brazil's customers can earn points through the LATAM Fidelidade program. Multiplus is a coalition of loyalty programs that permits the accrual of points that can be redeemed for products and services offered by many different partner companies, in addition to LATAM Airlines. We believe this expanded network acts as a sales channel for LATAM Airlines, helping to capture and retain customers and increase sales. Multiplus is attractive to our frequent flyers because it allows them to accrue loyalty points in other ways besides flying, including, day-to-day purchases such as: credit card points, gas station, sporting goods, toys, insurance and the purchase of mobile and fixed-line telephone services.

In 2017, non-air redemption reached 18% of the total points. At the end of 2017, Multiplus had more than 300 partners and approximately 19.6 million participants that can accrue Multiplus points directly (through LATAM Fidelidade, co-branded cards, apps, retail partners, etc.) and indirectly (by transferring points from a partner program).

Multiplus became a publicly traded company in Brazil following its initial public offering in February 2010. TAM S.A continues to own 72.74% of the ordinary shares of Multiplus.

On December 10, 2009, Multiplus entered into an Operating Agreement with LATAM Airlines Brazil, effective as of January 1, 2010, which established the terms and conditions governing the relationship with TLA (the "Operating Agreement"). Under the Operating Agreement, Multiplus became responsible for, among other tasks, processing information on accumulating and redeeming points under the LATAM Airlines Brazil Loyalty Program, and delivering awards to the members of said program, in accordance with the rules of the TAM Loyalty Program and the Multiplus network. The Operating Agreement is valid for 15 years and is automatically renewed every five years thereafter.

On January 24, 2017, Multiplus S.A. and Banco Itaucard S/A (“Itaucard”) launched their first co-branded credit card, a result of the partnership announced in July 2016 by both companies. The new Multiplus Itaucard card comes to the market with the best point accumulation per dollar spent by means of conversion and differentiated bonuses. Carrying the MasterCard banner, the card is available in the International, Gold, Platinum and Black versions.

On February 14, 2017, aiming to increase the value created to Multiplus and LATAM shareholders, and to improve the alignment of interests between Multiplus and TLA, we announced the annual revision of the cost per seat (transfer price) and the approval of the point redemption tables pursuant to the Operating Agreement. The revision was a result of a detailed evaluation, considering the weighted average for each market, region of origin/flight destination, fare class, demand, distance and season, generating approximately 11,000 different combinations. We do not believe that the revision will result in any increase to the Company's unit cost.

On February 24, 2017, Multiplus S.A. and Banco Citibank S/A (“Citi”) enhanced their partnership by offering holders of Citi credit cards the ability to accumulate points directly within the loyalty network. Citi and Multiplus previously shared a benefits program available on Diners card, the points from which can be transferred to Multiplus.

In 2017, Multiplus S.A. and Telefônica Brasil S.A - Vivo (“Vivo Valoriza”) launched a partnership with the aim of bringing together two leaders in their respective segments, in a quest to offer the best benefits to their Multiplus members and Vivo Valoriza’s customers, including credit for the use of fixed-line telephones, broadband and TV services.

On August, 28, 2017 Multiplus S.A. announced unrestricted access to flights of the LATAM Group, LATAM Airlines Brasil, LATAM Airlines Chile and other airlines that will be joining the Group in the future, thus increasing ticket redemption options for airline tickets by members of the Company's coalition network, with particular emphasis on destinations such as: Sydney, Melbourne, Miami, New York, Los Angeles, Barcelona, Madrid, Lima, Cusco, Cartagena, Buenos Aires, Bariloche, and Easter Island. Multiplus will also have the right to operate exclusively as a coalition in the following regions: Brazil, Paraguay, Mexico, the United States and all European countries, while LATAM will have the right to exploit the business of the coalition exclusively in Central and South America (except for Mexico, Paraguay and Brazil). These changes will be implemented during 2018.

The remaining provisions established in the original Operating Agreement, including, without limitation, those relating to reciprocal exclusivity, term of effectiveness and situations for termination with or without cause, remain, in their essence, unchanged.

One of Multiplus’ advantages is the expansion of the airline network available for point redemption by passengers. In October, Multiplus also introduced a new version of our hotel reservation platform in partnership with Hotéis.com, expanding the portfolio to more than 300,000 hotels and hostels around the world and offering the option of paying in up to 12 installments, including facilitating payment prior to trip, upon arrival at the travel destination, or at the time of check-out. Members can also accrue points on purchases.

All of the gains and achievements mentioned above serve to demonstrate Multiplus’ focus and investment in delivering the best experience to our more than 19.6 million members, in order to be the best loyalty network.

**Cargo Operations**

The Cargo business is operated internationally and domestically by affiliate airlines under the unified LATAM Cargo brand, which has acquired significant market recognition. The cargo business generally operates on the same route network used by the passenger airline business. It includes approximately 144 destinations; of which around 137 are served by passenger and/or freighter aircraft and 7 are served only by freighter aircraft.

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

	Year ended and as at December 31,		
	2017	2016	2015
ATKs (millions)	6,230.3	6,704.1	7,082.8
RTKs (millions)	3,421.3	3,465.9	3,797.0
Weight of cargo carried (thousands of tons)	895.9	944.3	1,008.7
Total cargo yield (cargo revenues/RTKs, in U.S. cents)	32.7	32.0	35.0
Total cargo load factor (%)	54.9%	51.7%	53.6%

We derive our revenues from the transport of cargo through our dedicated freighter fleet and in the bellies of our passenger aircraft.

1) *Bellies of our passenger aircraft.* We consider our passenger network to be a key competitive advantage due to the synergies between passenger and cargo operations and, accordingly, we have developed a strategy to increase our competitiveness by enhancing our belly offering.

2) *Dedicated freighter fleet.* As of December 31, 2017, our dedicated freighter fleet under operation consisted of nine Boeing 767-300 freighters, each with a capacity for 58 structural tons of freight each. In 2017 we continued our freighter fleet optimization efforts, subleasing part of our Boeing 767-300F and Boeing 777-200F aircraft to a third party. As of December 31, 2017, one Boeing 767-300F and one Boeing 777-200F were subleased to a third party. The freighter fleet program has two main focus areas: first, to support the group's belly business, improving its load factor by feeding cargo into our passenger routes, and second, to provide our customers flexibility in scheduling and destinations. With these two objectives in mind, we are complementing and enhancing our network. In Latin America, the principal origins of our cargo are Chile, Colombia, Peru, Ecuador, Brazil and Argentina, which represent a large part of our northbound traffic. This demand is mainly concentrated on a small number of product categories, such as exports of fish, sea products and fruits from Chile, asparagus from Peru, and exports of fresh flowers from Ecuador and Colombia.

For the southbound flights, Brazil is the main import market. Southbound demand is mainly concentrated on a small number of product categories including high-tech equipment, electronics, auto parts and pharmaceuticals.

The largest domestic cargo operations are in Brazil, where ABSA remains the market leader there, carrying cargo for a variety of customers, including other international air carriers, freight-forwarding companies, export-oriented companies and individual consumers.

The United States accounts for the majority of 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 transported by air to Latin American countries. We have thus headquartered our international cargo operations in Miami. This geographical location is a natural gateway between Latin America and the United States. We also transport cargo to and from eight destinations in Europe: London, Madrid, Milan, Paris, Barcelona, Frankfurt, Amsterdam and Basel. The first six are served via passenger aircraft, and we serve Amsterdam, Frankfurt and Basel through freighter operations.

During 2017, cargo traffic decreased 1.3%, mainly due to a reduction in cargo capacity of 7.1% as a result of capacity adjustments in the passenger network during 2016, primarily in the routes between Brazil to the United States, and a reduction in the capacity of the dedicated freighter operations during 2017. As a result, cargo load factors increased by 3.2%, reaching 54.9%. Cargo yields improved 2.1% during 2017, mainly due to an improvement in imports from North America and Europe to Brazil driven by major imports of electronics and spare parts, as a result of more stable market conditions in the country as well as the appreciation of the Brazilian Real.

The cargo business in the region is highly competitive, as international and regional carriers often have spare capacity in their cargo operations. Despite this, we have been able to maintain solid market shares through efficient utilization of our fleet and network. Today, on Latin America-United States routes, our main competitors are Centurion, Avianca Cargo, Atlas Air and American Airlines. On the Latin America-Europe routes, our main competitors are Cargolux, Lufthansa Cargo, Martinair and Emirates Airlines.

#### *Cargo-Related Investigations*

See "Item 8. Financial Information—A. Consolidated Financial Statements and Other Financial Information—Legal and Arbitration Proceedings."

## Fleet

### General

As of December 31, 2017, the Group operated a fleet of 307 aircraft, comprised of 298 passenger aircraft and nine cargo aircraft. Along with that, we subleased nine aircraft, comprised of seven passenger aircraft and two cargo aircraft to third parties (one of them not included in the table below as it was reclassified from property plant and equipment to held for sale).

	Number of aircraft			Average term of lease remaining (years)	Average age (years)
	Total	Owned <sup>(1)</sup>	Operating Lease		
Passenger aircraft <sup>(2)</sup>					
Airbus A320-Family Aircraft					
Airbus A319-100	46	37	9	4.6	10.1
Airbus A320-200 <sup>(3)</sup>	131	93	38	3.1	9.4
Airbus A321-200	47	30	17	8.3	3.7
Airbus A320-200neo	4	1	3	10.8	0.7
Airbus A350-Family Aircraft					
Airbus A350-900 <sup>(4)</sup>	7	5	2	10.8	1.5
Boeing Aircraft					
Boeing 767-300ER	36	34	2	2.8	9.2
Boeing 787-8	10	6	4	8.2	4.1
Boeing 787-9	14	4	10	10.1	2.0
Boeing 777-300ER	10	4	6	6.9	6.7
Total passenger aircraft	305	214	91	5.9	7.7
Cargo aircraft					
Boeing 767-300 Freighter <sup>(5)</sup>	10	8	2	2.0	14.4
Boeing 777-200 Freighter <sup>(6)</sup>	0	0	0	0	0
Total cargo aircraft	10	8	2	2.0	14.4
Total fleet	315	222	93	5.8	7.9

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

(2) All passenger aircraft bellies are available for cargo.

(3) Five aircraft A320-200 leased to a third part. Does not include one A320-200 that was reclassified from property, plant and equipment to held for sale

(4) Two aircraft A350-900 leased to a third part.

(5) One aircraft B767-300F leased to a third part.

(6) Does not include two B777-200F (one currently lease to a third party), that were reclassified from property, plant and equipment to held for sale.

The airline group operates various different aircraft types that are best suited for our different services, which include short-haul domestic and continental trips as well as long-haul transcontinental flights. We have selected our aircraft based on their ability to effectively and efficiently serve these missions while trying to minimize the number of aircraft families we operate.

For short-haul domestic and continental flights, the group operates Airbus A320-Family aircraft. The Airbus A320-Family has been incorporated into our fleet pursuant to operating leases or has been acquired directly from Airbus pursuant to various purchase agreements since 1999. In 2017, we redelivered 17 A319 and A320 aircraft under operating leases, and received two A320neo aircraft.

For long-haul passenger we operate the Boeing 767-300ER, the Boeing 787-8 and 787-9, the Boeing 777-300ER and the Airbus A350-900 aircraft.

For cargo flights, we operate the Boeing 767-300F aircraft.

The average utilization rates of LATAM's aircraft for each of the periods indicated are set forth below, in hours per day.

	2017	2016	2015
<b>Passenger aircraft</b>			
Boeing 767-300ER	9.4	10.0	11.3
Boeing 787-8/9	11.2	11.0	11.7
Airbus A320-Family	9.2	8.9	9.5
Boeing 777-300ER	11.6	11.7	12.2
Airbus A330-200	-	4.4	6.2
Airbus A350-900	9.1	8.5	0.8
<b>Total passenger aircraft</b>	<b>9.5</b>	<b>9.0</b>	<b>9.7</b>
<b>Cargo aircraft</b>			
Boeing 767-300 Freighter	11.5	12.0	10.9
Boeing 777-200 Freighter	12.6	13.6	13.0
<b>Total cargo aircraft</b>	<b>11.7</b>	<b>12.5</b>	<b>11.5</b>
<b>Total passenger and cargo</b>	<b>9.6</b>	<b>9.1</b>	<b>9.8</b>

#### *Fleet Leasing and Financing Arrangements*

LATAM's fleet financing and leasing structures include borrowing from financial institutions and leasing under financial leases, tax leases, sale-leaseback transactions and pure operating leases. As of December 31, 2017, LATAM had 315 aircraft, of which eight were subleased to third parties resulting in 307 aircraft in operation. Of the aircraft in operation, 155 are operated by LATAM Airlines and 143 aircraft are operated by LATAM Airlines Brazil and 9 are operated by LATAM Airlines Cargo.

As of December 31, 2017, LATAM's operating fleet was comprised of 174 financial leases, 12 tax leases, 83 operating leases, 10 aircraft as loan guarantees and 28 unencumbered aircraft. Most of LATAM's financial and tax leases are structured with a 12-year initial term. LATAM has 40 financial aircraft leases supported by the U.S. Export-Import Bank ("EXIM Bank") and 81 supported by the European Export Credit Agencies (the "ECAs"). LATAM's operating lease maturities initially range from three to 12 years.

LATAM's aircraft debt, which is comprised of financial and tax leases, is denominated in U.S. dollars and typically has quarterly amortization payments. Both the financial leases and tax leases have a bank (or a group of banks) as counterparty; however, the tax leases also include third parties. 63.3% of our aircraft debt has a fixed interest rate and the balance has a floating rate based on USD LIBOR.

In order to reduce LATAM Airlines Brazil's balance sheet FX exposure to the Brazilian real, as part of the integration plan following the combination with TAM, we have sought to transfer the majority of the LATAM Airlines Brazil aircraft under financial leases to the LATAM level. As of December 31, 2017, we have transferred 51 aircraft to LATAM. This program has helped reduce the exposure to approximately US\$0.8 billion equivalent. See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Sources of financing" and "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Expenditures" for a description of expected sources of financing and expected expenditures on aircraft.

#### **Maintenance**

##### *LATAM Maintenance*

Our heavy maintenance, line maintenance and component shops are equipped and certified 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. More than 4,000 LATAM Maintenance professionals ensure our fleet operates safely and in compliance with all local and international regulations. We strive to provide the best experience to our passengers through the highest standards of safety, on-time performance and cabin image and functionality.

Our heavy maintenance and component repair shop facilities are located in São Carlos (Brazil) and Santiago (Chile), adding up to a total of up ten heavy maintenance production lines, including painting capabilities, and more than 30 component repair shops, including landing gear, hydraulics, pneumatics, avionics, electroplating, composites, wheels and brakes, emergency equipment, galleys and structures.

## *LATAM Line Maintenance*

The Line Maintenance Network serves over 150 locations and carried out over 2.2 million man hours of preventive and corrective maintenance tasks on the LATAM fleet during 2017. We also rely on certified third party services in a few destinations where it is economically convenient, such as in Frankfurt, (where we are served by Lufthansa Technik), Milan (served by Air France-KLM), and Johannesburg (served by South African Airways).

LATAM Maintenance continues to innovate through LEAN methodology, to achieve increased productivity and higher levels of reliability. In the past years, we implemented our mobile strategy, offering sustainable and scalable planning, productive and operational processes. We have deployed more than 700 tablets in order to:

- 1) Provide fast and simplified access to technical documents through a native app called Content Management System (CMS Mobile);
- 2) Provide access to our Maintenance System called Maintenix and in-house coordination apps;
- 3) Improve our internal communication through message and video call apps; and
- 4) Allow use of in-house developments systems like MaintCraft (allocates man hours resources and Gantt charts to each specific maintenance tasks) and MaintControl (manages the execution of the planned tasks of MaintCraft through a friendly interface, showing all the tasks that each technician has to perform throughout the shift). MaintControl also serves as a platform where the maintenance leaders can monitor their team's progress and solve problems that arise

MaintCraft and MaintControl are currently being developed in a partnership with a world class leader in maintenance software development, IFS MXI. Through this joint venture, IFS MXI is releasing, to other airlines and operators, all these applications using a SAAS strategy

LATAM Line Maintenance Network has hangar facilities in Santiago, São Carlos, São Paulo (CGH), Lima, Miami, Buenos Aires (AEP) and Brasilia, among others. These multiple locations improve the flexibility of the Network by allowing the execution of tasks that previously might be restricted because of adverse weather conditions and environmental authority restrictions.

In order to strictly comply with applicable regulations, all of our maintenance operations are supervised and audited by the local authorities and international entities around the Network, such as DGAC Chile, ANAC Brazil, the Federal Aviation Administration in the United States ("FAA"), the International Air Transport Association Operational Safety Audit ("IOSA") (from the International Air Transport Association or "IATA") and the International Civil Aviation Organization ("ICAO"), among others. The audits are conducted in connection with each country's certification procedures and enable us to perform maintenance for the aircraft types registered in the certificating jurisdictions. Our repair stations hold FAA Part-145 certifications under these approvals.

In addition, to ensure the most qualified personnel as needed for safe, accurate and on-time Line Maintenance, we seek to improve our technicians' skills through extensive training programs at our LATAM Technical Training Center in Chile and Brasil, and through specific training programs designed and conducted by our partnerships.

## *LATAM MRO*

Our two main MRO ("Maintenance, Repair and Overhaul") facilities, one in São Carlos (Brazil) and one in Santiago (Chile), are equipped and certified to service our fleet of Airbus and Boeing aircraft and provide 78% of all heavy maintenance services that LATAM demands. The services not executed internally are contracted to our extensive network of MRO partners around the globe. Both MRO facilities are FAA Part-145 certified repair stations. We occasionally perform certain heavy maintenance and component services for other airlines or OEMs. LATAM MRO is also responsible for the planning and execution of aircraft redeliveries.

In MRO São Carlos (LATAM Airlines Brazil MRO), we are prepared to service up to eight aircraft (narrow and wide body) simultaneously with a dedicated hangar for stripping and painting. In this facility we also have 22 technical component shops, including a full landing gear repair & overhaul shop, hydraulics, pneumatics, electronics, electrical components, electroplating, composites, wheels & brakes, interiors and emergency equipment shops. MRO São Carlos is certified and audited by major international aeronautical authorities such as the FAA, the European Aviation Safety Agency ("EASA"), ANAC Brazil, the Chilean DGAC, the Argentinean *Administración Nacional de Aviación Civil* ("ANAC Argentina"), the Ecuadorian *Dirección General de Aviación Civil* ("DGCA"), the Paraguayan *Dirección Nacional de Aeronautica Civil* ("DINAC"), and Transport Canada ("TC") , among others, for Heavy Maintenance and Components Repair and Overhaul for the Airbus A-320 family (A318, A319, A320 and A321), Airbus A330, Boeing 767, ATR-42/72 and the Embraer E-Jet 170/190 families. The MRO also has some minor capabilities for the repair and overhaul of Boeing 777 components. MRO São Carlos includes its own support engineering capabilities and a full technical training center.

In MRO Santiago, located near Comodoro Arturo Merino Benítez International Airport in Santiago, we have two hangars capable of servicing one wide body aircraft and two narrow body aircraft simultaneously. MRO Santiago is certified and audited by FAA, ANAC Brazil, DGAC, ANAC Argentina and DGCA, among others, for Heavy Maintenance for the Airbus A320-Family (A318, A319, A320 and A321) and Boeing 767. MRO Santiago has 10 shops prepared to support hangar activities such as cabin shops, galleys, structures and composite materials. We also have the capability to retrofit aircraft interiors, including the installation of IFE (in-flight entertainment) equipment and blended winglets in the Boeing 767 fleet.

During 2017, LATAM MRO effectively executed 1.2 million man-hours in more than 340 services, including C checks (107) and Special Checks (233) for the LATAM fleet, maintaining our 2016 labor production. Our shops delivered more than 55,000 components and performed 18 landing gear overhauls.

## **LATAM Safety and Security**

Our most important priority is the safety and security of our passengers and employees. We have been working to standardize our operational indicators regarding safety, audits and emergency response throughout our operations.

The divisions that currently support these functions are Safety Management, Emergency Response Management, and Security Management. These divisions function on the basis of uniform policies and procedures issued from the Corporate Safety and Security Vice presidency located in Santiago, Chile, and are represented in each affiliated company.

### **Organization of the LATAM Safety and Security Vice presidency**

#### *Safety Management Corporate*

We give the highest priority to providing safe and reliable air service. Our Safety Management is under a single organization (Corporate) that is responsible for the definition of processes and procedures for LATAM Safety Management and for the oversight of the affiliates that apply and implement those processes and procedures.

All LATAM affiliates have safety management system (“SMS”) documentation that 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 in the airline.

All systems are IOSA certified and have an executive who is responsible for each system implementation and for setting standardized procedures for measuring the quality and safety of services provided by companies or professional contractors that affect the operational safety of LATAM.

#### *Emergency Response Management Corporate*

The emergency response management team is responsible for the administration of the Emergency Response Plan (“ERP”). It has been developed for the effective management of different kinds of emergencies (aircraft accidents, natural disasters, strikes and pandemics) with the purpose of mitigating the impacts of emergencies on passengers and their relatives, as well as on our operations. The ERP includes, among others, Emergency Process and Procedures, Emergency Control Centers, a Relatives & Passengers Assistance Team, a Notification Team, Aircraft Recovery, and a “Go Team” which is a special team that can be dispatched in the case of an emergency and assume responsibility for emergency management.

#### *Security Management Corporate*

The Company ensures the highest levels of security for all of its passengers, employees, aircraft, equipment and facilities against any threats or unlawful action.

Corporate Security policies and a Security Management System (“SeMS”) have been implemented to detect any vulnerabilities in our security operations and to prevent acts of unlawful interference. Through the use of audits, inspections and risk analysis, we are able to establish the different security protocols required in our international and domestic operations. The results of the SeMS are evaluated, analyzed and assigned a risk level (high, medium or low) by LATAM Corporate Security Managers, who are in turn responsible for determining security protocols. In addition, Corporate Security Management oversees all of the security processes and procedures through the execution of annual audits.



Furthermore, every LATAM affiliate has to abide by a Security Program approved by the relevant local authority. These Security Programs provide clear definitions of the security functions required for every operation.

## Fuel Supplies

Fuel costs comprise one of the single largest categories of our operating expenses. In 2016, mainly due to the significant drop in the international price of crude oil, LATAM saw a drop in its jet fuel costs, while in 2017, crude oil prices increased resulting in higher fuel costs for LATAM. In 2017, total fuel costs represented 24.5% of our total operating expenses. Our average into-wing price for 2017 (fuel price plus taxes and transportation costs, including hedge) was US\$2.00 per gallon, representing an increase of 17.5% from the 2016 into-wing average fuel price. We can neither control nor accurately predict the volatility of fuel prices. Despite the foregoing, we believe 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 “Item 11. Quantitative and Qualitative Disclosures About Market Risk—Risk of Fluctuations in Jet Fuel Prices.”

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

	Year ended December 31, <sup>(1)</sup>		
	2017	2016	2015
Fuel consumption (thousands of gallons)	1,156,062.3	1,185,508.8	1,221,096.9
ASK (millions)	136,398.4	134,967.7	134,167.1
Fuel gallons consumed per 1,000 ASK	8.48	8.78	9.10
Total fuel costs (US\$ thousands)	2,318,816	2,056,643	2,651,067
Cost per gallon (US\$)	2.00	1.70	2.19
Total fuel costs as a percentage of total operating expenses	24.5%	23.0%	27.6%

(1) See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—LATAM Airlines Group Financial Results Discussion: Year ended December 31, 2017 compared to year ended December 31, 2016.” Total fuel costs (US\$ thousands) include Hedging gains/losses.

In our fuel supply agreements, we manage different price structures and price update calculations. The main price structure is Jet Fuel plus fixed fees and taxes, and the main fuel price updates are in a weekly, bi-weekly and monthly basis. Brazil, being our biggest market, bases its price in a refinery posting updated every month, and reported in Brazilian real per liter, plus fees and taxes.

Our fuel supply agreements vary by airport and are distributed among 30 suppliers. The fuel consumption volume is mainly concentrated in Brazil (39%), Chile (16%), the United States (11%) and Peru (12%). During 2017, we re-negotiated our fuel supply contracts in Chile, Peru, Colombia, major European, and certain Australian airports.

In Chile and Peru, we use a fuel import model in addition to the traditional local refinery supply, creating a more competitive market and ensuring our supply with different supplying methods.

As part of a comprehensive energy efficiency initiative, LATAM Airlines Group worked with a team of stakeholders to generate a streamlined fuel efficiency program (the “LATAM Fuel Efficiency Program”), which encompasses a wide range of different innovations and technologies for fuel efficiency:

- Investments in more modern and efficient aircraft, such as the Boeing 787, the Airbus A350 and the Airbus A320neo.
- Weight reduction measures, such as minimizing unnecessary onboard water, using ultra-light service carts, optimizing fuel according to destination, improving the distribution of weight to have an optimal center of gravity and the improvement of freight factor (the combination of passenger and cargo services).
- Standardized operational procedures on every stage of the flight (taxiing, climb, cruise, approach and landing), as well as for minimizing the use of the auxiliary power unit when aircraft is on the ground.

- Monitoring maintenance and performance of the fleet including frequent engine washes, which allow more efficient combustion of fuel and reduce emissions in airport areas.
- Improvements of the flight plan, management, including continuous feedback using a post flight analysis tool called Full Tracks developed by the Fuel Team with the support and collaboration of Operations and Safety. This tool allows us to better program and optimize our flight plans.

As a direct result of this program, LATAM Airlines Group has been recognized since 2014 by the Dow Jones Sustainability Index as one of the world's leading companies in eco-efficiency. The magnitude of this program has allowed the Company to reduce their operational costs along with the improvement of its environmental performance, and to enhance environmental awareness both within the Company and externally.

#### **Ground Facilities and Services**

Our main operations are based at the Guarulhos Airport in São Paulo, Brazil. We also operate significant ground facilities and services at LATAM Airlines Brazil's headquarters located at Congonhas International Airport in São Paulo, Brazil. In 2013, LATAM Airlines Brazil inaugurated two new facilities for ground handling equipment maintenance and repair (at São Paulo's Guarulhos Airport with 17,416 m<sup>2</sup> and at Rio de Janeiro's Galeão Airport with 4,109 m<sup>2</sup>).

We also have significant operations at the Comodoro Arturo Merino Benítez International Airport in Santiago, Chile, where we operate hangars, aircraft parking and other airport service facilities pursuant to concessions granted by the DGAC and other outsourced concessions. We also maintain a customs warehouse at the Comodoro Arturo Merino Benítez International Airport, additional customs warehouses in Chile 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 also operate from various other airports in Chile and abroad.

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.

#### **Ancillary Airline Activities**

In recent years, LATAM has been developing different initiatives to increase its ancillary revenues generated by its airline operations. The implementation of these initiatives aims to offer a better on-board experience, while allowing passengers to customize their journey. LATAM's customers are able to purchase for additional services such as extra luggage, preferred seating options and the flexibility to change tickets on the same day of their flight, among others.

In addition to airline operations, LATAM generates revenues from a variety of other activities, including aircraft leases (including subleases, dry-leases, wet-leases and capacity sales to certain alliance partners) and charter flights, tours, duty-free in-flight sales, maintenance services for third parties, handling, storage and customs services, handling and activities and revenues of Multiplus and the sale of certain LATAM Pass miles to third parties. In 2017, LATAM generated other revenues of US\$549.9 million from these activities.

#### **Insurance**

We maintain aviation insurance policies as required by law, relevant regulations and aircraft financing and leasing agreements for aircraft that LATAM and its affiliates own, operate or are responsible for. These policies provides all risk coverage for aircraft hulls (including war risks and spares) and third-party legal liability for passengers, cargo, baggage and injuries to third parties. These policies are in force through April 1, 2019 and are renewed annually in concert with IAG Group (British Airways, Iberia and their affiliates and franchises), which allows us to obtain better premiums and improved coverage at the best level of the aviation industry.

We also maintain insurance to cover the risk of theft, fire, flood, electrical damage and similar events for equipment and buildings we own or we are responsible for. Similarly, we maintain vehicle insurance against the risk of robbery, theft, fire and civil liability against third parties for all vehicles we own or we are responsible for.

## Information Technology

### *Passenger Service Systems*

As part of our agenda of transformation of the customer experience at LATAM, we have redefined our travel experience model and will continue to redesign our passenger service systems with the aim of providing a unified experience to our customers. Since the 2012 combination of LAN and TAM, a series of projects have been implemented to communicate the union of the companies to our customers. Intense efforts have been made to standardize processes such as passenger recognition, attention at contact centers, sales offices and airports, in-flight services, e-commerce, loyalty programs and IT backbone such as communications and data centers. However, many of these efforts are in progress as we finalize the integration of LAN's and TAM's processes and systems.

In 2014, we redefined our travel experience model based on the needs of our target customer, reinforcing six key elements: transparency of information, early solutions, passenger choice, digital simplicity, end-to-end rapidity and care for our customer. In order to implement this model, during 2017 we continued our work of previous years, adopting several measures to unify our processes and systems:

- We incorporated innovative products with functional features into our mobile platform for passenger service crews. Our new self-service platform allows the cabin crew to be connected and updated with all relevant human resources and flight information.
- Airports: we implemented a unique solution for self service in kiosks, with self-service bag tag functionality.
- Contingency: we continue improving our mobile platform for agents to manage contingency processes, adding features to manage basic services to our passengers in contingencies and compensation in case of disruption. We also implemented a passenger notification tool to manage both commercial and operational schedule changes.
- Contact Center: we developed new front-ends to simplify the interaction of our agents with passengers, with more intelligent recognition and more functionality to provide faster, more uniform and personalized attention. We implemented a world class solution to manage all customer service cases in a unified manner, solving problems faster and with fewer interactions. We also implemented an automatic tool to automate the calculation of refunds and reduced the time required to process refunds.
- Loyalty and customers: we continued to unify our systems to support our loyalty program with a world-class solution. We continued the implementation of a campaign management tool to centralize and control all the interactions with marketing campaigns with our customers.
- Digital Channels: We continue increasing the functionality available to digital channels.

From the integration perspective, we continue working to reach a simplified and consistent technological platform. For example, we implemented a unified Revenue Accounting System for the passenger business, and we have improved our airport management, loyalty program, contact center, customer database, and marketing tools applications. We continue to work with SABRE to unify the Passenger Service Platform in an effort to obtain operational and financial synergies, as set forth below.

During 2018, we expect to continue developing solutions aimed at improving our customers' experience.

### *LATAM PSS Migration and Digital Platform*

Prior to the 2012 combination, LAN and TAM used different passenger service platform ("PSP") solutions, TAM used Amadeus and LAN used SABRE. LATAM has since decided to unify the Passenger Service Platform in an effort to obtain operational and financial synergies. As a result, the PSS Migration Program began in 2014.

After running a Request for Proposal ("RFP") process with both providers (SABRE and Amadeus) in May 2015, LATAM signed a 10-year contract with SABRE. Since June 2015, LATAM and SABRE have jointly started the execution of PSS Migration, which should be fully implemented by 2018.

### *Maintenance*

In 2013, LATAM Airlines Brazil began a Maintenix implementation project which was completed in the first quarter of 2016. This project included standardization of all of our network's maintenance processes, permitting optimization of stocks of components and seeking to take advantage of synergies in the maintenance process, while maintaining operational safety as the key pillar.

### *Disaster Recovery Plan*

As of December 2017, LATAM has two data centers in Chile and one in Brazil. Design and configuration of two data centers and a Disaster Recovery Plan for LATAM was completed in 2015 and implementation was done during 2016. LATAM performs testings of critical systems every year.

## Regulation

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

We are subject to the jurisdiction of various regulatory and enforcement agencies in each of the countries where we operate. We believe we have obtained and maintain the necessary authority, including authorizations and operative certificates where required, which are subject to ongoing compliance with statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future.

The countries where we carry out most of our operations are contracting states and permanent members of the ICAO, an agency of the United Nations established in 1947 to assist in the planning and development of international air transportation. The ICAO establishes technical standards for the international aviation industry. In the absence of an applicable local regulation concerning safety or maintenance, the countries where we operate have incorporated by reference the majority of the ICAO's technical standards. We believe that we are in material compliance with all such relevant technical standards.

*Environmental and Noise Regulation.* There are no material environmental regulations or controls imposed upon airlines, applicable to aircraft, or that otherwise affect us, except for environmental laws and regulations of general applicability.

In Argentina, Brazil, Colombia, Ecuador, Peru and the United States, aircraft must comply with certain noise restrictions. We believe our aircraft substantially comply with all such restrictions. Chilean authorities are planning to pass noise-related regulation governing aircraft that fly to and within Chile, observing a standard known as "Stage 3 requirements". Our fleet already complies with such standards, so we do not believe that enactment of the proposed standards would impose a material burden on us.

In 2016, the ICAO adopted a resolution creating the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), providing a framework for a global market-based measure to stabilize CO2 emissions in international civil aviation (i.e., civil aviation flights that depart in one country and arrive in a different country). With the adoption of this framework, the aviation industry became the first industry to achieve an agreement with respect to its CO2 emissions. The scheme, which defines a unified standard to regulate CO2 emissions in international flights, will be implemented in various phases by ICAO member states starting in 2020.

*Safety and Security.* Our operations are subject to the jurisdiction of various agencies in each of the countries where we operate, which set standards and requirements for the operation of aircraft and its maintenance.

In the United States, the Aviation and Transportation 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\$5.60 per segment passenger security fee, subject to a US\$11.20 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.

Below are some specific aeronautical regulations related to route rights and pricing policy in the countries where we operate.

### Chile

#### *Aeronautical Regulation*

Both the Dirección Nacional de Aeronáutica Civil ("DGAC") and the Junta de Aeronáutica Civil ("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 establishes the main commercial policies for the aviation industry in Chile and regulates the assignment of international routes and the compliance with certain insurance requirements, while 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. Chilean authorities have incorporated ICAO's technical standards for the international aviation industry 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 such relevant technical standards.

#### *Route Rights*

*Domestic Routes.* Chilean airlines are not required to obtain permits in order to carry passengers or cargo on any domestic routes, but must comply with the technical and insurance requirements established respectively by the DGAC and the JAC. 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. On January 18, 2012 the Secretary of Transportation and the Secretary of Economics of Chile announced a unilateral opening of the Chilean domestic skies. This was confirmed on November 2013, and has been in force since that date.

*International Routes.* As an airline providing services on international routes, LATAM is also subject to a variety of bilateral civil air transportation 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 transportation 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. For more information, see “—Antitrust Regulation” below. In 1997, the Antitrust Commission approved and imposed a specific self-regulatory fare plan for our domestic operations in Chile 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 20 days in advance. We must file notice with the JAC of any increase in fares on “competitive” routes at least 10 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.

#### *Argentina*

##### *Aeronautical Regulation*

Both the Administración Nacional de Aviación Civil (“ANAC”) and the Ministry of Transport oversee and regulate the Argentinean aviation industry. ANAC regulates flight operations, including personnel, aircraft and security standards, air traffic control and airport management, and reports directly to the Ministry of Transport. ANAC also is responsible for supervising compliance with Argentinean laws and regulations relating to air navigation. The Ministry of Transport 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 ANAC, 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. In the absence of applicable Argentinean regulation concerning safety or maintenance, the ANAC has incorporated by reference the majority of the ICAO's technical standards. We believe that we are in material compliance with all such 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, LATAM 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. 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, the ANAC 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. However, there are government-fixed minimum prices for domestic flights. Government-fixed maximum prices were in place until February 3, 2016, when the government eliminated the controls that limited maximum prices, while retaining the minimum prices.

## *Peru*

### *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 and 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, LATAM 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 in practice.

## 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;
- controlling air traffic control inside domestic air space;
- approving shared codes; and
- modifying operations permits.

The EDGAC also must comply with the standards and recommended methods of 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.

*Airfare Pricing Policy.* On October 13, 2011, The Statutory Law of Regulation and Control of the Market Power was passed with a purpose to avoid, prevent, correct, eliminate and sanction the abuse of economic operators with market power, as well as to sanction restrictive, disloyal and agreements involving collusive practices. This Law creates a new public entity as the maximum authority of application and establishes the procedures of investigation and the applicable sanctions, which are severe. 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.

## Brazil

### Aeronautical Regulation

The Brazilian aviation industry is regulated and overseen by the ANAC. The ANAC reports directly to the Civil Aviation Secretary, 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) (“DECEA”), which is a public secretary also subordinated to 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 administrating, operating and exploring Brazilian airports industrially and commercially (with the exception of Guarulhos International Airport, Viracopos International Airport and Brasília International Airport, which were privatized in 2012 and are administrated by concession agreement).



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.

#### *Colombia*

##### *Aeronautical Regulation*

The governmental entity in charge of regulating, directing and supervising civil aviation in Colombia 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 carriers 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.* Since July 2007, as stated in resolution 3299 of the Aeronautical Civil entity, bottom level airfares for both international and domestic transportation were eliminated. Under resolution 904 issued in February 2012, the Aeronautical Civil authority ceased to impose the obligation of charging a fuel surcharge for both domestic and international transportation of passengers and cargo. As of April 1, 2012, air carriers may now freely decide whether or not to charge a fuel surcharge. In the case that a fuel surcharge is charged, it must be part of the fare, but shall be informed separately on the tickets, advertising or other methods of marketing used by the company.

In the same line, as of April 1, 2012 there is no longer any restriction on maximum fares published by the airlines or with respect to the obligations for air carriers to report to the Aeronautical civil authority the fares and conditions the day after being published.

Administrative fares are not subject to any changes, and its charge is mandatory for the transport of passengers under Aeronautical Civil Regulations. Differential administrative fares apply to ticket sales made through Internet channels.

#### *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. As described above under “—Route Rights—Airfare 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, LATAM and LATAM Chile follow a self-regulatory plan, which was modified and approved by the Tribunal de la Libre Competencia (the Antitrust Court) in July 2005, and further in September 2011. 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.

As a condition to the combination between LAN and TAM in June 2012, the antitrust authorities in Chile and in Brazil each imposed certain mitigation measures as part of their approval of the combination . Furthermore, the association was submitted to the antitrust authorities in Germany, Italy and Spain. All these jurisdictions granted unconditional clearances for this transaction. The association was filed with the Argentinean antitrust authorities, which approval is still pending. For more information regarding these mitigation measures please see below:

#### *Chile*

On September 21, 2011, the TDLC issued a decision (the “Decision”) with respect to the consultation procedure initiated on January 28, 2011 in connection with the proposed combination between LAN and TAM. The TDLC, in the Decision, approved the proposed combination between LAN and TAM, subject to 14 conditions, as generally described below:

1. exchange of certain slots in the Guarulhos Airport at Sao Paulo, Brazil;
2. extension of the frequent flyer program to airlines operating or willing to operate the Santiago-Sao Paulo, Santiago-Río de Janeiro, Santiago-Montevideo and Santiago-Asunción routes during the five-year period from the effective time of the combination;
3. execution of interline agreements with airlines operating the Santiago-Sao Paulo, Santiago-Río de Janeiro and Santiago-Asunción routes;
4. certain capacity and other transitory restrictions applicable to the Santiago-São Paulo route;
5. certain amendments to LAN’s self-regulatory fare plan approved by the TDLC with respect to LAN’s domestic passenger business;

6. the obligation of LATAM to renounce to one global airline alliance within 24 months from the date in which the combination becomes effective, except in the case that the TDLC approves otherwise, or to elect not to participate in any global airline alliance;
7. certain restrictions on code-sharing agreements outside the global airline alliance to which LATAM belongs for routes with origin or destination in Chile or that connect to North America and Europe, or with Avianca/TACA or Gol for international routes in South America, including the obligation to consult with, and obtain approval from, the TDLC prior to its execution of certain of those codeshare agreements;
8. the abandonment of four air traffic frequencies with fifth freedom rights between Chile and Perú and limitations on acquiring in excess of 75%, as applicable, of the air traffic frequencies in that route and the period that certain air traffic frequencies may be granted by the Chilean air transport authorities to LATAM;
9. issuance of a statement by LATAM supporting the unilateral opening of the Chilean domestic skies (cabotage) and abstention from any actions that would prevent such opening;
10. promotion by LATAM of the growth and normal operation of the Guarulhos (Brazil) and Arturo Merino Benítez (Chile) airports, to facilitate access thereto to other airlines;
11. certain restrictions regarding incentives to travel agencies;
12. to maintain temporarily 12 round trip flights per week between Chile and the United States and at least seven round trip non-stop flights per week between Chile and Europe;
13. certain transitory restrictions on increasing fares in the Santiago-Sao Paulo and Santiago-Rio de Janeiro routes for the passenger business and for the Chile-Brazil routes for the cargo business; and
14. engaging an independent consultant, expert in airline operations, which for 36 months, and in coordination with the FNE, will monitor and audit compliance with the conditions imposed by the Decision.

On or about June 2015, the FNE initiated a legal claim against LATAM before the TDLC alleging that LATAM was not complying with certain mitigation conditions related to the code share agreements with airlines outside LATAM's global alliance as referenced above. Although LATAM opposed this allegation and responded the claim accordingly, a settlement agreement was reached between the FNE and LATAM. The Settlement Agreement approved by the TDLC on December 22, 2015 terminated the legal proceeding initiated by the FNE and did not establish any violation of the TDLC resolutions or any applicable antitrust regulations by LATAM. The Agreement did establish the obligation of LATAM to amend/terminate certain code share agreements and contract an independent third party consultant, which would act as an advisor to the FNE to monitor the compliance by LATAM of the Seventh Condition and the Agreement.

#### *Brazil*

The Brazilian Council for Economic Defense – CADE approved the LAN/TAM merger by unanimous decision during the hearing session of December 14, 2011, subject to the following conditions: (1) the new combined group (LATAM) should leave one of the two global alliances to which it was part (Star Alliance or **oneworld**); and (2) the new combined group (LATAM) should offer to swap two pairs of slots in Guarulhos International Airport, to be used by an occasional third party interested in offering direct non-stop flights between São Paulo and Santiago, Chile. These impositions are in line with the mitigation measures adopted by the TDLC in Chile.

### **C. ORGANIZATIONAL STRUCTURE**

The LATAM Group is composed of eight main airlines: LATAM Airlines Group S.A., incorporated in Chile; Transporte Aéreo S.A. ("LATAM Airlines Chile"), a Chilean subsidiary; LAN Peru S.A. ("LATAM Airlines Peru"), a Peruvian subsidiary, Aerolane, Líneas Aéreas Nacionales del Ecuador S.A. ("LATAM Airlines Ecuador"), and Ecuadorian subsidiary, LAN Argentina S.A. ("LATAM Airlines Argentina," previously Aero 2000 S.A.), an Argentinian subsidiary, Aerovías de Integración Regional, Aires S.A. ("LATAM Airlines Colombia"), a Colombian subsidiary; TAM Linhas Aereas S.A. ("LATAM Airlines Brazil") incorporated in Brazil; and Transportes Aéreos del Mercosur S.A. ("LATAM Airlines Paraguay"), a Paraguayan subsidiary.

As of February 28, 2018 we held a 100% stake in Transporte Aéreo S.A. through direct and indirect interests, a 70% stake in LAN Peru through direct and indirect interests, a 55.00% stake of the voting shares of LAN Ecuador and a 100% of the non-voting shares of Holdco Ecuador S.A., who has 45.00% of the voting shares of LAN Ecuador, a 99.87% indirect stake in LAN Argentina, a 99.19% indirect stake in LAN Colombia and a 100.00% stake of the non-voting shares of TAM, and 48.99% of the voting shares and 100% of the non-voting shares of Holdco I S.A., which has 100.00% of the voting shares of TAM. Following changes in Brazilian law, which now permit foreign persons to own up to 49% of the voting capital of Brazilian airlines, on April 20, 2016, we increased our ownership of the voting shares of Holdco I S.A. to 48.99%.

The cargo operations are carried out by the affiliates under the brand LATAM Cargo. Our cargo operations are complemented by the operations of certain related companies, such as MasAir in Mexico, ABSA and TAM Cargo in Brazil and LANCO in Colombia. As of February 28, 2018, we indirectly held 100% of the non-voting shares and 24.99% of the voting shares of MasAir, 100% of the non-voting shares and 20% of the voting shares of ABSA, and a 90% stake in LANCO through direct and indirect participations. TAM S.A. has 100% of the non-voting shares and 100% of the voting shares of ABSA.. In the cargo business, we market ourselves primarily under the LATAM Cargo brand internationally.

## **D. PROPERTY, PLANT AND EQUIPMENT**

### **Chile**

#### **Headquarters**

Our main facilities are located on approximately five acres of land that we own 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 addition, we occupy 139,400 square feet for our executive offices in a central location of Santiago, Chile. This space includes five floors owned by LATAM in one building and ten leased floors in an adjacent building. We also occupy 49,400 square feet, in twelve floors in downtown (of which LATAM owns ten floors) in Santiago, Chile.

#### **Maintenance Base**

Our 877,258 square feet maintenance base is located on a site that we own inside 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 53,820 square feet office building plus a 10,000 square feet office and workshop space. We also lease from the Sociedad Concesionaria Nuevo Pudahuel S.A. approximately 124,000 square feet of space inside the Comodoro Arturo Merino Benítez International Airport for operational and service purposes. The lease has a duration of 30 days and is renewed monthly.

#### **Other Facilities**

We own sixteen acres of land and a building on the west side of the Comodoro Arturo Merino Benítez International Airport that houses a flight-training center. This facility features three full-flight simulators (which are not property of LATAM) for Boeing 767, Airbus A320 and Boeing 737 aircraft.

Fast Air Almacenes de Carga S.A. ("Fast Air"), one of our affiliates that operates import customs warehouses, utilizes a 5,600 m<sup>2</sup> warehouse located at Comodoro Arturo Merino Benítez International Airport.

### **Brazil**

#### **Headquarters**

LATAM Airlines Brazil's main facilities are located in São Paulo, in hangars within the Congonhas Airport and nearby. At Congonhas Airport, LATAM Airlines Brazil leases office facilities in converted hangars belonging to INFRAERO (the Local Airport Administrator). These facilities comprise 60,380 m<sup>2</sup>.

The LATAM Service Academy is located at Rua Atica, about 2.5 km from Congonhas Airport. This property, which LATAM Airlines Brazil owns, is used for human resources selection, medical services, training, mock-ups and offices- The Service Academy comprises 15,342 m<sup>2</sup> of land area and 9,032 m<sup>2</sup> of building area.

We also lease office space for corporate purposes in the city of São Paulo, where we operate 1,500 workstations distributed in 11 floors.

#### **Maintenance Base**

At Hangars II and V in Congonhas Airport, which LATAM Airlines Brazil leases from INFRAERO, LATAM Airlines Brazil has 21,727 m<sup>2</sup> of offices and hangars with about 1,300 workstations. This site also houses the aircraft maintenance, procurement, aeronautical materials logistics and retrofitting departments.

#### **Headquarters of the Presidency**

The Headquarters of the Presidency are located at Rua Verbo Divino 2001 Floor 17<sup>th</sup>, Chácara Santo Antonio, São Paulo, since March 2017.

#### **Other Facilities**

In São Paulo, LATAM Airlines Brazil has other facilities, including: a Call Center Building with 3,199 m<sup>2</sup>, distributed over five floors (plus a ground floor and a basement) that currently holds about 272 workstations and support rooms (meetings / training / dining room / coordination) of the operations of Call Center Reservations, Talk to People and ABSA back office.

In Guarulhos, LATAM has a total area of approximately 12,894 m<sup>2</sup> distributed within the Passenger Terminal, including areas such as Check-in, Ticket Sales, Check Out, Operations Areas, VIP Lounges, Aircraft Maintenance, GSE, Cargo Terminal, Distribution Centers, etc. The Cargo Terminal has 164 m<sup>2</sup> of office and 8,534 m<sup>2</sup> of open area. Our Distribution Centre Supplies area occupies 3,030 m<sup>2</sup>.

#### **New Facilities**

LATAM Airlines Brazil completed several infrastructure projects in Brazil during 2017, including:

1. New cargo logistic terminal in Curitiba: 700m<sup>2</sup>
2. New cargo logistic terminal in Imperatriz: 304m<sup>2</sup>
3. Improvements to Hangar 2 and 5 at Congonhas: 4,000m<sup>2</sup>
4. Improvement to training facilities in São Paulo: 9,000m<sup>2</sup>

#### **Other locations**

We occupy a 36.3 acre site at the Miami International Airport that has been leased to us under a concession agreement by the Miami Dade Aviation Department. Our facilities include a 44,650 square-feet corporate building, a 380,000 square-feet cargo warehouse (including 116,670 square-feet refrigerated area) and a 783,000 square-feet aircraft-parking platform. These facilities were constructed and are now leased to us under a long-term contract by Aero Term, a division of Real Term Global. For the year ended 2017, we paid US\$9.6 million in rent under the foregoing leases.

In February 2014, the Company entered into a lease agreement with Miami- Dade County covering approximately 1.81 acres of land located on the grounds of the Miami International Airport. The lease has a term of 30 years with a total annual rent of \$125,745. Under the lease, we retained the right to construct a hangar facility on the leased premises. The Company completed the construction in November 2015 and it has been operational since June 2016. The property has a 50,785 square-feet aircraft maintenance space, sufficient to house a Boeing B777 aircraft, in addition to a 32,440 square-feet area designated for office space. Total investment of this hangar in construction and related expenditures by LATAM was US\$16.5 million.

In addition, LATAM holds leases to airport concessions, administrative and sale offices, hangars and maintenance areas in Argentina, Colombia, Ecuador, and Peru.

#### **ITEM 4A UNRESOLVED STAFF COMMENTS**

None.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### A. Operating Results

You should read the following discussion of our financial condition and results of operations together with our audited consolidated financial statements and the accompanying notes beginning on page F-1 of this annual report.

The summary consolidated annual financial information as of December 31, 2017, 2016 and 2015 and for the years ended December 31, 2017, 2016 and 2015, has been prepared in accordance with IFRS and has been derived from our audited consolidated annual financial statements included in this annual report.

#### *Overview*

We derive our revenues primarily from transporting passengers on our passenger aircraft, as well as from transporting cargo in the belly of our passenger aircraft and in our dedicated freighter aircraft. In 2017, 83.6% of our total revenues (including for this purpose other income from operating activities) came from passenger revenues and 11.0% came from our cargo business. The remaining 5.4% was classified as other operating income, which consists primarily of revenues generated from our coalition and loyalty program Multiplus, tour operator services, aircraft leasing, customs and warehousing services, third-party maintenance, duty free sales and other miscellaneous income.

Our operating environment in 2017 was marked by a recovery in the macroeconomic environment in Latin America mainly resulted from the GDP growth in Brazil and Argentina. In Brazil specifically, GDP increased by 1.1% in 2017, the first year of growth after two consecutive years of GDP contraction, while GDP in Argentina increased by 2.5% in 2017, after a decline of 2.2% in 2016. On the other hand, other relevant markets for the Company such as Chile, Peru and Colombia, showed a decline in their GDP growth rates during 2017 as compared to 2016. In addition, during 2017 LATAM faced additional competition from new low-cost airlines with the start of operations of Viva Air in Peru in May 2017 and JetSmart in Chile in July 2017.

#### *Passenger Operations*

In general, our passenger revenues are driven by international and country-specific political and economic conditions, competitive activity, and the attractiveness of the destinations that we serve. Passenger revenues are also affected by our capacity, traffic, load factors, yield and unit revenue. Our capacity is measured in terms of available seat kilometers, or ASKs, which represents the sum, across our network, of the number of seats we make available for sale on each flight, multiplied by the kilometers flown by the respective flight. We measure traffic in RPKs, as the sum, across our network, of the number of revenue passengers on each flight multiplied by the number of kilometers flown by the respective flight. Load factors represent RPKs (traffic) as a percentage of ASKs (capacity), or the percentage of our capacity that is actually used by paying customers. We use yield, revenue from passenger operations divided by RPKs, to measure the average amount that one passenger pays to fly one kilometer and unit revenue, or revenue per ASK, to measure the effect of capacity on revenues. See “Item 3. Key Information—A. Selected Financial Data.”

Passenger demand during 2017 showed a recovery as compared to the previous year, mainly as a result of the improvement in the economic environment in Brazil, as well as the appreciation of the Brazilian real, while in other Latin American countries we faced slower GDP growth (with the exception of Argentina and Ecuador) and increased competition from operators to South America and within the region.

During 2017, domestic operations of our affiliate carriers based in SSC, which accounts for 17.5% of total passenger capacity, showed an increase of 0.6% in passenger traffic while capacity decreased 0.1% as compared to 2016. As a result, the passenger load factor increased 0.6 percentage points to 81.5%. This capacity discipline helped to increase the yields in the SSC domestic markets and resulted in a 4.5% increase in revenue per ASK in US dollars as compared to 2016.

In our domestic operations in Brazil, LATAM Airlines Brazil reduced capacity by 3.6% in 2017 as a result of the capacity adjustments made in 2016, in response to a weak demand environment. Passenger traffic decreased by 3.2%, allowing for an improvement of 0.3 percentage points in passenger load factors, which reached 82.7%. LATAM Airlines Brazil ended the year with an increase of 12.4% in revenues per ASK in US dollars as compared to 2016, driven by a 2.8% increase in RASK in BRL as well as by the 8.4% average appreciation of the Brazilian Real.

In our international operations, we increased our passenger capacity by adding new destinations and strengthening the use of our regional hubs, mainly from Santiago and Lima, consistent with the Company's focus on network improvements. Capacity increases were mainly driven by growth in SSC, while during early 2017 LATAM Airlines Brazil reduced its international capacity mainly driven by adjustments made in 2016, in which the Company reduced its capacity for routes with weaker demand, specifically between Brazil and the US. During the second half of 2017, the Company started to grow again in the routes between Brazil and the US mainly driven by improved demand and the appreciation of the Brazilian Real. As a result, capacity in international operations increased by 3.8%, while traffic increased 4.7%, resulting in an improvement of 0.7 percentage points in passenger load factors, which reached 86.9%, while the revenue per ASK increased 6.6% in US dollars.

#### *Cargo Operations*

The cargo operations depend on exports from South America to North America and Europe, and imports from North America and Europe to South America, where Brazil is the main import market. Cargo markets are affected by economic conditions, foreign exchange rates, changes in international trade, the health of particular industries and competition and fuel prices (which we usually pass on to our customers through a cargo fuel surcharge). Cargo revenues are affected by our capacity, traffic, cargo load factors and yield. Our capacity is measured in terms of available ton kilometers, or ATKs, which represents the number of tons available across our network for the transportation of cargo on each flight, multiplied by the kilometers flown by the respective flights. We measure traffic in revenue ton kilometers, or RTKs, as the amount of cargo loads (measured in tons) on each flight multiplied by the number of kilometers flown by the respective flights. Load factors represent RTKs (traffic) as a percentage of ATKs (capacity), or the percentage of our cargo capacity that is actually used to transport cargo for our customers. Finally, we use cargo yield, or revenue from cargo operations divided by RTKs, to measure the average amount that our customers pay to transport one ton of cargo one kilometer.

During 2017, cargo traffic decreased 1.3%, mainly as a result of the reduction in cargo capacity of 7.1% as compared to 2016, which led to an improvement of 3.2 percentile points in cargo load factors to 54.9%. In 2017, we started to see an improvement in imports from North America and Europe to Brazil, which was the result of better economic conditions in the country and the appreciation of the Brazilian Real. As a result, revenues per ATK increased by 8.5% as compared to last year, the first increase in recent history. The Company continued its rational and disciplined approach toward freighter capacity utilization, while we focused on maximizing the belly utilization of our passenger fleet. Consistent with this approach, we are currently sub-leasing one of our 767-300Fs to a third party operating in a different market and during 2017 we removed two Boeing 777-200Fs from service.

#### *Cost Structure*

LATAM Airlines Group's costs are largely driven by the size of our operations, fuel prices, fleet costs and exchange rates. Our operating expenses are calculated in accordance with IFRS and comprise the sum of the line items "cost of sales" plus "distribution costs" plus "administrative expenses" plus "other operating expenses," as shown on our consolidated statement of comprehensive income. These operating expenses include wages and benefits, fuel, depreciation and amortization, commissions to agents, aircraft rentals, other rental and landing fees, passenger services, aircraft maintenance and other operating expenses. The following is a discussion of the drivers of the most important costs.

As an airline, we are subject to fluctuations in costs that are outside of our control, particularly fuel prices. During 2017, fuel prices increased 22.4%, principally due to the agreement among oil exporter countries (mainly OPEC members) to cut oil production until 2018, natural disasters in North America (specifically hurricanes Harvey and Irma) and geopolitical factors in oil exporter countries such as Lybia, Iraq and Nigeria. LATAM Airlines Group has a hedging policy to protect medium term liquidity risk from fuel price increases, while participating in the benefits of fuel price reductions. Cost of fuel is also affected by the amount of gallons we consume, which depends on the size of our operation, the efficiency of our fleet and the impact of our efficiency programs.

Personnel expenses are another significant component of our overall costs. Because a significant portion of our labor costs are denominated in Chilean pesos and in Brazilian Reals, appreciation of these currencies against the U.S. dollar as well as increases in local inflation rates can result in increased costs in U.S. dollar terms and can negatively affect our results. Depreciation of local currencies results in decreases in costs in dollars. Other important drivers of personnel expenses are average headcount and average wages.

Commissions paid to travel and cargo agents are also a significant cost to the Company. We compete with other airlines over the amount of commission we pay per sale, particularly in connection with special programs and marketing efforts, and to maintain competitive incentives with travel agents.

Fleet related expenses, namely aircraft rentals and depreciation, are another significant cost, and mainly depend on the number and type of aircraft that are owned and that are under operating leases. These costs are largely fixed and can be reduced on a per unit basis by achieving higher aircraft utilization rates.

## Results of Operations

### LATAM Airlines Group Financial Results Discussion: Year ended December 31, 2017 compared to year ended December 31, 2016.

The following table sets forth certain income statement data for LATAM Airlines Group, for the year ended December 31, 2017, and December 31, 2016. For certain operating data for these periods, see “Item 3. Key Information—A. Selected Financial Data.”

	Year Ended December 31,				
	2017	2016	2017	2016	
	(in US\$ millions, except per share and capital stock data)		As a percentage of total operating revenues		2017/2016 % change
Consolidated Results of Income by Function					
Operating revenues					
Passenger	8,494.5	7,877.7	88.4%	87.6%	7.8%
Cargo	1,119.4	1,110.6	11.6%	12.4%	0.8%
Total operating revenues	9,613.9	8,988.3	100.0%	100.0%	7.0%
Cost of sales	(7,441.8)	(6,967.0)	(77.4)%	(77.5)%	6.8%
Gross margin	2,172.1	2,021.3	22.6%	22.5%	7.5%
Other operating income	549.9	538.7	5.7%	6.0%	2.1%
Distribution costs	(699.6)	(747.4)	(7.3)%	(8.3)%	(6.4)%
Administrative expenses	(938.9)	(873.0)	(9.8)%	(9.7)%	7.5%
Other operating expenses	(368.9)	(373.7)	(3.8)%	(4.2)%	(1.3)%
Financial income	78.7	74.9	0.8%	0.8%	5.1%
Financial costs	(393.3)	(416.3)	(4.1)%	(4.6)%	(5.5)%
Share of profit of investments accounted for using the equity method	0.0	0.0	0.0%	0.0%	0.0%
Foreign exchange gains/(losses)	(18.7)	121.7	(0.2)%	1.4%	(115.4)%
Result of indexation units	0.7	0.3	0.0%	0.0%	133.3%
Other gains/(losses)	(7.8)	(72.6)	(0.1)%	(0.8)%	(89.3)%
Income (loss) before income taxes	374.2	273.9	3.9%	3.1%	36.6%
Income (loss) tax expense	(173.5)	(163.2)	(1.8)%	(1.8)%	6.3%
Net income (loss) for the period	200.7	110.7	2.1%	1.3%	81.3%
Income (loss) for the period attributable to the parent company’s equity holders	155.3	69.2	1.6%	0.8%	124.4%
Income (loss) for the period attributable to non-controlling interests	45.4	41.5	0.5%	0.5%	9.4%
Net income (loss) for the period	200.7	110.7	2.1%	1.3%	81.3%
Earnings per share					
Basic earnings per share (US\$)	0.25610	0.12665	n.a.	n.a.	102.2%
Diluted earnings per share (US\$)	0.25610	0.12665	n.a.	n.a.	102.2%

\* The abbreviation “n.a.” means not available.

#### Net Income

Net income for the year ended December 31, 2017 equaled US\$200.7 million, representing an increase of US\$90.0 million from a net income of US\$110.7 million in 2016. Net income attributable to the parent company’s shareholders was US\$155.3 million in 2017, representing an increase of US\$86.1 million compared with a net income of US\$69.2 million in 2016.



## Operating Revenues

Our total operating revenues increased by 7.0% to US\$9,613.9 million in the year ended December 31, 2017 compared to revenues of US\$8,988.3 million in 2016. The 2017 increase in operating revenues was attributable to a 7.8% increase in passenger revenues, and a 0.8% increase in cargo revenues in 2017. Passenger and cargo revenues accounted for 88.4% and 11.6% of total operating revenues in 2017, respectively.

Our consolidated passenger revenues increased by 7.8% to US\$8,494.5 million in 2017 from US\$7,877.7 million in 2016, as a result of an increase of 6.7% in our unit revenues (“RASK”) and a capacity increase of 1.1% compared to 2016. Increases in RASK reflect an increase of 5.9% in consolidated yields, resulting mainly from the recovery in yields in the domestic and international operations in Brazil as a result of capacity adjustments made in 2016 and the appreciation of the Brazilian real. The increase in capacity was a result of a 3.8% increase in our international operations, partially offset by a decrease of 3.6% in capacity in our domestic Brazil operations. Capacity in domestic SSC operations decreased slightly by 0.1%.

Cargo revenues increased by 0.8%, to US\$1,119.4 million in 2017 from US\$1,110.6 million in 2016, as a result of an increase of 8.5% in unit revenues (“RATK”), partially offset by a decrease of 7.1% in cargo capacity (“ATK”). The decrease in our cargo capacity resulted from reduced freighter operations, while the Company focused cargo operations using the belly of the passenger aircrafts. Increases in RATK reflected a more stable market conditions in Brazil, as well as the appreciation of the Brazilian real. During 2017, imports into the region showed an improvement as compared to 2016, especially to Brazil from North America and Europe, which resulted in higher cargo yields, which increased by 2.1% in 2017 as compared to 2016.

## Cost of Sales

Cost of sales increased by 6.8% to US\$7,441.8 million for the year ended December 31, 2017 (from US\$6,967.0 million in 2016), mainly due to higher aircraft fuel expenses during the year, the impact of the appreciation of local currencies on certain costs denominated on those currencies and additional expenses mainly associated with fleet redeliveries. As a percentage of total operating revenues, cost of sales decreased from 77.5% in 2016 to 77.4% in 2017.

The table below presents cost of sales information for the fiscal year ended December 31, 2017 and 2016.

	Year Ended December 31,				2017/2016 % change
	2017	2016	2017	2016	
	(in US\$ millions, except as otherwise stated)		As a percentage of total operating revenues		
<b>Revenues</b>	9,613.9	8,988.3	100.0%	100.0%	7.0%
<b>Cost of sales</b>	(7,441.8)	(6,967.0)	(77.4)%	(77.5)%	6.8%
Aircraft Fuel	(2,318.8)	(2,056.6)	(24.1)%	(22.9)%	12.7%
Wages and Benefits	(1,545.6)	(1,479.5)	(16.1)%	(16.5)%	4.5%
Other Rental and Landing Fees	(1,172.1)	(1,077.4)	(12.2)%	(12.0)%	8.8%
Depreciation and Amortization	(1,001.6)	(960.3)	(10.4)%	(10.7)%	4.3%
Aircraft Rentals	(579.6)	(569.0)	(6.0)%	(6.3)%	1.9%
Aircraft Maintenance	(430.8)	(366.2)	(4.5)%	(4.1)%	17.6%
Passenger Services	(288.7)	(286.6)	(3.0)%	(3.2)%	0.7%
Other Costs of Sales	(104.6)	(171.4)	(1.1)%	(2.8)%	(39.0)%

The increase in our cost of sales was driven by higher aircraft fuel expenses, which increased by 12.7% to US\$2,318.8 million in 2017 as a result of a 21.1% increase in the full year average fuel price (excluding hedge), partially offset by 2.5% decrease in the gallons of fuel consumed. In addition, LATAM recognized a net gain of US\$15.1 million in fuel hedging in 2017, compared to a fuel hedge loss of US\$48.0 million in 2016. In 2017, the Company also recognized a US\$9.7 million hedge loss related to foreign currency contracts, which were recognized in the fuel cost line compared to a US\$40.3 million loss in 2016.

Wages and benefits increased by 4.5% to US\$1,545.6 million in 2017 from US\$1,479.5 million in 2016, explained by the appreciation of local currencies during the year and the annual increase in unit salaries due to the inflation adjustment (which was based on 2016 inflation rates), especially in Brazil. This was partially offset by a 6.1% decline in headcount during the year.

Other rental and landing fees increased by 8.8% to US\$1,172.1 million in 2017 from US\$1,077.4 million in 2016, mainly due to an increase in landing fees, particularly in Argentina, as well as higher handling costs.

Depreciation and amortization increased by US\$41.3 million, amounting to US\$1,001.6 million, which represents an increase of 4.3% due to the higher depreciation cost per aircraft due to the incorporation of larger and more expensive fleet on the balance sheet, partially offset by a four unit reduction in the average number of aircraft compared with 2016.

Aircraft rentals increased by 1.9% to US\$579.6 million in 2017 from US\$569.0 million in 2016 as a result of the incorporation of larger and more modern aircraft under operating leases (i.e. Boeing 787s and Airbus A320 neos), partially offset by fewer aircraft in the fleet under operating leases. Aircraft maintenance expenses increased by 17.7%, from US\$366.2 million in 2016 to US\$430.8 million in 2017, mainly due to redelivery costs, as the Company returned 21 aircraft during the year. Passenger service expenses increased by 0.7%, to US\$288.7 million in 2017 compared to US\$286.6 million in 2016, in line with the increase of 0.3% in the number of passengers transported.

As a result of the above, gross margin (defined as operating revenue minus cost of sales) increased by 7.5% from US\$2,021.3 million in 2016 to US\$2,172.1 million in 2017.

#### *Other Consolidated Results*

Other operating income increased in 2017 by 2.1%, from US\$538.7 million in 2016 to US\$549.9 million in 2017, mainly due to higher revenues from Multiplus and aircraft leases as compared to 2016.

Distribution costs decreased by 6.4% from US\$747.4 million in 2016 to US\$699.6 million in 2017, mainly as a result of lower commissions to agents (which decreased by 6.2%, from US\$269.3 million to US\$252.5 million) in the passenger businesses.

Administrative expenses increased by 7.6% from US\$873.0 million in 2016 to US\$938.9 million in 2017, mainly due to the impact of the appreciation of local currencies during the year on wages denominated in those currencies, and the annual increase in unit salaries due to the inflation adjustment (which was based on 2016 inflation rates), especially in Brazil,

Other operating expenses decreased by 1.3% from US\$373.7 million in 2016 to US\$368.9 million in 2017 as a result of the Company's ongoing efficiency initiatives.

Financial income increased by 5.0% to US\$78.7 million in the year ended December 31, 2017 compared with US\$74.9 million in 2016, mainly due to an increase in cash.

Financial costs decreased by 5.5% to US\$393.3 million in 2017 from US\$416.3 million in 2016, mainly due to a reduction in our gross debt.

Income tax expense for 2017 amounted to US\$173.5 million, as compared to an income tax expense of US\$163.2 million in 2016. This increase is explained mainly by improved pre-tax results in 2017 (US\$374.2 million gain) compared with 2016 (US\$273.9 million gain) resulting in increased income tax charges.

#### **LATAM Airlines Group Financial Results Discussion: Year ended December 31, 2016 compared to year ended December 31, 2015.**

The following table sets forth certain income statement data for LATAM Airlines Group, for the year ended December 31, 2016, and December 31, 2015. For certain operating data for these periods, see "Item 3. Key Information—A. Selected Financial Data."

	Year Ended December 31,				
	2016	2015	2016	2015	2016/2015 % change
	(in US\$ millions, except per share and capital stock data)		As a percentage of total operating revenues		
Consolidated Results of Income by Function					
Operating revenues					
Passenger	7,877.7	8,410.6	87.6%	86.4%	(6.3)%
Cargo	1,110.6	1,329.4	12.4%	13.6%	(16.5)%
Total operating revenues	8,988.3	9,740.0	100.0%	100.0%	(7.7)%
Cost of sales	(6,967.0)	(7,636.7)	(77.5)%	(78.4)%	(8.8)%
Gross margin	2,021.3	2,103.3	22.5%	21.6%	(3.9)%
Other operating income	538.7	385.8	6.0%	4.0%	39.6%
Distribution costs	(747.4)	(783.3)	(8.3)%	(8.0)%	(4.6)%
Administrative expenses	(873.0)	(878.0)	(9.7)%	(9.0)%	(0.6)%
Other operating expenses	(373.7)	(324.0)	(4.2)%	(3.3)%	15.4%
Financial income	74.9	75.1	0.8%	0.8%	(0.3)%
Financial costs	(416.3)	(413.4)	(4.6)%	(4.2)%	0.7%
Share of profit of investments accounted for using the equity method	0.0	0.0	0.0%	0.0%	0.0%
Foreign exchange gains/(losses)	121.7	(467.9)	1.4%	(4.8)%	(126.0)%
Result of indexation units	0.3	0.6	0.0%	0.0%	(50.0)%
Other gains/(losses)	(72.6)	(55.3)	(0.8)%	(0.6)%	31.3%
Income (loss) before income taxes	273.9	(357.1)	3.1%	(3.5)%	(17.7)%
Income (loss) tax expense	(163.2)	178.4	(1.8)%	1.8%	(16.2)%
Net income (loss) for the period	110.7	(178.7)	1.3%	(1.7)%	(38.1)%
Income (loss) for the period attributable to the parent company's equity holders	69.2	(219.3)	0.8%	(2.3)%	(131.6)%
Income (loss) for the period attributable to non-controlling interests	41.5	40.5	0.5%	0.4%	2.2%
Net income (loss) for the period	110.7	(178.7)	1.3%	(1.7)%	(38.1)%
Earnings per share					
Basic earnings per share (US\$)	0.12665	(0.40193)	n.a.	n.a.	(131.5)%
Diluted earnings per share (US\$)	0.12665	(0.40193)	n.a.	n.a.	(131.5)%

\* The abbreviation "n.a." means not available.

#### Net Income

Net income for the year ended December 31, 2016 equaled US\$110.7 million, representing an improvement of US\$289.4 million from a net loss of US\$178.7 million in 2015. Net income attributable to the parent company's shareholders was US\$69.2 million in 2016, compared with a net loss of US\$219.3 million in 2015. Results were positively impacted by a foreign exchange gain of US\$121.7 million, compared to a net foreign exchange loss of US\$467.9 million in 2015.

#### Operating Revenues

Our total operating revenues decreased by 7.7% to US\$8,988.3 million in the year ended December 31, 2016 compared to revenues of US\$9,740.0 million in 2015. The 2016 decrease in operating revenues was attributable to a 6.3% decrease in passenger revenues, and a 16.5% decrease in cargo revenues. Passenger and cargo revenues accounted for 87.6% and 12.4% of total operating revenues in 2016, respectively.

Our consolidated passenger revenues decreased by 6.3% to US\$7,877.7 million in 2016 from US\$8,410.6 million in 2015, as a result of a decrease of 6.9% in our unit revenues ("RASK"). Our capacity increased by 0.6%. The increase in capacity was a result of an 8.0% increase in our domestic SSC operations and a 5.6% increase in our international operations, partially offset by a decrease of 11.5% in capacity in our domestic Brazil operations. Decreases in RASK reflect a decrease of 8.1% in consolidated yields, resulting from the slowdown in economic activity in the region, the depreciation of local currencies, a more competitive environment, and the pass-through of the savings in fuel costs to customers.

Cargo revenues decreased by 16.5%, to US\$1,110.6 million in 2016 from US\$1,329.4 million in 2015, as a result of a decrease of 5.3% in capacity (ATK) and a decrease of 11.7% in unit revenues ("RATK"). Capacity decreased in our cargo operations mainly as a result of a reduced freighter operation. Decreases in RATK reflect the still challenging cargo scenario in South America and in particular the weakness of the imports into the region, mainly to Brazil from North America and Europe, which has affected our cargo yields, which decreased by 8.5% in 2016 as compared to 2015.

## Cost of Sales

Cost of sales decreased by 8.8% to US\$6,967.0 million for the year ended December 31, 2016 (from US\$7,636.7 million in 2015), mainly due to lower fuel expenses during the year and the positive impact of the depreciation of local currencies as well as our ongoing cost reduction program. As a percentage of total operating revenues, cost of sales decreased from 78.4% in 2015 to 77.5% in 2016.

The table below presents cost of sales information for the fiscal year ended December 31, 2016 and 2015.

	Year Ended December 31,				
	2016	2015	2016	2015	2016/2015
	(in US\$ millions, except as otherwise stated)		As a percentage of total operating revenues		% change
<b>Revenues</b>	8,988.3	9,740.0	100.0%	100.0%	(7.8)%
<b>Cost of sales</b>	(6,967.0)	(7,636.7)	(77.5)%	(78.4)%	(8.8)%
Aircraft Fuel	(2,056.6)	(2,651.1)	(22.9)%	(27.2)%	(22.4)%
Wages and Benefits	(1,479.5)	(1,553.8)	(16.5)%	(16.0)%	(4.8)%
Other Rental and Landing Fees	(1,077.4)	(1,109.8)	(12.0)%	(11.4)%	(2.9)%
Depreciation and Amortization	(960.3)	(934.4)	(10.7)%	(9.6)%	2.8%
Aircraft Rentals	(569.0)	(525.1)	(6.3)%	(5.4)%	8.3%
Aircraft Maintenance	(366.2)	(437.2)	(4.1)%	(4.5)%	(16.3)%
Passenger Services	(286.6)	(295.4)	(3.2)%	(3.0)%	(3.0)%
Other Costs of Sales	(171.4)	(129.9)	(2.8)%	(1.3)%	49.8%

The decrease in our cost of sales was driven by lower aircraft fuel expenses, which decreased by 22.4% to US\$2,056.6 million in 2016 as a result of a 16.6% decrease in the full year average fuel price (excluding hedge). LATAM recognized a net loss of US\$48.0 million in fuel hedging in 2016, compared to a fuel hedge loss of US\$239.4 million in 2015. In 2016, the Company also recognized a US\$40.3 million hedge loss related to foreign currency contracts, which were recognized in the fuel cost line compared to a US\$19.2 gain million in 2015.

Depreciation and amortization increased by US\$25.9 million, amounting to US\$960.3 million, which represents an increase of 2.8% due to the increase in the number of owned aircraft, partially offset by the positive impact of the 4.5% depreciation of the Brazilian real.

Other rental and landing fees decreased by 2.9% to US\$1,077.4 million in 2016 from US\$1,109.8 million in 2015, mainly due to a decline in the rental of passenger and cargo capacity from third parties as well as lower handling costs.

Aircraft maintenance expenses decreased by 16.3%, from US\$437.2 million in 2015 to US\$366.2 million in 2016, mainly due to cost efficiencies related with the renewal of our fleet and lower maintenance expenses related to the redelivery of aircraft.

Aircraft rentals increased by 8.3% to US\$569.0 million in 2016 from US\$525.1 million in 2015 as a result of the incorporation of larger and more modern aircraft under operating leases (i.e. Boeing 787s and Airbus A350s), whereas returned aircraft have mainly been older models (i.e. Airbus A319s and A330s).

Passenger service expenses decreased by 3.0%, to US\$286.6 million in 2016 compared to US\$295.4 million in 2015, due mainly to a decrease of 1.3% in the number of passengers transported, as well as the decrease in on board services expenses, offset in part by an increase in passenger compensation.

As a result of the above, gross margin (defined as operating revenue minus cost of sales) decreased by 3.9% from US\$2,103.3 million in 2015 to US\$2,021.3 million in 2016.

## *Other Consolidated Results*

Other operating income increased in 2016 by 39.6%, from US\$385.8 million in 2015 to US\$538.7 million in 2016, mainly due to a US\$80.1 million gains derived from aircraft sales and leaseback transaction (resulting in an operating lease) as well as a US\$41.8 million increase in revenues from freighter aircraft leases and sales of fixed assets.

Distribution costs decreased by 4.6% from US\$783.3 million in 2015 to US\$747.4 million in 2016, mainly as a result of lower commissions to agents (which decreased by 11.1%, from US\$302.8 million to US\$269.3 million), in both the passenger and cargo businesses, representing a greater percentage decline than the 7.7% decline in passenger and cargo revenues.

Administrative expenses decreased by 0.6% from US\$878.0 million in 2015 to US\$873.0 million in 2016, mainly due to a decrease of 4.8% in wages and benefits (as a result of a 6.2% decline in average headcount), as well as the positive impact of the depreciation of certain local currencies on wages denominated in those currencies.

Other operating expenses increased by 15.4% from US\$324.0 million in 2015 to US\$373.7 million in 2016, driven by higher costs associated with fleet sales and redeliveries, and due to a lower cost in 2015 as a result of negotiations with third parties relating to our passenger service system.

Financial income was essentially unchanged US\$74.9 million in the year ended December 31, 2016 compared with US\$75.1 million in 2015).

Financial costs increased by 0.7% to US\$416.3 million in 2016 from US\$413.4 million in 2015, mainly due to base interest rate increases on floating rate debt.

Exchange rate differences increased to a gain of US\$121.7 million in 2016 from a loss of US\$467.9 million in 2015, mainly resulting from the 16.5% appreciation of the Brazilian real between December 31, 2015 and December 31, 2016.

Income tax expense for 2016 amounted to US\$163.2 million, as compared to an income tax benefit of US\$178.4 million in 2015. This variation is explained mainly by improved pre-tax results in 2016 (US\$273.9 million gain) compared with 2015 (US\$357.1 million loss) resulting in increased income tax charges of US\$196 million; the non-recognition of deferred taxes related to tax losses in Brazil from the fourth quarter of 2015 (non-recognition of US\$90.4 million in 2016 vs US\$16.9 million in 2015); the reversal in 2016 of tax provisions in Brazil in the amount of US\$61.2 million in 2015; and other items of US\$10 million. For more information, see Note 18 to our audited consolidated financial statements.

## *Out of Period Adjustments*

The Company recorded out of period adjustments resulting in an aggregate net decrease of US\$18.2 million to “Net income (loss) for the period” for the year ended December 31, 2016. These adjustments include a loss of US\$39.5 million resulting from an account reconciliation process initiated after TAM S.A. and its subsidiaries completed the implementation of the SAP system. A further US\$11.0 million decrease reflects adjustments related to foreign exchange differences, also relating to the Company’s subsidiaries in Brazil. The balance of US\$32.3 million includes mainly the adjustment of unclaimed fees for expired tickets for the Company and its affiliates outside Brazil. Management of TAM S.A. has concluded that the out of period adjustments that have been identified are material to the 2015 financial statements of TAM S.A., which should therefore require a restatement of TAM’s financial statements. However, LATAM has evaluated the impact of all out of period adjustments, both individually and in the aggregate, and concluded that due to their relative size and to qualitative factors they are not material to the annual consolidated financial statements of LATAM for the year ended December 31, 2016, or to any previously reported consolidated financial statements, therefore no restatement or revision is necessary.

## **U.S. Dollar Presentation and Price-Level Adjustments**

### *General*

#### *Foreign currency transactions*

##### **(a) Presentation and functional currencies**

The items included in the financial statements of LATAM are valued using the currency of the main economic environment in which each entity operates (the “functional currency”). The functional currency of LATAM is the U.S. dollar, which is also the currency of presentation of the audited consolidated financial statements of LATAM and its affiliates.

(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 LATAM entities (none of which operated in 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) The assets and liabilities of each consolidated statement of financial position are translated at the closing exchange rate on the date of the consolidated statement of financial position;
- (ii) The revenues and expenses of each results account are translated at monthly average rates; and
- (iii) All the resulting exchange differences are shown as a separate component in net equity.

For consolidation purposes, exchange differences arising from the translation of a net investment in foreign entities (or in local entities with a functional currency different to that of the parent), and of loans and other foreign currency instruments designated as hedges for such 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.

*Effects of Exchange Rate Fluctuations*

Our functional currency is the U.S. dollar in terms of the pricing of our products, composition of our balance sheet and effects on our results of operations. Most of our revenues (58% in 2017) are in U.S. dollars or in prices pegged to the U.S. dollar and a substantial portion of our expenses (58% in 2017) is denominated in dollars or pegged to the U.S. dollar, particularly fuel costs, landing and over-flight fees, aircraft rentals, insurance and aircraft components and supplies.

A substantial majority of our liabilities are denominated in U.S. dollars (71.1% as of December 31, 2017), including bank loans, certain air traffic liabilities, and certain amounts payable to our suppliers. As of December 31, 2017, 60.5% of our assets were denominated in U.S. dollars, principally aircraft, cash and cash equivalents, accounts receivable and other fixed assets. Substantially all of our commitments, including operating lease and purchase commitments for aircraft, are denominated in U.S. dollars.

Balance sheet imbalance denominated in currencies other than the functional currency of each specific entity creates a foreign exchange rate exposure that impacts our foreign exchange losses and gains due to exchange rate fluctuations. We recorded net foreign exchange losses of US\$121.7 million in 2016 and net foreign exchange gains US\$18.7 million gain in 2017, which are set forth in our consolidated statement of income under "Foreign Exchange gains/(losses)." For more information, see Notes 2.3 and 29 to our audited consolidated financial statements.

**Critical Accounting Policies**

The Company has used estimates to value and record certain assets, liabilities, revenue, expenditure, and commitments. These estimates principally relate to:

- (a) Evaluation of possible losses through impairment of goodwill and intangible assets with an indefinite useful life.
- (b) Useful life, residual value, and impairment of property, plant, and equipment
- (c) Recoverability of deferred tax assets
- (d) Air tickets sold that are not actually used.
- (e) Valuation of loyalty points and kilometers granted to loyalty program members, pending usage.
- (f) Required provisions and their valuation when required
- (g) Investment in subsidiary (TAM)

Please see Note 4 – Accounting estimates and judgments – to our audited consolidated financial statements for a full description of our critical accounting policies.

## Recently Issued Accounting Pronouncements

(a) Accounting pronouncements with implementation effective from January 1, 2016:		Date of issue	Mandatory Application: Annual periods beginning on or after
(i) Standards and amendments			
Amendment IAS 7: Statement of Cash Flows.	Disclosure Initiative	January 2016	January 1, 2017
Amendment to IFRS 12: Disclosure of interests in other entities.	Investment Entities: Applying the consolidation exception	January 2016	January 1, 2017
(ii) Improvements			
Improvements to International Financial Reporting Standards (2014-2016 cycle):		December 2016	January 1, 2017
IFRS 12 Disclosure of interests in other entities	Clarification of the scope of the Standard.		

The application of standards, amendments, interpretations and improvements had no material impact on the consolidated financial statements of the Company.

(b) Accounting pronouncements not yet in force for financial years beginning on January 1, 2016 and for which early adoption has not been effected :		Date of issue	Mandatory Application: Annual periods beginning on or after
(i) Standards and amendments			
Amendment to IAS 7: Statement of Cash Flows.	Disclosure initiative	January 2016	January 1, 2017
Amendment to IAS 12: Income Taxes.	Recognition of Deferred Tax Assets for Unrealized Losses	January 2016	January 1, 2017
IFRS 9: Financial instruments.	Disclosure initiative	December 2009	January 1, 2018
Amendment to IFRS 9: Financial instruments.	Novation of derivatives and continuation of hedge accounting	November 2013	January 1, 2018
IFRS 15: Revenue from contracts with customers <sup>(1)</sup> .	Implementation	May 2014	January 1, 2018
Amendment to IFRS 15: Revenue from contracts with customers.	Clarifications	April 2016	January 1, 2018
Amendment to IFRS 2: Share-based payments	Classification and measurement of share based payment transactions	June 2016	January 1, 2018
Amendment to IFRS 4: Insurance contracts.	Pendiente Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 2016	January 1, 2018
Amendment to IFRS 40: Investment property	Transfers of investment property	December 2016	January 1, 2018
IFRS 16: Leases <sup>(2)</sup> .	Disclosure initiative	January 2016	January 1, 2019
Amendment to IFRS 9: Financial Instruments	Prepayment Features with Negative Compensation	October 2017	January 1, 2019
Amendment to IAS 28: Investments in associates and joint ventures	Long-term interests in associates and joint ventures	October 2017	January 1, 2019
IFRS 17: Insurance contracts	Disclosure initiative	May 2017	January 1, 2021
Amendment to IFRS 10: Consolidated financial statements and IAS 28 Investments in associates and joint ventures.	Sale or contribution of assets between an Investor and its associate or joint venture	September 2014	To be determined

(b) Accounting pronouncements not yet in force for financial years beginning on January 1, 2016 and for which early adoption has not been effected :		Date of issue	Mandatory Application: Annual periods beginning on or after
(ii) Improvements			
Improvements to International Financial Reporting Standards (2012-2014 cycle):		December 2016	
IFRS 1: First-time adoption of international financial reporting standards.	Deletion of short-term exemptions for first-time adopters		January 1, 2018
IAS 28 investments in associates and joint ventures.	Measuring an associate or joint venture at fair value		January 1, 2018
Improvements to International Financial Reporting Standards (2015-2017 cycle):		December 2017	January 1, 2019
IFRS 3: Business combinations	Previously held interest in a joint operation.		
IAS 12: Income tax	Income tax consequences of payments on financial instruments classified as equity		
IFRS 11: Joint arrangements	Previously held interest in a joint operation.		
IAS 23: Borrowing costs	Borrowing costs eligible for capitalisation		
(iii) Interpretations			
IFRIC 22: Foreign currency transactions and advance consideration	Disclosure initiative	December 2016	January 1, 2018
IFRIC 23: Uncertain tax positions	Uncertainty over Income Tax Treatments	June 2017	January 1, 2019

The Company's management believes that the adoption of the standards, amendments and interpretations described above but not yet effective would not have had a significant impact on the Company's consolidated financial statements in the year of their first application, except for IFRS 15 and IFRS 16.

- (1) IFRS 15 – "Revenue from Contracts with Customers" supersedes the standard for revenue recognition currently used by the Company, i.e. IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 supersedes the following standards and interpretations: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers; and SIC-31 Revenue - Barter Transactions Involving Advertising Services.

The Company evaluated the possible adoption impacts that this new standard will have on our consolidated financial statements and has identified changes in: i) the recognition of the income associated with the fines for changes, which were previously recognized at the time of the sale and now will be considered as a modification of the initial transport contract and therefore the recognition must be deferred until the rendering of the service; ii) the moment of recognition of the income from the sale of some services or products, where the Company concluded that it acted as principal, and therefore the revenues must be deferred until the service is rendered; and iii) the presentation of the income associated with the sale of products, where the Company concluded that it acted as agent and therefore the income must be presented net of the associated costs.



- (2) IFRS 16 – “Leases” adds important changes in the accounting for lessees by introducing a similar treatment to financial leases for all operating leases with a term of more than 12 months. This means, in general terms, that an asset should be recognized for the right to use the underlying leased assets and a liability representing its present value of payments associated with the agreement. Monthly lease payments will be replaced by asset depreciation and a financial cost on the income statement.

We are currently evaluating the impact of the adoption of the leases recognition standard on our Consolidated Financial Statements. Currently, we believe that the adoption of this new standard will have a significant impact on the consolidated statement of financial position due to the recording of an asset for right of use and a liability, corresponding to the recording of the leases that are currently registered as operating leases.

LATAM Airlines Group S.A. and affiliates are still assessing these standards to determine the effect on their Financial Statements, covenants and other financial indicators.

#### IFRS/Non-IFRS Reconciliation

We use “Cost per ASK” and “Cost per ASK excluding fuel price variations” in analyzing operating expenses on a per unit basis. “ASKs” (available seat kilometers) measures the number of seats of capacity available for the transportation of passengers multiplied by the kilometers flown. To obtain our unit costs, which are used by our management in the analysis of our results, we divide our total Operating Expenses by our total ASKs. The cost component is further adjusted to obtain “costs per ASK excluding fuel price variations,” in order to remove the impact of changes in fuel prices for the year. “Cost per ASK” and “Cost per ASK excluding fuel price variations” do not have a standardized meaning, and as such may not be comparable to similarly titled measures provided by other companies. These metrics should not be considered in isolation or as a substitute for operating expenses or as indicators of performance or cash flows or as a measure of liquidity.

	2017	2016	2015
<b>Cost per ASK</b>			
Operating expenses (US\$ thousands)	9,449,262	8,959,185	9,611,907
Divided by ASK (million)	136,398.4	134,967.7	134,167.1
= Cost per ASK (US\$ cents)	6.93	6.64	7.16
<b>Cost per ASK excluding fuel price variations</b>			
Operating expenses (US\$ thousands)	9,449,262	8,959,185	9,611,907
– Aircraft fuel (US\$ thousands)	2,318,816	2,056,643	2,651,067
Divided by ASK (million)	136,398.4	134,967.7	134,301.8
= Cost per ASK excluding fuel price variations (US\$ cents)	5.23	5.11	5.19

#### Other Operating Measures

LATAM uses revenues per ASK or ATK, as applicable, in analyzing revenues on a per unit basis. To obtain unit revenues, we divide our passenger revenues by our total ASKs and our cargo revenues by our total ATKs. We use our revenues as defined under IFRS for purposes of the calculation of this metric. Revenues per ASK or ATK, as the case may be, do not have a standardized meaning, and as such may not be comparable to similarly titled measures provided by other companies. This metric is not an IFRS measure of performance or liquidity. It should not be considered in isolation or as a substitute for revenues or as indicators of performance or cash flows as a measure of liquidity.

The table below shows the calculation of our revenues per ASK or ATK, as applicable, in each of the periods indicated.

	2017	2016	2015
Passenger Revenues (US\$ thousands)	8,494,477	7,877,715	8,410,614
ASK (million)	136,398.4	134,967.7	134,167.1
<b>Passenger Revenues/ASK (US\$ cents)</b>	6.23	5.84	6.27
Cargo Revenues (US\$ thousands)	1,119,430	1,110,625	1,329,431
ATK (million)	6,230.3	6,704.1	7,082.8
<b>Cargo Revenues/ATK (US\$ cents)</b>	17.97	16.57	18.77

## Seasonality

Our operating revenues are substantially dependent on overall passenger and cargo traffic volume, which is subject to seasonal and other changes in traffic patterns. Our passenger revenues are generally higher in the first and fourth quarters of each year, during the southern hemisphere's spring and summer. In the Brazilian passenger air transportation market, there is generally higher demand for air transportation services in the second half of the year, making the second quarter the weakest for the Company. However, seasonality is partially mitigated by LATAM's higher-than-market average concentration of business travel (which is less sensitive to seasonality). Additionally, the expansion of the Company into other countries with different seasonal patterns has also moderated the overall seasonality of the passenger business.

## B. Liquidity and Capital Resources

LATAM's cash and cash equivalents totaled US\$1,142.0 million as of December 31, 2017, US\$949.3 million as of December 31, 2016 and US\$753.5 million as of December 31, 2015. Additionally, the Company had short term marketable securities totaling US\$472.2 million as of December 31, 2017, US\$537.0 million as of December 31, 2016 and US\$606.4 million as of December 31, 2015. LATAM's cash and cash equivalents and marketable securities totaled US\$1,614.2 million as of December 31, 2017, US\$1,486.3 million as of December 31, 2016 and US\$1,359.9 million as of December 31, 2015.

The US\$127.9 million increase in cash and cash equivalents and marketable securities from 2016 to 2017 is the result of an increase in the cash flow from operations, which reached US\$1,666.7 million, offset mainly by the repayment of the Company's financial obligations.

The US\$126.4 million increase in cash and cash equivalents and in marketable securities from 2015 to 2016 is the result of a reduction in the cash flow from operations that was compensated by a US\$556.9 million inflow from pre-delivery payments during 2016 and the subscription by Qatar Airways of a capital increase of US\$608.5 million in LATAM.

We believe that our working capital will be sufficient during the next 12 months to meet our liquidity requirements.

## Cash position and liquidity

The following table provides a summary of our cash flows from operating activities, investing activities and financing activities for the years ended December 31, 2017, 2016 and 2015 and our total cash position as of December 31, 2017, 2016 and 2015.

	2017	2016	2015
	(in US\$ million)		
Net cash flows from operating activities	1,666.7	980.9	1,672.1
Net cash flow from (used in) investing activities	(287.4)	(431.8)	(1,695.7)
Net cash flows from (used in) financing activities	(1,179.1)	(396.3)	(128.4)
Effects of variation in the exchange rate on cash and cash equivalents	(7.6)	43.0	(83.9)
Cash and cash equivalents at the beginning of the year	949.3	753.5	989.4
Cash and cash equivalents at the end of the year	1,142.0	949.3	753.5

In addition to cash and marketable securities, LATAM has access to short term credit lines. As of December 31, 2017, LATAM had working capital uncommitted credit facilities for a total amount of US\$1,230 million, of which US\$561 million was drawn as of December 31, 2017, and committed credit lines in the form of a fully undrawn revolving credit facility ("RCF") of US\$450 million<sup>2</sup>. The RCF is secured by spare parts, engines, and aircrafts.

## Net cash flows from operating activities

Cash from operations derives primarily from providing air passenger and cargo transportation to customers. Operating cash outflows are primarily related to expenses of airline operations, including fuel consumption. Net cash inflows from operating activities in 2017 increased by US\$685.9 million, or 69.9%, up from US\$980.9 million, mainly thanks to an increase in operating margin, which was driven by the economic recovery of the region, better operating performance in Brazil and LATAM's ongoing cost efficiency initiatives.

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<sup>2</sup> Subject to borrowing base availability

Net cash inflows from operating activities in 2016 decreased US\$691.2 million, or 41.3%, from US\$1,672.1 million, mainly due to changes in working capital. The main impacts on working capital were the reduction in prepayments of credit card receivables in Brazil in the amount of US\$255.4 and the US\$ 108.0 million related to the non-payment in 2015 of the performance bonuses of 2014.

#### **Net cash flow used in investing activities**

Net cash used in investing activities in 2017 decreased to US\$287.4 million from US\$431.8 million in 2016, due to a reduction in purchases of property, plant and equipment. This reduction resulted mainly from not having any capital expenditures in aircraft, in contrast with a US\$861.1 million outflow for year 2016; which was offset by net predelivery payments outflows of US\$126.5 million for year 2017, in contrast with the net predelivery payments inflow of US\$556.9 million for year 2016. For further details, please refer to Note 35 to our audited consolidated financial statements.

Net cash used in investing activities in 2016 decreased US\$1,263.9 million, from US\$1,695.7 million in 2015 to US\$431.8 million in 2016, due to a reduction in purchases of property, plant and equipment, primarily driven by a US\$556.9 million inflow from pre-delivery payments during 2016 in contrast with an outflow of US\$128.0 million during 2015. In addition, during 2016 there was a net inflow of US\$263.0 million from the sale and purchase of debt instruments of other entities in contrast with an outflow of US\$184.7 million during 2015.

#### **Net cash flows used in financing activities**

In 2017, net cash used in financing activities totaled US\$1,179.1 million, an increase of US\$782.8 million from the US\$396.3 million in cash generated by financing activities in 2016. In 2017, the company paid US\$1,829.2 million in loan repayments – including TAM notes due in 2017 and 2021 which amounted to US\$300.0 million and US\$500.0 million respectively – which were offset by US\$1,305.4 million in debt issuances. Total debt issuances in year 2017 amounted to US\$1,305.4 million, a decrease of US\$514.6 million compared to US\$1,820.0 million issued in 2016.

In 2016, net cash used in financing activities totaled US\$396.3 million, an increase of US\$267.9 million from the US\$128.4 million in cash generated by financing activities in 2015. The variation resulted primarily from a significant increase in loan repayments from US\$1,263.8 million in 2015 to US\$2,121.1 million in 2016, which was compensated by the capital increase of US\$608.5 million subscribed and paid during 2016.

#### **Sources of financing**

##### *Long term*

We typically finance our fleet with long-term loans covering between 80% and 100% of the net purchase price. We also finance our aircraft under sale and leaseback arrangements in order to add flexibility to our fleet. For more information regarding fleet financing, please refer to the information below and to “—F. Long Term Indebtedness—Tabular Disclosure of Contractual Obligations.”

From time to time in the past, we have considered, and may consider in the future, other forms of financing such as equity or debt, either secured or unsecured, securitization of ticket receivables or the securitization of fleet and engines.

##### *Short term*

We have generally been able to arrange for short-term loans with local and international banks when we have needed to finance working capital expenditures or increase our liquidity. As of December 31, 2017, we maintained US\$ 1,680 million in short-term credit lines with both local and international banks, including US\$450 million of committed credit lines<sup>3</sup> which was fully undrawn as of December 31, 2017.

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<sup>3</sup> Subject to borrowing base availability

We have diversified our sources of short term financing to include the following: PAE (“*Prestamos a Exportadores*”), which are foreign currency short term loans granted to exporting parties in Chile mainly to finance working capital; credit card discounting in Brazil, a financing alternative where a bank provides in advance to the Company a percentage of the cash inflows related to the credit card installment sales and margin loans.

## Capital expenditures

Our capital expenditures are related to the acquisition of aircraft, aircraft-related equipment, IT equipment, support infrastructure and the funding of pre-delivery deposits. LATAM’s capital expenditures totaled US\$403.7 million in 2017, US\$694.4 million in 2016 and US\$1,569.7 million in 2015, and purchases of intangible assets totaled US\$87.3 million in 2016, US\$88.6 million in 2016 and US\$52.5 million in 2015. See “—Sources of financing” above.

The following chart sets forth the Company’s estimated capital expenditures for 2018, 2019 and 2020 calendar years:

	Estimated capital expenditures by year, as of December 31, 2017		
	2018	2019	2020
	(in US\$ millions)		
Fleet Commitments <sup>(1)</sup>	714	1,213	1,344
PDPs <sup>(2)</sup>	219	123	0
Other expenditures <sup>(3)</sup>	650	794	661

(1) The amount of Fleet Commitments presented includes all the committed deliveries with estimates regarding (i) changes in scheduled delivery dates; (ii) conversion of certain aircraft types and (iii) aircraft of which we do not expect to take delivery, regardless of the financing of the aircraft will have upon arrival, thus representing the sum of aircraft capex and future sale and leasebacks.

(2) Represents pre-delivery payments made by LATAM, or inflows received by LATAM after the delivery of the aircraft is made.

(3) Other Expenditures include estimates of capital expenditures on spare engines and parts, maintenance of on balance fleet, projects and others, plus purchases of intangible assets.

## C. Research and Development, Patents and Licenses, etc.

LATAM has filed for trademark registration, registered or renewed trademarks “LAN” with the trademark office in Paraguay, México, Taiwan and South Korea, “LAN AIRLINES” and “LAN CARGO” with the trademark office in Taiwan and South Korea, “LATAM CORPORATE” with the trademark office in Chile, Colombia, Peru, México, Argentina, Bolivia, Ecuador, Paraguay, Uruguay and the European Union, and “LATAM TRAVEL” with the trademark office in Chile, Argentina, Bolivia, Colombia, Ecuador, Mexico, Paraguay, Peru and Uruguay. We license certain brands, logos and trade dress under the alliance agreement with oneworld® related to LATAM’s alliance. As long as LATAM is a member of oneworld®, it will have the right to continue to use current logos on its aircraft.

TAM has filed for trademark registration trademarks, “PONTOS MY LATAM”, “LATAM TRAVEL” and “LATAM CORPORATE” before the Instituto Nacional da Propriedade Industrial (“INPI”), the body with jurisdiction for registering trademarks and patents in Brazil and renewed 2 trademarks “TAM”, before the bodies with jurisdiction for registering trademarks in Macao where TAM operates.

## D. Trend Information

For 2018, LATAM expects total passenger ASK growth to be between 5% and 7%. International passenger ASK growth for full year 2018 is expected to be between 6% and 8%. LATAM Airlines Brazil’s domestic passenger ASKs in the Brazilian market are expected to increase between 2% and 4%. ASKs in SSC are expected to increase by approximately 6% to 8%.

Regarding cargo operations, LATAM expects cargo ATKs to increase between 1% and 3% for full year 2018, driven by the increases in the capacity of LATAM’s international passenger operations which result in additional capacity related to the space in the belly of those aircrafts. As a result, 2018 will be the first year that LATAM is increasing capacity across all its business units since the business combination between LAN and TAM.

During 2017, LATAM operated in a context of increasing competitive pressures from different players across the region, including low cost operators, and the Company expects this trend to continue during 2018. LATAM's goal is to continue to increase the efficiency of its operations, allowing the Company to provide the best and most convenient options for its customers with the distinctive customer experience LATAM passengers expect. In this context, the group has implemented significant changes with the objective of transforming LATAM into a simpler, leaner and more efficient organization. During 2017 LATAM introduced a new travel model for domestic operations in the five of its six domestic markets where it operates in South America (Brazil, Chile, Colombia, Ecuador and Peru), in order to address the changing dynamics of customers and the industry. During 2018, LATAM will continue with the transformation process in the different markets with the objective of increasing LATAM's competitiveness to ensure the sustainability of its domestic operations business model in the long term. For more information on this new travel model, see "Item 4. Information on the Company—B. Business Overview—Passenger Operations—Business Model for Domestic Operations".

Over the last year, the Company has continued to strengthen its network, taking advantage of specific opportunities for profitable growth in LATAM's South American Spanish-speaking markets (SSC, which include Chile, Peru, Argentina, Colombia and Ecuador). During 2017, LATAM inaugurated new routes connecting its Lima hub with Argentina, Brazil and Colombia, its Santiago hub with secondary cities in Argentina, and launched a new flight from Santiago to Melbourne, the longest non-stop flight operated by LATAM. For 2018, the Company announced the launch of new destinations departing from its Sao Paulo hub, including Boston, Las Vegas and Rome.

LATAM will continue to use fuel hedging programs and fuel surcharge mechanisms in both our passenger and cargo businesses to help minimize the impact of short-term movements in crude oil prices. As of April 3, 2018, LATAM has hedged approximately 20%, 40%, 44% and 23% of its estimated fuel consumption for the first, second, third and fourth quarters of 2018 respectively.

#### **E. Off-Balance Sheet Arrangements**

As of December 31, 2017, the Company had entered into operating leases for 84 aircraft (of which 6 are obligations of LATAM Airlines Brazil and 78 are obligations of LATAM) and 8 aircraft engines. These operating leases provide us with flexibility to adjust our fleet to any demand volatility and therefore we consider such arrangements to be of great value to our strategy and financial performance. The total future lease payments related to our operating leases as of December 31, 2017 was US\$ 3,580.5 million, for all remaining periods through maturity (the latest of which expires in 2029). See "—F. Long Term Indebtedness—Tabular Disclosure of Contractual Obligations."

Under the aforementioned operating leases, LATAM is responsible for all maintenance, insurance and other costs associated with operating these aircraft. The Company has not made any residual value or similar guarantees to our lessors. There are certain guarantees and indemnities to other unrelated parties that are not reflected on the Company's balance sheet, but we believe that these will not have a significant impact on our results of operations or financial condition.

LATAM operates 12 aircraft under tax leasing structures. These methods involve the creation of special purpose entities that acquire aircraft with bank and third-party financing. Under IFRS, these aircraft are shown in the consolidated statement of financial position as part of "Property, plant and equipment" and the corresponding debt is shown as a liability. Of LATAM's total tax leases, nine are classified as operating leases for accounting purposes as of December 31, 2017.

As of December 31, 2017, we are not aware of any event, lawsuit, commitment, trend or uncertainty that may result in, or is reasonably likely to result in, the termination of the operating leases. See Note 32 to our audited consolidated financial statements for a more detailed discussion of these commitments.

#### **F. Long Term Indebtedness**

##### Long Term Indebtedness

##### Secured Debt

###### *Aircraft Debt*

1. ECA/EX-IM: Bank bonds guaranteed by Export-Import Bank of the United States ("EX-IM Bank") and Export Credit Agency ("ECA") guaranteed loan debt. As of December 31, 2017, the total outstanding amount under these facilities was US\$2,739 million. In general, ECA and EX –IM financing have a 12-year repayment profiles.
2. Enhanced Equipment Trust Certificates ("EETC"): In June 2015, LATAM issued the first EETC in Latin America for an aggregate face amount of approximately US\$1,021 million to finance 17 new aircraft deliveries comprising 11 Airbus A321-200, 2 Airbus A350-900 and 4 Boeing 787-9, with delivery dates from July 2015 through March 2016. The offering is comprised of Class A Certificates maturing in November 2027 and Class B Certificates maturing in November 2023. The annual interest rate for Class A and B Certificates are 4.20% and 4.50%, respectively. In April 2017, LATAM issued and privately placed Class C Certificates for an amount of US\$140 million under the current EETC structure. The Class C Certificates have a six year term, maturing in May 2023. As of December 31, 2017, the EETC debt was US\$1,029 million.

3. Bank Commercial Loans: As of December 31, 2017, bank commercial loans debt was US\$1,520 million.
4. Tax Leases: LATAM has secured debt through Japanese Leases with a call option ("JOLCO"). As of December 31, 2017, the outstanding obligations under these tax leases were US\$100 million.

#### *Non Aircraft Debt*

1. 2013-1 Series Note: LATAM issued a securitized bond in the amount of US\$450 million in November 2013 with a seven year term and a two year interest-only period (the "2013-1 Series Note"). This bond is secured by future flows of credit card sales of LATAM Airlines in the United States and Canada. The coupon is 6.0% fixed with quarterly payments. As of December 31, 2017, the principal outstanding amount of the 2013-1 Series Note was US\$285 million.
2. Bank Commercial Loans: As of December 31, 2017, bank commercial loans debt was US\$56 million.

#### *Others*

1. Pre-Delivery Payments ("PDP") financing: As of December 31, 2017, outstanding amount under PDP financings was US\$203 million.

#### Unsecured Debt

1. LATAM 2020 Notes: On June 9, 2015, LATAM Airlines Group S.A. issued long-term bonds in the international markets in the amount of US\$500 million, maturing in 2020 with an interest rate of 7.25% per year. As of December 31, 2017, outstanding amounts under the LATAM 2020 Notes was US\$495 million.
2. LATAM 2024 Notes: On April 11, 2017, LATAM Finance Limited, an affiliate of LATAM Airlines Group S.A., issued long-term bonds in the international markets in the amount of US\$700 million, maturing in 2024 with an annual interest rate of 6.875%. As of December 31, 2017, outstanding amount under the LATAM 2024 Notes was US\$708 million.
3. Local Bonds: On August 17, 2017, LATAM Airlines Group S.A. issued local bonds on the Santiago Stock Exchange in the aggregate amount of UF 9,000,000 comprised of the Series A Bonds (BLATM-A), Series B Bonds (BLATM-B), Series C Bonds (BLATM-C) and Series D Bonds (BLATM-D), which correspond to the first issue of bonds charged to the line inscribed in the Securities Registry of the CMF under number 862. The total amount of Series A Bonds issued was UF 2,500,000 with a maturity date of June 1, 2022 bearing interest at 5.25% annually. The total amount of Series B Bonds issued was UF 2,500,000 with a maturity date of January 1, 2028 bearing interest at 5.75% annually. The total amount of Series C Bonds issued was UF 1,850,000 with a maturity date of June 1, 2022 bearing interest at 5.25% annually. The total amount of Series D Bonds issued was UF 1,850,000, with a maturity date of January 1, 2028 bearing interest at 5.75% annually. As of December 31, 2017, the outstanding amount of Local Bonds was US\$381 million.
4. Commercial Bank Loans: As of December 31, 2017, unsecured Bank Commercial loans debt was US\$376 million.

As of December 31, 2017, the average interest rate of our debt was 4.13%. Out of the total debt, 63.3% accrues interest at a fixed rate (either through a stated fixed interest rate or through the use of interest rate swap agreements) or is subject to interest rate caps.

As of December 31, 2017, LATAM had US\$1,289 million in current debt liabilities. Of this amount, US\$259 million consisted of short-term debt, which represents 20% of our total current debt liabilities.

LATAM entered into various EX-IM Bank loans for the financing of Boeing 767, 767 freighter, 777 freighter and 787 aircraft that contain financial covenants and other restrictions, including restrictions in shareholder composition and disposal of assets. As of December 31, 2017, we also had purchase obligations totaling US\$ 7.3 billion, with deliveries between 2017 and 2022, as set forth below:

- Airbus A320-Family, passenger aircraft deliveries: 52
- Wide-body passenger aircraft deliveries (which include the Airbus A350 900XWB, the Airbus A350 1000XWB, the Boeing 777, and the Boeing 787-9): 30

*Tabular Disclosure of Contractual Obligations*

The following table sets forth our material expected obligations and commitments as of December 31, 2017:

(US\$ in millions)	Payments due by period, as of December 31, 2017				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Financial debt obligations <sup>(1)</sup>	US\$ 7,892	US\$ 1,289	US\$ 2,720	US\$ 1,393	US\$ 2,491
Operating lease obligations	US\$ 3,580	US\$ 462	US\$ 866	US\$ 754	US\$ 1,498
Fleet Commitments	US\$ 7,259	US\$ 948	US\$ 3,112	US\$ 3,199	US\$ 0
<b>TOTAL</b>	<b>US\$ 18,731</b>	<b>US\$ 2,699</b>	<b>US\$ 6,698</b>	<b>US\$ 5,346</b>	<b>US\$ 3,989</b>

(1) Financial debt obligations reflect principal payments on outstanding debt obligations, including aircraft debt, senior notes, long-term and short-term bank loans and PDP financing.

**2017 Fleet Acquisitions**

During 2017, LATAM completed the acquisition of the following wide body aircraft:

- One Boeing 787-9 passenger aircraft, financed through an operating lease with a 12 year term.
- One Boeing 787-9 passenger aircraft, financed through a sale and leaseback transaction with a 12 year term.

During 2017, LATAM completed the acquisition of the following narrow body aircraft:

- Two Airbus 320neo passenger aircraft, financed through sale and leaseback transactions with 12 year terms.

**2016 Fleet Acquisitions**

During 2016, LATAM completed the acquisition of the following wide body aircraft:

- One Boeing 787-9 passenger aircraft, financed through an operating lease.
- Three Boeing 787-9 and two Airbus 350-900 passenger aircraft, financed through sale and leaseback transactions.
- One Boeing 787-9 and one Airbus 350-900 passenger aircraft, financed through the EETC issuance.
- Three Airbus A350-900 passenger aircraft, financed through commercial loans.

The Boeing 787-9 aircraft financed through an operating lease has a 12 year term and monthly payments. The four Boeing 787-9 and two Airbus 350-900 aircraft financed through sale and leaseback transactions have lease terms of 12 years. These leases are denominated in U.S. dollars and have monthly payments. Aircraft financed through EETC are under the terms described above. The three Airbus 350-900 financed through commercial loans have a Senior and Junior tranche, which have terms of 12 and 7 years, respectively.

During 2016, LATAM completed the acquisition of the following narrow body aircraft:

- Seven Airbus 321-211 and one A320neo passenger aircraft, financed through sale and leaseback transactions.
- Four Airbus 321-211 passenger aircraft, financed through the EETC facility.
- One Airbus A320neo passenger aircraft, financed through commercial loans.

Narrow body aircraft financed through sale and leaseback transactions have lease terms of 12 years. These leases are denominated in U.S. dollars and have monthly payments. Aircraft financed through EETC are under the terms described under “Item 5. Operating and Financial Review and Prospects — F. Long Term Indebtedness — Secured Debt. The A320neo passenger aircraft financed through commercial loans has a Senior and Junior tranche, which have terms of 12 and 7 years, respectively.

The ECA-guaranteed loans have an advance rate equal to 80% of the net purchase price of the aircraft for a 12-year period, with the remaining 20% of the aircraft being financed by the Company’s available cash flows.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

The LATAM Airlines Group board of directors consists of nine directors who are elected every two years for two-year terms at annual regular shareholders' meetings or, if necessary, at an extraordinary shareholders' meeting, and may be re-elected. The board of directors may appoint replacements to fill any vacancies that occur during periods between elections. Scheduled meetings of the board of directors are held once a month and extraordinary board of directors' meetings are called by the chairman of the board of directors. Extraordinary meetings can be called by the chairman, or when requested by one or more directors if the need for such a meeting is previously approved by the chairman, unless the meeting is requested by a majority of the directors, in which case the meeting must be held without the previous approval of the chairman.

The current board of directors was elected at the ordinary shareholders' meeting held on April 27, 2017 and will hold office for two years.

The following are LATAM Airlines Group's directors:

Directors	Position
Ignacio Cueto <sup>(1)</sup>	Director / Chairman
Carlos Heller <sup>(2)</sup>	Director
Juan José Cueto <sup>(1)</sup>	Director
Nicolás Eblen <sup>(3)</sup>	Director
Henri Philippe Reichstul	Director
Georges de Bourguignon	Director
Giles Agutter	Director
Eduardo Novoa	Director
Antonio Luiz Pizarro	Director
Senior Management	Position
Enrique Cueto <sup>(1)</sup>	CEO LATAM
Ramiro Alfonsín	CFO LATAM
Roberto Alvo	Senior VP Commercial LATAM
Claudia Sender	Senior VP Customers LATAM
Hernán Pasman	Senior VP Operations, Maintenance and Fleet LATAM
Emilio del Real	Senior VP Human Resources
Juan Carlos Menció	Senior VP Legal

(1) Messrs. Ignacio, Enrique and Juan José Cueto are brothers. All three are members of the Cueto Group, which is defined in "Item 7" as a "Major Shareholder," and are the LATAM Controlling Shareholders.

(2) Mr. Carlos Heller is a member of the Bethia Group, which is defined in "Item 7" as a "Major Shareholder."

(3) Mr. Nicolás Eblen is a member of the Eblen Group, which is defined in "Item 7" as a "Major Shareholder."

### Biographical Information

Set forth below are brief biographical descriptions of LATAM Airlines Group's directors and senior management. All of LATAM's directors were elected or reelected, as the case may be, on April 27, 2017 for a two-year term, which expires in April 2019.

#### Directors

*Mr. Ignacio Cueto*, has served as a member of LATAM Airlines Group's board of directors and as Chairman since April 2017. Mr. Cueto's career in the airline industry extends over 30 years. In 1985, Mr. Cueto assumed the position of Vice President of Sales at Fast Air Carrier, a national cargo company of that time. In 1985, Mr. Cueto became Service Manager and Commercial Manager for the Miami sales office. Mr. Cueto later served on the board of directors of Ladeco (from 1994 to 1997) and LAN (from 1995 to 1997). Mr. Cueto served as President of LAN Cargo from 1995 to 1998, as Chief Executive Officer-Passenger Business from 1999 to 2005, and as President and Chief Operating Officer of LAN since 2005 until the combination with TAM in 2012. Mr. Cueto later served as LAN's CEO until April 2017. Mr. Cueto also led the establishment of the different affiliates that the Company has in South America, as well as the implementation of key alliances with other airlines. Mr. Cueto is a member of the Cueto Group (LATAM Airlines Group's Controlling Shareholder). As of February 28, 2018, Mr. Cueto shared in the beneficial ownership of 169,248,377 common shares of LATAM Airlines Group (27.91% of LATAM Airlines Group's outstanding shares) held by the Cueto Group. For more information see "Item 7. Controlling Shareholders and Related Party Transactions."



*Mr. Carlos Heller*, joined the board of LAN in May 2010 and was re-elected to the Board of Directors of LATAM in April 2017. Mr. Heller has vast experience in retail, communications, transport and agriculture industries. Mr. Heller is president of Bethia S.A. (“Bethia”) (parent company of Axxion S.A. and Inversiones HS SpA). He is also President of the Boards of Falabella Retail S.A., Red Televisiva Megavisión S.A., Club Hípico de Santiago S.A., Sotraser S.A., Blue Express S.A. and “Azul S.A.” concessionaire of the Corporación de Fútbol Profesional de la Universidad de Chile. On February 28, 2018, Mr. Heller indirectly held 33,367,357 ordinary shares of LATAM Airlines Group through Axxion S.A. and Inversiones HS Spa (5.50% of the shares of LATAM Airlines Group).

*Mr. Juan José Cueto*, has served on LAN’s board of directors since 1994 and was reelected to the board of directors of LATAM in April 2017. Mr. Cueto currently serves as Executive Vice President of Inversiones Costa Verde S.A., a position he has held since 1990, and serves on the boards of directors of Consorcio Maderero S.A., Inversiones del Buen Retiro S.A., Costa Verde Aeronáutica S.A., Sinergia Inmobiliaria S.A., Valle Escondido S.A. and Fundación Colunga. Mr. Cueto is the brother of Messrs. Enrique and Ignacio Cueto Plaza, LATAM Airlines Group Executive Vice-President and LAN CEO, respectively. Mr. Cueto is a member of the Cueto Group (LATAM Airlines Group’s Controlling Shareholder). As of February 28, 2018, Mr. Cueto shared in the beneficial ownership of 169,248,377 common shares of LATAM Airlines Group (27.91% of LATAM Airlines Group’s outstanding shares) held by the Cueto Group. For more information see “Item 7. Controlling Shareholders and Related Party Transactions.”

*Mr. Nicolás Eblen*, has served on LATAM’s board of directors since April 2017. Mr. Eblen currently serves as CEO of Inversiones Andes SpA, a position he has held since 2010. In addition, he serves on the board of directors of Granja Marina Tornagaleones S.A., Río Dulce S.A., Patagonia SeaFarms Inc., SalmonChile A.G., and Sociedad Agrícola La Cascada Ltda. Mr. Eblen holds a Bachelor’s degree in Industrial Engineering, major in Computer Science from Pontificia Universidad Católica de Chile and a Master in Business Administration from Harvard Business School. As of February 28, 2018, the Eblen Group had the beneficial ownership of 35,945,199 common shares of LATAM Airlines Group (5.93% of LATAM Airlines Group’s outstanding shares). For more information see “Item 7. Controlling Shareholders and Related Party Transactions.”

*Mr. Henri Philippe Reichstul*, joined LATAM’s board of directors in April 2014 and was reelected to the board of directors of LATAM in April 2017. Mr. Reichstul has served as President of Petrobras and the IPEA-Institute for Economic and Social Planning and Executive Vice President of Banco Inter American Express S.A. Currently, in addition to his roles as Administrative Board member of TAM and LATAM Group, he is also a member of the Board of Directors of Peugeot Citroen and chairman of the board of Fives, among others. Mr. Reichstul is an economist with an undergraduate degree from the Faculty of Economics and Administration, University of São Paulo, and postgraduate work degrees in the same discipline—Hertford College—Oxford University.

*Mr. Georges de Bourguignon*, has served on LATAM Airlines Group’s board of directors since September 2012 and was reelected to the board of directors of LATAM in April 2017. He is co-founder of Asset Chile S.A., a Chilean investment bank, where he was appointed chairman in January 2018. Currently, he also has a board seat in K+S Chile S.A.; Embotelladora Andina S.A.; and Asset AGF, as chairman. In the past, he has participated in various directories at public and private companies, and non-profit organizations as well. Between 1990 and 1993 he worked as Manager of Financial Institutions at Citibank N.A. in Chile and as a Professor of Economics at the Pontificia Universidad Católica de Chile where he earned a degree in Economics. Mr. de Bourguignon also has an MBA from the Harvard Business School.

*Mr. Giles Agutter* has served on LATAM Airlines Group’s board of directors since January 2017 and was reelected to the board of directors of LATAM in April 2017. Mr. Agutter is the owner and Chief Executive Officer of Southern Sky Ltd, an airline consultant company specializing in airline strategy, fleet planning, aircraft acquisition and aircraft financing. He is also currently a member of the Board of Directors of Air Italy. Mr. Agutter has had vast experience in advising airlines, including Qatar Airways, on significant Merger and Acquisition projects within the airline industry. Mr Agutter has a degree in Aerospace Engineering from Manchester University and he currently resides in England.

*Mr. Eduardo Novoa* has served on LATAM’s board of directors since April 2017. In addition, Mr. Novoa serves on the board of directors of Cementos Bio-Bío, Grupo Ecomac, ESSAL and is a member of the advisory board of STARS and Endeavor. He was also a member of the board of directors of Esval, Soquimich, Grupo Drillco, Techpack, Endesa-Américas, Grupo Saesa, Grupo Chilquinta, and several companies in the region that were subsidiaries of Enersis and AFP Provida. He has also been a member of the board of Amcham-Chile, the Association of Electric Companies, YPO-Chile, Chile Global Angels and several Start-Ups. Between 1990 and 2007 he was an executive of several companies such as CorpGroup, Enersis, Endesa, Blue Circle, PSEG and Grupo Saesa. Mr. Novoa has a Bachelor of Business and Administration from the Universidad de Chile and a Master in Business Administration from the University of Chicago. He has participated in executive programs at Harvard, Stanford and Kellogg and was professor of finance and economics at several universities in Chile.

*Mr. Antonio Luiz Pizarro*, has served on LATAM’s board of directors since April 2017. In addition, Mr. Pizarro serves on the board of directors of Banco Caixa Geral Brasil SA since 2009, TAM Aviação Executiva S.A. since 2012 and TAM S.A. since 2017. In 1995, Mr. Pizarro became CFO of Embraer, a position he held until 2008. He was also a member of the boards of directors of Solvi Participações S.A., Itapoá Terminais Portuários S.A, TAM S.A. and LM Wind Power do Brasil. Mr. Pizarro earned his mechanical engineering degree from Escuela Politécnica of Pontificia Universidad Católica de Rio de Janeiro and has a graduate degree in Finance from the Instituto Brasileiro de Mercado de Capitales.

#### *Senior Management*

*Mr. Enrique Cueto Plaza*, is LATAM Airlines Group’s Chief Executive Officer (“CEO”) and has been in this position since the combination between LAN and TAM in June 2012. From 1983 to 1993, Mr. Cueto was Chief Executive Officer of Fast Air, a Chilean Cargo airline. From 1993 to 1994, Mr Cueto was a member of the board of LAN Airlines. Thereafter, Mr. Cueto held the position of CEO of LAN until June 2012. Mr. Cueto is member of the oneworld® Alliance Governing Board, the IATA (International Air Transport Association) Board of Governors. He is also member of the Board of the Endeavor foundation, an organization dedicated to the promotion of entrepreneurship in Chile, and Executive Member of the Latin American and Caribbean Air Transport Association (ALTA). Mr. Cueto is the brother of Messrs. Juan José and Ignacio Cueto, members of the board. Mr. Cueto is also a member of the Cueto Group (LATAM Airlines Group’s Controlling Shareholder). As of February 28, 2018, Mr. Cueto jointly shared in the beneficial ownership of 169,248,377 common shares of LATAM Airlines Group (27.91% of LATAM Airlines Group’s outstanding shares) held by the Cueto Group. For more information see “Item 7. Controlling Shareholders and Related Party Transactions.”

*Mr. Ramiro Alfonsín*, is LATAM’s Chief Financial Officer (“CFO”), a position he holds since July 2016. Over the past 16 years, before joining LATAM, he worked for Endesa, a leading utility company, in Spain, Italy and Chile, having served as Deputy Chief Executive Officer and Chief Financial Officer for their Latin American operations. Before joining the utility sector, he worked for five years in Corporate and Investment Banking for several European banks. Mr. Alfonsín holds a degree in business administration from Pontificia Universidad Católica de Argentina.

*Mr. Roberto Alvo* is Senior Commercial Vice President of LATAM since May 2017 being responsible of the Group’s passenger and cargo revenue management, with all the commercial units reporting to him. Previously, he was Senior Vice-President of International and Alliances at LATAM Airlines since 2015, and Vice-President of Strategic Planning and Development since 2008. Mr Alvo joined LAN Airlines in November 2001, where he served as Chief Financial Officer of LAN Argentina, as Manager of Development and Financial Planning at LAN Airlines, and as Deputy Chief Financial Officer of LAN Airlines. Before 2001, Mr. Alvo held various positions at Sociedad Química y Minera de Chile S.A., a leading Chilean non-metallic mining company. He is a civil engineer, and holds an MBA from IMD in Lausanne, Switzerland.

*Mrs. Claudia Sender*, is the Senior Customers Vice-President of LATAM since May 2017. Previously, she served as TAM Airlines’ President since May 2013. Mrs. Sender joined the Company in December 2011, as Commercial and Marketing Vice-President. After June 2012, with the conclusion of TAM-LAN combination and the creation of LATAM Airlines Group, she became the head of Brazil’s Domestic Business Unit, and her functions were expanded to include TAM’s entire Customer Service structure. Prior to joining LATAM Airlines, she was Marketing Vice-President at Whirlpool Latin America for seven years. She also worked as a consultant at Bain & Company, developing projects for large companies in various industries, including TAM Airlines and other companies in the global aviation sector. She has a bachelor’s degree in Chemical Engineering from the Polytechnic School at the University of São Paulo (“USP”) and an MBA from Harvard Business School.

*Mr. Hernán Pasman*, has been the Senior Vice-President of Operations, Maintenance and Fleet of LATAM airlines group since October, 2015. He joined LAN Airlines in 2005 as a head of strategic planning and financial analysis of the technical areas. Between 2007 and 2010, Mr. Pasman was the Chief operating officer of LAN Argentina, then, in 2011 he served as Chief Executive Officer for LAN Colombia. Prior to joining the company, between 2001 and 2005, Mr. Pasman was a consultant at McKinsey & Company in Chicago. Between 1995 and 2001, Hernan held positions at Citicorp Equity Investments, Telefonica de Argentina and Argentina Motorola. Mr. Pasman holds a Civil Engineering degree from ITBA (1995) and an MBA from Kellogg Graduate School of Management (2001).

*Mr. Juan Carlos Menció*, is Senior Vice President of Legal Affairs and Compliance for LATAM Airlines Group since September 1, 2014. Mr. Mencion previously held the position of General Counsel for North America for LATAM Airlines Group and its related companies, as well as General Counsel for its worldwide Cargo Operations, both since 1998. Prior to joining LAN, he was in private practice in New York and Florida representing various international airlines. Mr. Mencion obtained his Bachelor’s Degree in International Finance and Marketing from the School of Business at the University of Miami and his Juris Doctor Degree from Loyola University.

Mr. Emilio del Real, is LATAM's Senior Vice-President of Human Resources, a position he assumed in August 2005. Between 2003 and 2005, Mr. del Real was the Human Resources Manager of D&S, a Chilean retail company. Between 1997 and 2003 Mr. del Real served in various positions at Unilever, including Human Resources Manager of Unilever Chile, and Manager of Training and Recruitment and Management Development for Latin America. Mr. del Real has a degree in Psychology from the Universidad Gabriela Mistral.

## B. Compensation

In 2017, the Company paid its principal executives (executives who define the Company's policies and major guidelines and who directly affect the results of the business, including Vice-Presidents, Chief Executives and Senior Directors) the total gross remuneration of US\$69.2 million.

Under Chilean law, LATAM Airlines Group must disclose in its annual report details of all compensation paid to its directors during the relevant fiscal year, including any amounts that they received from LATAM Airlines Group for functions or employment other than serving as a member of the board of directors, including amounts received as per diem stipends, bonuses and, generally, all other payments. Additionally, pursuant to regulations of the CMF, the Chilean securities regulator, the annual report must also include the total compensation and severance payments received by managers and principal executives, and the terms of and the manner in which board members and executive officers participated in any stock option plans.

LATAM Airlines Group's directors are paid 60 UF per meeting (120 UF for the chairman of the board) and 48 UF for attendance to the subcommittee of Directors meetings. LATAM Airlines Group also provides certain benefits to its directors and executive officers, such as free and discounted airline tickets and health insurance. We do not have contracts with any of our directors to provide benefits upon termination of employment.

As set forth in further detail in the following table, in 2017 the members of our board of directors, including directors who were members of the Board until April 27, 2017, received fees and salaries in the aggregate amount of US\$385,147.

Board Members	Fees (US\$) <sup>(1)</sup>
Ignacio Cueto Plaza	48,650
Mauricio Rolim Amaro	6,290
Ramon Eblén Kadis	17,017
Juan Gerardo Jofré Miranda	17,017
Henri Philippe Reichstul	26,095
Juan José Cueto Plaza	36,236
Carlos Heller Solari	14,842
Georges de Bourguignon Arndt	71,662
Antonio Luiz Pizarro	22,146
Eduardo Novoa Castellón	56,645
Nicolás Eblén Hirmas	54,645
Giles Agutter	15,902
Total	385,147

<sup>(1)</sup> Includes fees paid to members of the board of directors' committee, as described below.

The above-mentioned directors were elected to the LATAM board of directors in April 27, 2017, with the exception of Mauricio Rolim Amaro, Ramón Eblén Kadis and Juan Gerardo Jofré Miranda, who were members of the board of directors until April 27, 2017.

As required by Chilean law, LATAM Airlines Group makes obligatory contributions to the privatized pension fund system on behalf of its senior managers and executives, but it does not maintain any separate program to provide pension, retirement or similar benefits to these or any other employees.

## C. Board Practices

Our board of directors is currently comprised of nine members. The terms of each of our current directors will expire in April 2019. See "—Directors and Senior Management" above.

## Committees

### *Board of Directors' Committee and Audit Committee*

Pursuant to Chilean Corporation Law, LATAM Airlines Group must have a board of directors' committee composed of no less than three board members. LATAM Airlines Group has established a three-person Board of Directors' Committee, which, among other duties, is responsible for:

- examining the reports of LATAM Airlines Group's external auditors, the balance sheets and other financial statements submitted by LATAM Airlines Group's administrators to the shareholders, and issuing an opinion with respect thereto prior to their presentation to the shareholders for their approval;
- evaluating and proposing external auditors and rating agencies;
- reviewing internal control reports pertaining to related-party transactions;
- examining and reporting on all related-party transactions; and
- reviewing the pay scale of LATAM Airlines Group's senior management.

Under Chilean Corporation Law we are required, to the extent possible, to appoint a majority of independent directors to the Board of Directors Committee. A director is considered independent when he or she can be elected regardless of the voting of the controlling shareholders. See "Item 16. Reserved—G. Corporate Governance."

Pursuant to U.S. regulations, we are required to have an audit committee of at least three board members, which complies with the independence requirements set forth in Rule 10A-3 under the Exchange Act. Given the similarity in the functions that must be performed by our Board of Directors' Committee and the audit committee, our Board of Directors' Committee serves as our Audit Committee for purposes of Rule 10A-3 under the Exchange Act.

As of December 31, 2017, all of the members of our Board of Directors' Committee, which also serves as our Audit Committee, were independent under Rule 10A-3 of the Exchange Act. As of December 31, 2017, the committee members were Mr. Eduardo Novoa Castellón, Mr. Nicolás Eblen Hirmas and Mr. Georges de Bourguignon. We pay each member of the committee 80 UFs per monthly assistance to meetings.

### *Other LATAM Board Committees*

LATAM's board of directors also has established four other 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 Customers and Businesses Committee. The Strategy Committee focuses 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 focuses on, among other things, group culture, high-level organizational structure, appointment of 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 is responsible for financial policies and strategy, capital structure, monitoring policy compliance, taxation strategy and the quality and reliability of financial information. Finally, the Customers and Businesses Committee is responsible for setting the competitive strategies of the Customers and Commercial Vice Presidencies with a focus on sales, marketing, network and fleet initiatives, customer experience and revenue management.

On June, 2014 LATAM's board of directors established a Risk Committee to oversee the creation, implementation and management of a risk matrix for the Company.

### *Corporate Governance Practices*

On March 30, 2018, LATAM Airlines Group filed the Company's Corporate Practices Report prepared according to General Rule N° 385, previously N°341, of the Securities and Insurance Commission issued June 8, 2015. The reporting obligation stipulated in this rule is for practices in place as of December 31st of each year and the report must be presented no later than March 31st of the following year.

The report provided each year to the Commission must cover the following subjects:

- how the Board works;
- the relationship between the company, shareholders and the public in general;
- how senior officers are replaced and compensated; and
- the definition, implementation and supervision of internal control and risk management policies and procedures inside the company.

## D. Employees

The following table sets forth the number of employees in various positions at the Company.

Employees ending the period	As of December 31,		
	2017 <sup>(1)</sup>	2016	2015
Administrative	6,922	8,010	9,118
Sales	3,332	4,235	5,022
Maintenance	4,742	4,895	5,990
Operations	15,126	15,924	16,878
Cabin crew	9,016	8,970	9,383
Cockpit crew	3,957	3,882	4,022
Total	43,095	45,916	50,413

(1) At December 31, 2017, approximately 52% of our employees worked in Brazil, 27% in Chile, 19% in other Latin American countries and 3% in the rest of the world.

Our salary structure is comprised of: (a) fixed payments (base salary and other fixed payments such as legal gratifications, local bonus, company seniority and others, depending on each country's law and market practice); (b) short term incentives (associated with corporate, area and individual performance), applicable to our ground staff; (c) long term incentives (applicable to our senior executives (Senior Directors and above)).

According to the local law requirements, we make pension and social security contributions on behalf of our employees. Additionally, for our air staff and specialized professionals such as mechanics, we have fixed and variable payments, subject to the local collective agreements.

Regarding benefits, we usually provide life insurance and medical insurance, complementary of the coverage provided by the legal system. We also grant other benefits, according to local market practice (meal, transportation, maternal and paternal leave, etc.). Additionally, we have a global staff travel program, which grants free and discounted tickets to our permanent employees.

### Long Term Incentive Compensation Program

#### 1. Compensation plan 2013

At the Extraordinary Shareholders Meeting held on June 11, 2013, the Company's shareholders approved a capital increase and the allocation of 1,500,000 shares to compensation plans for employees of the Company pursuant to Article 24 of the Chilean Corporations Law. The Company has not defined a date for implementation of this compensation plan yet.

#### 2. Compensation plan 2016-2018

The Company implemented a long-term retention plan for executives, with an end date of December 2018 and a vesting period between October 2018 and March 2019. The plan contemplates an extraordinary bonus to be paid in cash, whose calculation formula based on the variation of the value of the Company's shares over time.

#### 3. Subsidiaries compensation plans

- a. Multiplus S.A., a subsidiary of TAM S.A., has outstanding stock options at December 31, 2017, which amounted to 316,025 shares of Multiplus S.A. (at December 31, 2016, the distribution of outstanding stock options amounted to 394,698 shares of Multiplus S.A.).
- b. In May of 2014 the Management Council of Multiplus S.A. approved a plan to grant restricted stock, a total of 91,103 shares of Multiplus S.A.

For more information, please see note 34 Note to our consolidated financial statements.

### Labor Relations

We believe we generally maintain good relations with our employees and the unions, and expect to continue to enjoy good relations with our employees and the unions in the future. We also believe that we have built a solid base among our employees that will support and facilitate our growth plans. We can provide no assurance, however, that our employee compensation arrangements may not be subject to change or modification after the expiration of the contracts currently in effect, or that we will not be subject to labor-related disruptions due to strikes, stoppages or walk-outs.

### *Chile*

As a general labor relations policy in Chile, we negotiate labor contracts with unions in anticipation of their scheduled expirations. As a non-negotiable clause, all collective bargaining agreements are signed for the maximum legal term, namely, four years. During 2017, LATAM did not have scheduled negotiations with its unions, but participated in anticipated collective bargaining negotiations with the following unions: LAN Express Cabin Crew Union and LAN Cabin Crew Union, with whom the Company has not yet reached an agreement but is expected to be concluded in 2018. In addition, during 2018 LATAM has a scheduled negotiations with LATAM Cargo pilots.

### *Ecuador*

Three employee associations were formed in 2012, including pilots, other general employees but composed mostly of maintenance employees and other composed mostly by employees of airport administration. In November 2015, the Company signed a voluntary agreement with the association of pilots, in force until July 2019. The Company expects to participate in an anticipated negotiation with its pilots during 2018.

Additionally, in 2011 a union previously exclusive to cabin crew employees was integrated into the general employees union. This group maintains relations with the Company, but does not have the right to enter into or negotiate collective bargaining agreements under Ecuadorian law because less than 50% of our employees eligible for membership are members of this union.

### *Argentina*

In Argentina, 83% percent of LATAM employees are affiliated with at least one of eight unions.

In November 2017 we started to negotiate the annual adjustment for inflation with the eight unions, which we concluded in January 2018.

In 2017 we succeeded in implementing the Company's planned changes to reduce operational labor and overhead costs, without significant protests or union intervention. During 2018 Argentina will continue working on different initiatives based on productivity and efficiency avoiding conflicts or strikes

### *Colombia*

In Colombia we have five different unions. The company held negotiations with: (i) the Technicians Union (ACMA), in 2014, and reached an agreement that will be in force until June of 2018, (ii) the Cabin Crew Union (ACAV), in 2014, and reached an agreement that will be in force until December of 2018, (iii) the Industrial Union of Aviation Workers (SINTRATAC), in June 2016, and reached an agreement that will be in force until May of 2018, and (iv) the pilots' union, ACDAC, in an arbitral hearing during the last quarter of 2017.

### *Peru*

In Peru, there are six unions representing workers from different functional areas: pilots, cabin crew, aircraft technicians, flight dispatchers and airport workers. Our current collective agreements have a term of four years.

In 2017, LATAM Airlines Peru continued negotiations with the pilots union, and during 2017 negotiations began with the aeronautical technicians union (March) and the cabin crew union (August). These three negotiations are expected to conclude with a collective agreement in the first half of 2018.

During 2018, LATAM Airlines Peru will begin negotiations with the union of aircraft technicians and coordinators of ground operations (January), the airport workers union (March) and the flight dispatchers union (August). The negotiations are expected to conclude with a collective agreement in December 2018.

### *Brazil*

Under Brazilian law, the term of collective bargaining agreements is limited to two years. LATAM Airlines Brazil's collective bargaining agreements are valid for one year (in respect of the economic terms) and for two years (in respect of social terms). LATAM Airlines Brazil has historically negotiated collective bargaining agreements with ten unions in Brazil—one crew flight union, which represents pilots, copilots and flight attendants, and nine ground staff unions. In December 2017, LATAM Airlines Brazil renegotiated collective bargaining agreements with all the unions, which included a wage increase of 2.45%, in line with the inflation rate of the last 12 months plus 0.5 percentile points above inflation. For ground staff workers with salaries up to ten thousand dollars, the increase was R\$ 245.00.

## E. Share Ownership

As of December 31, 2017, the members of our Board of Directors and our executive officers as a group owned 39.3% of our shares. See “Item 7. Controlling Shareholders and Related Party Transactions.”

For a description of stock options granted to our executive officers, see “—D.Employees—Long Term Incentive Compensation Program.”

## ITEM 7. CONTROLLING SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

Mr. Ignacio Cueto Plaza (Chairman of the Board of LATAM), Mr. Enrique Cueto Plaza (the CEO LATAM) and certain other Cueto family members and entities controlled by them, comprise the Cueto Group. As of February 28, 2018 the Cueto Group beneficially owned (as defined in Rule 13d-3 under the Securities Exchange Act) 27.91% of LATAM Airlines Group’s common shares. The Cueto Group is entitled to elect three of the nine members of our board of directors and is in a position to direct the management of the Company. In connection with our combination with TAM, members of the Cueto Group (which we also refer to collectively as the “LATAM Controlling Shareholders”) entered into a shareholder’s agreement with the Amaro Family, acting through TEP Chile, and TEP Chile entered into shareholder’s agreements with LATAM and TAM. See “—Shareholders’ Agreements.”

Following the combination with TAM, the Amaro Group became a major shareholder of LATAM Airlines Group. Through their 100% ownership of TEP Chile and majority ownership of the voting shares of Holdco I, which in turn owns 100% of the common shares of TAM, the Amaro Group, are controlling shareholders of TAM. This is the case even though LATAM is entitled to substantially all the economic rights arising from the operations of TAM by virtue of LATAM’s ownership of 100% of Holdco I and TAM non-voting shares. Please see Item 4. Information on the Company – History and Development of the Company. As of February 28, 2018, the Amaro Group owned 2.58%<sup>(2)</sup> of LATAM Airlines Group’s common shares. The terms of the shareholders’ agreement among the Amaro Group, LATAM and the LATAM Controlling Shareholders require the LATAM Controlling Shareholders and the Amaro Group to vote to elect individuals nominated to our board of directors in accordance with the direct and indirect shareholder interests in LATAM. See “—Shareholders’ Agreements.”

In addition to the Cueto Group and the Amaro Group, three other groups or entities are major shareholders of LATAM. As of February 28, 2018, the Eblen Group, which includes our director Nicolás Eblen Hirmas, owned 5.93% of our common shares; the Bethia Group, which includes our vice-president of the Board of Directors Carlos Heller Solari, owned 5.50% of our common shares; and Qatar Airways Investments (UK) Ltd., whose nominee Giles Agutter, one of our directors, owned 10.03%<sup>(4)</sup> of our common shares.

The table below sets forth additional information regarding the beneficial ownership of our common shares, as of February 28, 2018, by our controlling shareholders, other major shareholders or shareholder groups, and minority shareholders.

Shareholder	Beneficial ownership (as of February 28, 2018)	
	Number of shares of common stock beneficially owned	Percentage of common stock beneficially owned
<b>Shareholder</b>		
Cueto Group <sup>(1)</sup>	169,248,377	27.91%
Costa Verde Aeronautica S.A. <sup>(2) (3)</sup>	88,259,650	14.55%
Inversiones Costa Verde Aeronautica Tres SpA	35,300,000	5.82%
Inversiones Nueva Costa Verde Aeronautica Ltda.	23,578,077	3.89%
Costa Verde Aeronautica SpA	12,000,000	1.98%
Others	10,110,650	1.67%
Qatar Airways <sup>(4)</sup>	60,837,452	10.03%
Qatar Airways Investments (UK) Ltda.	60,837,452	10.03%
Eblen Group.	35,945,199	5.93%
Inversiones Andes SpA.	17,146,529	2.83%
Inversiones Andes II SpA	8,000,000	1.32%
Inversiones PIA SpA.	5,403,804	0.89%
Comercial las Vertientes SpA	5,394,866	0.89%
Bethia Group.	33,367,357	5.50%
Axxion S.A.	18,473,333	3.05%
Inversiones HS SpA.	14,894,024	2.45%
Amaro Group <sup>(2)(3)</sup>	15,615,113	2.58%
TEP Chile S.A.	15,615,113	2.58%
All other minority shareholders	291,394,195	48.05%
Total	606,407,693	100.00%

(1) The ownership figures for the Cueto Group in this table exclude shares held directly by TEP Chile S.A. which are subject to the shareholders' agreements described below.

(2) Members of the Amaro Group also hold a 21.88% economic interest in Costa Verde Aeronáutica S.A.

(3) The ownership figures for the Amaro Group in this table exclude shares held by the Cueto Group which are subject to the shareholders' agreements described below.

(4) Qatar owns 9.999999918% of total issued shares of LATAM.

As of February 28, 2018, 3.98% of our capital stock was held in the form of ADSs. Chilean pension funds held 21.75% of our capital stock and other minority investors held 22.33% in the form of common shares. It is not practicable for us to determine the number of ADSs or common shares beneficially owned in the United States. As of February 28, 2018, we had 1,476 record holders of our common shares. It is not practicable for us to determine the portion of shares held in Chile or the number of record holders in Chile. All of our shareholders have identical voting rights.

#### Shareholders' Agreements

Following the combination of LAN and TAM in June 2012, TAM S.A. continues to exist as a subsidiary of Holdco I and a subsidiary of LATAM, and LAN Airlines S.A. has been redesignated as "LATAM Airlines Group S.A."

Prior to the consummation of the business combination, LATAM Airlines Group and the LATAM Controlling Shareholders entered into several shareholders' agreements with TAM, the Amaro Group (acting through TEP Chile) and Holdco I, establishing agreements and restrictions relating to corporate governance in an attempt to balance LATAM Airlines Group's interests, as the owner of substantially all of the economic rights in TAM, and those of the Amaro Group, as the continuing controlling shareholders of TAM under Brazilian law, by prohibiting the taking of certain specified material corporate actions and decisions without prior supermajority approval of the shareholders and/or the board of directors of Holdco I or TAM. These shareholders' agreements also set forth the parties' agreement regarding the governance and management of the LATAM Airlines Group following the consummation of the combination of LAN and TAM.



### *Governance and Management of LATAM Airlines Group*

We refer to the shareholders' agreement among the LATAM Controlling Shareholders and the Amaro Group (acting through TEP Chile), which sets forth the parties' agreement concerning the governance, management and operation of the LATAM Airlines Group, and voting and transfer of their respective LATAM Airlines Group common shares and TEP Chile's voting shares of Holdco I, as the "control group shareholders' agreement." We refer to the shareholders' agreement between LATAM Airlines Group S.A. and TEP Chile, which sets forth agreements concerning the governance, management and operation of the LATAM Airlines Group, as the "LATAM Airlines Group-TEP shareholders' agreement." The control group shareholders' agreement and the LATAM Airlines Group-TEP shareholders' agreement set forth the parties' agreement on the governance and management of the LATAM Airlines Group following the effective time.

This section describes the key provisions of the control group shareholders' agreement and the LATAM Airlines Group-TEP shareholders' agreement. The description of the LATAM Airlines Group-TEP shareholders' agreement summarized below and elsewhere in this annual report on Form 20-F is qualified in its entirety by reference to the full text of such shareholders' agreements, which has been filed as exhibit to this annual report on Form 20-F.

#### *Composition of the LATAM Airlines Group Board*

Since April 2017, there are no restrictions in the control group shareholders' agreement nor in the LATAM Airlines Group-TEP shareholders' agreement regarding the composition of LATAM Airlines Group's board of directors. Therefore, once elected in accordance with Chilean regulation, members of the LATAM Airlines Group's board of directors have the right to appoint any member as the chairman of LATAM Airlines Group's board of directors, from time to time, in accordance with the LATAM Airlines Group's by-laws. Accordingly, on May, 2017, Mr. Ignacio Cueto Plaza was elected as President of the Board.

Also, on April, 2017, Mr. Mauricio Rolim Amaro resigned to the LATAM Airline's Group's Board of Directors. Also in April 2017, Mr. Reichstul was re-elected to the Board of Directors with the favorable vote of TEP Chile S.A. pursuant to applicable regulations.

#### *Management of the LATAM Airlines Group*

Mr. Enrique Cueto Plaza has served as CEO of LATAM ("CEO LATAM") since June 2012. The CEO LATAM is the highest ranked officer of LATAM Airlines Group and reports directly to the LATAM board of directors. The CEO LATAM is charged with the general supervision, direction and control of the business of the LATAM Airlines Group and certain other responsibilities set forth in the LATAM Airlines Group-TEP shareholders' agreement. After any departure of the current CEO LATAM, our board of directors will select his or her successor after receiving the recommendation of the Leadership Committee.

The head office of the LATAM Airlines Group continues to be located in Santiago, Chile.

#### *Governance and Management of Holdco I and TAM*

We refer to the shareholders' agreement between us, Holdco I and TEP Chile, which sets forth our agreement concerning the governance, management and operation of Holdco I, and voting and transfer of voting shares of Holdco I, as the "Holdco I shareholders' agreement" and to the shareholders' agreement between us, Holdco I, 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." The Holdco I shareholders' agreement and the TAM shareholders' agreement set forth the parties' agreement on the governance and management of Holdco I, TAM and its subsidiaries (collectively, the "TAM Group") following the combination of LAN and TAM.

This section describes the key provisions of the Holdco I shareholders' agreement and the TAM shareholders' agreement. The description of the Holdco I shareholders' agreement and the TAM shareholders' agreement summarized below and elsewhere in this annual report on Form 20-F are qualified in their entirety by reference to the full text of the aforementioned shareholders' agreements, which have been filed as exhibits to this annual report on Form 20-F.

#### *Composition of the Holdco I and TAM Boards*

The Holdco I shareholders' agreement and TAM shareholders' agreement generally provide for identical boards of directors and the same chief executive officer at Holdco I and TAM, with LATAM appointing two directors and TEP Chile appointing four directors (including the chairman of the board of directors).

The control group shareholders' agreement provides that the persons elected by or on behalf of the LATAM Controlling Shareholders or the Amaro Group to our board of directors must also serve on the boards of directors of both Holdco I and TAM.

#### *Management of Holdco I and TAM*

The day-to-day business and affairs of Holdco I will be managed by the TAM Group CEO under the oversight of the board of directors of Holdco I. 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, currently the CEO of TAM, will be the initial CEO of Holdco I and TAM, or the "TAM Group CEO" and any successor CEO will be selected by LATAM 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 Airlines 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," has been jointly selected by LATAM and TEP Chile and any successor CFO will be selected by TEP Chile from three candidates proposed by LATAM. 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.

Following the combination, TAM continues to be headquartered in São Paulo, Brazil.

#### *Supermajority Actions*

Certain actions by Holdco I or TAM require supermajority approval by the board of directors or the shareholders of Holdco I or TAM which effectively require the approval of both LATAM and TEP Chile before the specified actions can be taken. Actions that require supermajority approval of the Holdco I 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 any TAM 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 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 I CEO or the TAM Director 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, or 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 I;
- to approve the disposal by sale, encumbrance or otherwise of 50% or more of the assets of a subsidiary of Holdco I representing at least 20% of Holdco I or to approve the sale, encumbrance or disposition of equity securities such that Holdco I 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 LATAM Controlling Shareholders and TEP Chile have agreed in the control group shareholders agreement to vote their respective LATAM Airlines Group common shares as follows:

- the parties agree to vote their LATAM Airlines Group common shares to assist the other parties in removing and replacing the directors such other parties elected to the LATAM Airlines Group board of directors;
- the parties agree to consult with one another and use their good faith efforts to reach an agreement on all actions (other than actions requiring supermajority approval under Chilean law) to be taken by the LATAM board of directors or the LATAM shareholders, and if unable to reach such agreement, to follow the proposal made by our board of directors;
- the parties agree to maintain the size of the LATAM Airlines Group board of directors at a total of nine directors and to maintain the quorum required for action by the LATAM Airlines Group board of directors at a majority of the total number of directors of the LATAM Airlines Group board of directors; 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 LATAM Controlling Shareholders, which we refer to as a “directed vote.”

The parties to the Holdco I shareholders agreement and TAM shareholders agreement have agreed to vote their voting shares of Holdco I 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 LATAM Controlling Shareholders and TEP Chile are subject to certain restrictions on sales, transfers and pledges of the LATAM Airlines Group common shares and (in the case of TEP Chile only) the voting shares of Holdco I beneficially owned by them. Except for a limited amount of LATAM Airlines Group common shares, neither the LATAM Controlling Shareholders nor TEP Chile were permitted to sell any of their LATAM Airlines Group common shares, and TEP Chile was not permitted to sell its voting shares of Holdco I, until June 2015. Since then, sales of LATAM Airlines Group common shares by either party are permitted, subject to (i) certain limitations on the volume and frequency of such sales and (ii) in the case of TEP Chile only, TEP Chile satisfying certain minimum ownership requirements. On or after December 31, 2021, TEP Chile may sell all of its LATAM Airlines Group common shares and voting shares of Holdco I 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 LATAM 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 I’s ability to own or receive the full benefits of ownership of TAM and its subsidiaries or the ability of TAM and its subsidiaries to operate their airline businesses worldwide. The LATAM Controlling Shareholders have agreed to transfer any voting shares of Holdco I acquired pursuant to such right of first offer to LATAM for the same consideration paid for such shares.

In addition, TEP Chile may sell all LATAM Airlines Group common shares and voting shares of Holdco I beneficially owned by it as a block, subject to satisfaction of the block sale provisions, if a release event (as described below) occurs or if TEP Chile is required to make two or more directed votes during any 24-month period at two meetings (consecutive or not) of the shareholders of LATAM Airlines Group held at least 12 months apart and LATAM Airlines Group has not yet fully exercised its conversion option described below. A “release event” will occur if (i) a capital increase of LATAM Airlines Group 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 LATAM Airlines Group common shares, and (iii) after such capital increase is completed, the individual designated by TEP Chile for election to the board of directors of LATAM Airlines Group with the assistance of the LATAM Controlling Shareholders is not elected to the board of directors of LATAM Airlines Group.

In addition, after December 31, 2021 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 LATAM Airlines Group common shares, subject to (x) a right of first offer in favor of the LATAM Controlling Shareholders and (y) the restrictions on sales of LATAM Airlines Group 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 LATAM Airlines Group 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 I shareholders agreement not to vote its voting shares of Holdco I, or to take any other action, in support of any transfer by Holdco I of any equity securities or convertible securities issued by it or by any of TAM or its subsidiaries without our prior written consent.

#### *Restriction on transfer of TAM shares*

LATAM agreed in the Holdco I 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 I. However, LATAM will have the right to effect such a sale or transfer if, at the same time as such sale or transfer, LATAM (or its assignee) acquires all the voting shares of Holdco I 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 I beneficially owned by TEP Chile in connection with any such sale.

#### *Conversion Option*

Pursuant to the control group shareholders’ agreement and the Holdco I shareholders’ agreement, we have the unilateral right to convert our shares of non-voting stock of Holdco I into shares of voting stock of Holdco I to the maximum extent allowed under law and to increase our representation on the TAM and Holdco I 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 December 31, 2021, and after we have fully converted all of our shares of non-voting stock of Holdco I into shares of voting stock of Holdco I as permitted by Brazilian law and other applicable laws, we will have the right to purchase all of the voting shares of Holdco I 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 December 31, 2021, 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 I beneficially owned by us into shares of voting stock of Holdco I 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 I 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 LATAM Airlines Group, Holdco I, TAM or any of their respective subsidiaries from and after the effective time of the combination will be made by Holdco I.

## B. Related Party Transactions

### General

We have engaged in a variety of transactions with our affiliates, including entities owned or controlled by certain of our controlling shareholders. In the ordinary course of our business we render to and receive from related companies services of various types, including aircraft leases, aircraft interchanges, freight transportation and reservation services. Such transactions, none of which is individually material, are summarized in Note 33 to our audited consolidated financial statements for the fiscal year ended December 31, 2017.

On August 2, 2016, the Board of Directors approved the Policy on Control of Related-Party Transactions of LATAM Airlines Group S.A. and its subsidiaries, which states:

- Related-party means, among others, subsidiaries, affiliates, natural persons or legal entities with control of 10% or more of the Company's voting stock, vice presidents, directors or senior executives as well as their respective spouses, relatives, and companies in which said persons are either direct or indirect owners of 10% or more of the Company's voting stock, or in which they have held a position over the last 18 months.
- Related-Party Transactions can only be executed if said transactions are in LATAM's interest and adjust to price, terms and conditions prevalent in the market for similar transactions with other third parties at the time of its approval.
- Any and all negotiations, acts, contracts or operations in which a company of the LATAM Group and a party related to such company serve as the participants will be subject to the Policy.

## ITEM 8. FINANCIAL INFORMATION

### A. Consolidated Financial Statements and Other Financial Information

See "Item 3. Key Information—A. Selected Financial Data," "Item 18. Financial Statements" and pages F-1 through F-131.

### Legal and Arbitration Proceedings

We are involved in routine litigation and other proceedings relating to the ordinary course of our business. The following is a description of all the material legal and arbitration proceedings.

In February 2006 the European Commission ("EC"), the Department of Justice of the United States ("DOJ"), the Canadian Competition Bureau ("CCB"), and Conselho Administrativo de Defesa Econômica ("CADE"), among others, 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 European and United States air cargo markets. As previously announced, LAN Cargo reached plea agreements with the DOJ and the CCB, which included the payment of fines, in relation to such investigation. On November 9, 2010, the EC imposed fines on 11 air carriers for a total amount of €799.4 million (equivalent to approximately US\$1.1 billion). The fine imposed against LAN Cargo and its parent company, LAN, totaled €8.2 million (equivalent to approximately US\$10.9 million). LAN provisioned US\$25 million during the fourth quarter of 2007 for such fines, and maintained this provision until the fine was imposed in 2010. In 2010, LAN recorded a US\$14.1 million gain (pre-tax) from the reversal of a portion of this provision. This was the lowest fine applied by the EC, which includes a significant reduction due to LAN'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 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. The European Court of Justice overturned the Commission's decision on December 16, 2015. On May 20 2016 the EC confirmed that they had decided not to appeal the case and to issue a new decision with the aim of correcting the faults identified in the judgement by the European Court of Justice. On 17 March 2017, the EC re-adopted its decision and imposed on LAN Cargo and its parent company, LATAM, a fine in the same amount, €8.2 million, as the original fine. On May 31, 2017 LAN Cargo and LATAM requested the annulment of this EC decision to the General Court of the European Union. On December 2017 LAN Cargo and LATAM presented their arguments for this annulment. LATAM expects a favorable decision by the General Court of the European Union at this time.

On September 3, 2013, CADE published its decision to impose a fine of US\$51.0 million against ABSA, after an investigation, commenced in 2008, against several cargo airlines and airlines officers over allegations of anticompetitive practices regarding fuel surcharges in the air cargo business. CADE also imposed fines upon a former Director and two former employees in the amounts of US\$1.0 million and US\$510,000 respectively. On December 5, 2013 ABSA filed its application for Administrative Reconsideration before CADE. On December 19, 2014, CADE issued a new decision which reduced the fine against ABSA to US\$ 9,823,135 (based on an exchange rate of US\$ 1 = R\$ 3.3080). CADE also reduced the fines against ABSA's Director and employees to US\$ 247,896 and US\$ 123,040, respectively (also based on an exchange rate of US\$ 1 = R\$ 3.3080). ABSA has initiated a judicial appeal against the Union Federal seeking an additional reduction of the fine amount. In the light of said pending judicial appeal, we cannot predict the ultimate outcome of this matter at this time.

The investigations by the DOJ, CCB and the EC prompted the filing of civil actions and claims by freight forwarding and shipping companies against many airlines, including LAN Cargo and LATAM Airlines Group. LAN Cargo and ABSA reached a settlement agreement with the class action plaintiffs / non-class action claimants in the United States on August 6, 2012, and in Canada on August 20, 2013.

Civil actions have also been initiated against many airlines, including LAN Cargo and LATAM Airlines Group, in various European countries (Great Britain, Norway, Holland and Germany). The activity and progress of said civil actions is limited, in that they are now directly contingent upon the decision of the EC to issue a new decision correcting the faults identified in the judgement. We cannot predict the ultimate outcome of these cases at this time.

*Agreements with the DOJ and the SEC.* In 2011, authorities in Chile and the United States initiated investigations relating to certain payments by LATAM Airlines Group S.A. (formerly LAN Airlines S.A.) to a consultant who assisted in the resolution of labor issues in Argentina in 2006-2007. The Company voluntarily reported this situation to the Securities and Exchange Commission ("SEC") and the Justice Department of the United States ("DOJ") and actively cooperated in those investigations. On February 4, 2016, Ignacio Cueto, the CEO of LAN, consented to entry of a cease-and-desist order by the SEC relating to the payments described above. Mr. Cueto agreed to pay a US\$75,000 penalty to the SEC, to remain in compliance with LATAM's compliance structure and internal accounting controls and to comply with the SEC's books and records requirements. In July 2016, after multiple and prolonged exchanges of opinions and conversations with the DOJ and the SEC, LATAM also reached definitive agreements with both authorities.

In the case of the DOJ, the agreement took the form of a Deferred Prosecution Agreement ("DPA"), pursuant to which the DOJ will dismiss the charges after the expiration of a three-year period if LATAM complies with all terms of the DPA. Pursuant to the DPA, LATAM has admitted that the accounting for the payments made to the consultant in Argentina was incorrect and that, at the time that such payments were made (2006-2007), it lacked adequate internal controls. LATAM has also accepted an independent consultant, for 27 months, whose function will be to monitor, evaluate, and report to the DOJ on the effectiveness of LATAM's compliance program. LATAM also committed to reporting to the DOJ on the effectiveness of the aforementioned compliance program for 9 months after the work of the independent consultant is finished. Lastly, LATAM paid a fine of US\$12,750,000 to the DOJ.

The settlement with the SEC included the issuance by the SEC of a cease-and-desist order, which is an administrative order closing the investigation whereby LATAM has accepted certain obligations and statements of fact. The order also refers to the obligations related to the monitorship agreed under the DPA with the DOJ. LATAM paid a fine of US\$6.74 million and interest of US\$2.69 million.

#### *Legal proceedings involving TAM*

TAM Linhas Aéreas is party to one action filed by relatives of victims of an accident that occurred in October 1996 involving one of its Fokker 100 aircraft which crashed during departure, in addition to 22 actions filed by residents of the region where the accident occurred, who are claiming pain and suffering, and a class action related to this crash. Any damages resulting from the aforementioned legal claims are covered by the civil liability guarantee provided for in TAM's insurance policy with Itaú Unibanco Seguros S.A. We believe that the cap of US\$400 million in that insurance policy is sufficient to cover any potential penalties and judicial or extrajudicial agreements arising as a result of this matter.

Insurance coverage has been sufficient to cover the liabilities arising from an accident that occurred in July 2007 involving an Airbus A320 aircraft from TAM Linhas Aereas. Settlements have been made directly between the insurance company and the victims' families. As of December 31, 2013, approximately 196 settlements have occurred and others are under negotiation between the insurance company and victims' families. Management believes that the insurance coverage is adequate and that LATAM Airlines Brazil will not incur any expenses that were not contemplated by the scope of the insurance policy that would result in TAM's obligation to pay damages.

#### *Tax related*

TAM Linhas Aereas and other plaintiffs filed an ordinary action with a request for injunctive relief for non-payment of the Airline Workers Fund, a tax charged monthly at the rate of 2.5% of an airline's total payroll. Currently, judgment is pending on an appeal that TAM lodged challenging the initial decision (which was ruled in favor of the Brazilian National Institute of Social Security ("INSS")). In 2004 and 2011, the INSS issued an assessment notice tolling the Statute of Limitations of the social security credit as a result of TAM Linhas Aereas' non-payment of the Airline Workers Fund. The administrative proceedings have been suspended until completion of the judicial process. The approximate adjusted value of this proceeding as of December 31, 2012 was US\$43.3 million. In the opinion of our legal advisors, the chance of losing in this proceeding is possible. Assuming payment of this tax is required by law, we have established a provision in the amount of US\$100.2 million (R\$ 331 million) related to the TAM's part as of December 31, 2017, pending the final outcome of the matter.

TAM Linhas Aereas is a plaintiff in an action filed against the Brazilian government in 1993 seeking damages for the break-up of an air transportation concession agreement that resulted in the freezing of TAM's prices from 1988 to September 1993 in order to maintain operations with the prices set by the Brazilian government during that period. The process is currently being heard before the Federal Regional Court and judgment is pending an appeal by TAM. The estimated value of the action on December 31, 2017 is MUS\$240.3 (R\$795million). This sum is subject to delinquent interest since September 1993 and inflation adjustment since November 1994. Based on the opinion of TAM's legal advisors, and recent rulings handed down by the Brazilian Supreme Court of Justice in favor of airlines in similar cases (specifically, actions filed by Transbrasil and Varig), we believe that TAM's likelihood of success is probable. We have not recognized these credits in our financial statements and will only do so if and when the aforementioned decision is final.

TAM Linhas Aereas filed an ordinary claim, with a request for early judgment, in relation to a dispute concerning the legality of charging the Adicional das Tarifas Aeroportuárias ("Additional Airport Tariffs," or "ATAERO"), which are charged at a rate of 50% on the value of tariffs and airport tariffs. A decision by the superior court is pending. The amount of potential recovery is indeterminate at this time.

In addition, one administrative proceeding had been filed against TAM Linhas Aéreas concerning the alleged failure to pay an Industrialized Products Tax ("IPI") and Import Tax ("II") due on imported aircraft. In response, we filed the appropriate challenges on the basis that no federal tax should be payable on the imported aircraft because it is leased aircraft. The total amount involved in this administrative proceeding is MUS\$2.33 (R\$7.7 million) as of December 31, 2017. The administrative proceeding awaits a decision. In the opinion of our legal advisors, the chance of losing in this proceeding is possible.

A tax assessment was issued by the Brazilian IRS for the collection of Income Tax ("IRPJ") and Social Contribution on Net Income ("CSLL"), and a fine of 150% and interest was imposed on TAM. In summary, the RFB intends to require IRPJ and CSLL on the alleged capital gain earned by TAM S/A, as a result of the reduction of the capital stock of the controlled company Multiplus S/A. On December 31, 2017 the updated amount of the assessment and fees discussed was approximately MUS\$148.73 (R\$ 492 million). These tax proceedings are currently in process and subject to review by the Administrative Superior Court (CARF) and awaiting final administrative decision.

A tax assessment was issued by the Sao Paulo Municipality in order to charge tax (ISS) on tour packages sold by Fidelidade Viagens e Turismo S/A between 2010 and 2015. On December 31, 2017 the updated amount of the assessment discussed was approximately MUS\$108.22 (R\$ 358 million). The Company believes that a favorable outcome is not likely. These tax proceedings are currently in a judicial discussion (Annulatory Action filed in January 2018).

A tax assessment of PIS/COFINS credits was issued by the Brazilian IRS on International Air Freight Shipping Services in the amount of MUS\$73.76 (R\$244 million) as of December 31, 2017. The possible outcome in this case is likely to be unfavorable and a penalty of MUS\$60.78, (R\$168 million) is expected. These tax proceedings are currently in process and subject to review by the Administrative Superior Court (CARF) awaiting final administrative decision.

It is important to highlight that TAM Linhas Aereas has other relevant legal cases involving tax issues.

For additional Legal Proceedings relating to the ordinary course of our business, please see Note 30 – Contingencies – to our audited consolidated financial statements.

## **Dividend Policy**

In accordance with the Chilean Corporation Law, LATAM must distribute cash dividends equal to at least 30% of its annual consolidated net income calculated in accordance with IFRS subject to the terms of *Oficio Circular* No. 856 issued on October 17, 2014 by the Chilean Superintendency of Securities and Insurance. If there is no net income in a given year, LATAM can elect but is not legally obligated to distribute dividends out of retained earnings. The board of directors may declare interim dividends out of profits earned during such interim period. Pursuant to LATAM's by-laws, the annual cash dividend is approved by the shareholders at the annual ordinary shareholders' meeting held between February 1 and April 30 of the year following the year with respect to which the dividend is proposed. All outstanding common shares are entitled to share equally in all dividends declared by LATAM, unless the shares have not been fully paid by the shareholder after being subscribed.

Holders of ADSs will be entitled to receive dividends on the underlying common shares to the same extent as holders of common shares. Holders of ADRs on the applicable record dates will be entitled to receive dividends paid on the common shares represented by the ADSs evidenced by such ADRs. Dividends payable to holders of ADSs will be paid by us to the depository in Chilean pesos and remitted by the depository to such holders net of foreign currency conversion fees and expenses of the depository and will be subject to Chilean withholding tax currently imposed at a rate of 35% (subject to credits in certain cases as described under "Item 10. Additional Information— E. Taxation—Cash Dividends and Other Distributions"). Owners of the ADSs will not be charged any dividend remittance fee by the depository with respect to cash dividends.

Chilean law requires that holders of shares of Chilean companies that are not residents of Chile register as foreign investors under one of the foreign investment regimes established by Chilean law in order to have dividends, sale proceeds or other amounts with respect to their shares remitted outside Chile through the Formal Exchange Market (*Mercado Cambiario Formal*). Under our Foreign Investment Contract, the depository, on behalf of ADS holders, will be granted access to the Formal Exchange Market to convert cash dividends from pesos to U.S. dollars and to pay such U.S. dollars to ADS holders outside Chile.

## **B. Significant Changes**

None.

## **ITEM 9. THE OFFER AND LISTING**

### **A. Offer and Listing Details**

The principal trading market for our common shares is the Santiago Stock Exchange ("SSE"). The common shares have been listed on the SSE under the symbol "LAN" since 1989, and the ADSs have been listed on the NYSE under the symbol "LFL" since November 7, 1997. On May 15, 2017, LATAM changed the symbol of its ADSs listed on the NYSE from "LFL" to "LTM", as well as its shares listed on the SSE from "LAN" to "LTM". The common shares also trade on the Bolsa de Valores de Valparaíso and the Bolsa Electrónica de Chile. The outstanding ADSs are identified by the CUSIP number 501723100. The following table sets forth, for the periods indicated, the high and low closing sale prices on the SSE for the common shares and the high and low closing prices on the NYSE for the common shares represented by ADSs. The information set forth in the table below reflects actual historical amounts and has not been restated in constant Chilean pesos.



Period	Ch\$ per Common Share		US\$ per ADS	
	Low	High	Low	High
2013	5,967.3	11,755.4	11.62	24.84
2014	6,533.3	8,791.6	10.60	16.36
2015	3,270.2	7,198.3	4.64	11.82
2016				
<i>Quarters:</i>				
First	3,276.4	4,730.5	4.49	7.00
Second	4,163.5	4,893.4	5.86	7.40
Third	4,350.6	5,855.8	6.53	8.96
Fourth	5,341.6	6,460.4	8.18	9.86
<i>Annual:</i>				
Annual 2016	3,276.4	6,460.4	4.49	9.86
2017				
<i>Quarters:</i>				
First	5,574.1	8,759.0	8.18	13.24
Second	7,298.5	8,810.0	10.97	13.62
Third	7,387.0	8,950.0	11.04	14.40
Fourth	7,924.0	8,887.2	12.08	14.48
<i>Months:</i>				
September	7,960.2	8,950.9	12.78	14.40
October	8,454.4	8,887.2	13.33	14.03
November	8,128.4	8,856.0	12.65	14.48
December	7,924.0	8,773.1	12.08	13.95
<i>Annual:</i>				
Annual 2017	5,574.1	8,950.9	8.18	14.48
2018				
<i>Months:</i>				
January	8,662.5	10,467.0	14.27	17.19
February	9,183.6	10,299.0	15.47	17.13
March	9,131.0	9,761.2	14.91	16.34

Source: Bloomberg

As of December 31, 2017, a total of 606,407,693 million common shares were outstanding, including common shares represented by ADSs.

## B. Plan of Distribution

Not applicable.

## C. Markets

### Trading

#### Chile

The Chilean stock market, which is regulated by the CMF under Law 18,045 of October 22, 1981, as amended, which we refer to as the Securities Market Law, is one of the most developed among emerging markets, reflecting the particular economic history and development of Chile. The Chilean government's policy of privatizing state-owned companies, implemented during the 1980s, led to an expansion of private ownership of shares, resulting in an increase in the importance of stock markets. Privatization extended to the social security system, which was converted into a privately managed pension fund system. These pension funds have been allowed, subject to certain limitations, to invest in stocks and are currently major investors in the stock market. Some market participants, including pension fund administrators, are highly regulated with respect to investment and remuneration criteria, but the general market is less regulated than the U.S. market with respect to disclosure requirements and information usage.

Equities, closed-end funds, fixed-income securities, short-term and money market securities, gold and U.S. dollars are traded on the SSE. In 1991, the SSE initiated a futures market with two instruments: U.S. dollar futures and Selective Shares Price Index, or IPSA, futures. Securities are traded primarily through an open voice auction system; a firm offers system or daily auctions. Trading through the open voice system occurs on each business day from 9:30 a.m. to 4:30 p.m. The SSE has an electronic system of trade, called *Telepregón HT*, which operates continuously for stocks trading in high volumes from 9:30 a.m. to 4:00 p.m. (or 5:00 p.m., depending on the period of the year). The Chilean Electronic Stock Exchange operates continuously from 9:30 a.m. to 4:30 p.m. (or 5:30 p.m., depending on the period of the year) on each business day. In February 2000, the SSE Off-Shore Market began operations. In the Off-Shore Market, publicly offered foreign securities are traded and quoted in U.S. dollars.

#### **D. Selling Shareholders**

Not applicable.

#### **E. Dilution**

Not applicable.

### **ITEM 10. ADDITIONAL INFORMATION**

This Item reflects legal amendments effected by Chilean Law No. 20,382 on Corporate Governance, which was enacted on October 13, 2009, and came into effect on October 20, 2009, and Chilean Law No. 20,552, which modernized and encouraged competition in the financial system, was enacted on November 6, 2011 and came into effect on December 17, 2011.

#### **A. Share Capital**

Not applicable.

#### **B. Memorandum and Articles of Association**

Set forth below is information concerning our share capital and a brief summary of certain significant provisions of our by-laws and Chilean law. This description contains all material information concerning the common shares but does not purport to be complete and is qualified in its entirety by reference to our by-laws, the Chilean Corporation Law and the Securities Market Law, each referred to below. For additional information regarding the common shares, reference is made to our by-laws, a copy of which is included as Exhibit 1.1 to this annual report on Form 20-F.

#### **Organization and Register**

LATAM Airlines Group is a publicly held stock corporation (*sociedad anónima abierta*) incorporated under the laws of Chile. LATAM Airlines Group was incorporated by a public deed dated December 30, 1983, an abstract of which was published in the Chilean Official Gazette (*Diario Oficial de la República de Chile*) No. 31.759 on December 31, 1983, and registered on page 20,341, No. 11,248 of the Chilean Real Estate and Commercial Registrar (*Registro de Comercio del Conservador de Bienes Raíces de Santiago*) for the year 1983. Our corporate purpose, as stated in our by-laws, is to provide a broad range of transportation and related services, as more fully set forth in Article Four thereof.

#### **General**

Shareholders' rights in a Chilean company are generally governed by the company's by-laws and the Chilean Corporation Law. Article 22 of the Chilean Corporation Law states that the purchaser of shares of a company implicitly accepts its by-laws and any prior agreements adopted at shareholders' meetings. Additionally, the Chilean Corporation Law regulates the government and operation of corporations ("*sociedades anónimas*," or S.A.) and provides for certain shareholder rights. Article 137 of the Chilean Corporation Law provides that the provisions of the Chilean Corporation Law take precedence over any contrary provision in a corporation's by-laws. The Chilean Corporation Law and our by-laws also provide that all disputes arising among shareholders in their capacity as such or between us or our administrators and the shareholders may either be submitted to arbitration in Chile or to the courts of Chile at the election of the plaintiff initiating the action. Despite the foregoing, a recent legal amendment has forbidden certain individuals (directors, senior managers, administrators and main executives of the corporation, and any shareholder that directly or indirectly holds shares whose book or market value exceed 5,000 UF at the moment of filing of the action) from submitting such action before the ordinary courts, thus obligating them to proceed with arbitration in all situations. Finally, Decree-Law No. 3,500 on Pension Fund Administrators, which allows pension funds to invest in the stock of qualified corporations, indirectly affects corporate governance and prescribes certain rights of shareholders. The Chilean Corporation Law sets forth the rules and requirements under which a corporation is deemed to be "publicly held." Article 2 of the Chilean Corporation Law defines publicly held corporations as corporations that register their shares with the *Registro de Valores* (Securities Registry) of the CME, either voluntarily or pursuant to a legal obligation. In addition, Article 5 of the Chilean Securities Market Law indicates which corporation's shares must be registered with the Securities Registry:

- one with 500 or more shareholders; and
- one in which 100 or more shareholders own at least 10% of the subscribed capital (excluding any direct or indirect individual holdings exceeding 10%).

The framework of the Chilean securities market is regulated by the CMF under the Securities Market Law and the Chilean Corporation Law, which imposes certain disclosure requirements, restricts insider trading, prohibits price manipulation and protects minority investors. In particular, the Securities Market Law establishes requirements for public offerings, stock exchanges and brokers and outlines disclosure requirements for corporations that issue publicly offered securities.

### Ownership Restrictions

Under Articles 12 and 20 of the Securities Market Law and General Rule 269 issued by the SVS in 2009, certain information regarding transactions in shares of publicly held corporations must be reported to the CMF and the Chilean stock exchanges on which the shares are listed. Since the ADRs are deemed to represent the shares underlying the ADSs, transactions in ADRs will be subject to those reporting requirements. Among other matters, the beneficial owners of ADSs that directly or indirectly hold 10% or more of the subscribed capital of LATAM Airlines Group, or that reach or exceed such percentage through an acquisition, are required to report to the CMF and the Chilean stock exchanges, the day following the event:

- any acquisition or sale of shares; and
- any acquisition or sale of contracts or securities the price or performance of which depends on the price variation of the LATAM Airlines Group's shares.

These obligations are extended (i) to certain individuals (immediate family, next of kin and others) if the ADS holder is a natural person; (ii) to any entity controlled by the holder, if the ADS is a legal entity; and (iii) to groups, if a holder has any joint action agreement with other holders and the group reaches or exceeds the cited threshold.

In addition, majority shareholders must state in their report whether their purpose is to acquire control of the company or if they are making a financial investment.

Under Article 54 of the Securities Market Law and under CMF regulations, persons or entities that intend to acquire control, whether directly or indirectly, of a publicly traded company, must follow certain notice requirements, regardless of the acquisition vehicle or procedure or whether the acquisition will be made through direct subscriptions or private transactions. In the first place, the potential acquiror must send a written communication to the target corporation, any companies controlling or controlled by the target corporation, the CMF and the Chilean stock exchanges on which the target's securities are listed, stating, among other things, the person or entity purchasing or selling and the price and conditions of any negotiations. Subsequently, the potential acquiror must also inform the public of its planned acquisition by means of a publication in two Chilean newspapers with national distribution and by uploading such notice to the acquiror's website, if available. Both requirements shall be met at least ten business days prior to the date on which the acquisition transaction is to close, and in any event, as soon as negotiations regarding the change of control have been formalized or when confidential information or documents concerning the target are delivered to the potential acquiror. The notices must state, among other things, the person or entity purchasing or selling and the price and conditions of any negotiations.

In addition to the foregoing, Article 54A of the Securities Market Law requires that within two business days of the completion of the transactions pursuant to which a person has acquired control of a publicly traded company, a notice shall be published in the same newspapers in which the notice referred to above was published and notices shall be sent to the same persons mentioned in the preceding paragraphs.

Consequently, a beneficial owner of ADSs intending to acquire control of LATAM Airlines Group will be subject to the foregoing reporting requirements.

The provisions of the aforementioned articles do not apply whenever the acquisition is being made through a tender or exchange offer.

Title XXV of the Securities Market Law on tender offers and CMF regulations provide that the following transactions shall be carried out through a tender offer:

- an offer which allows the taking control of a publicly traded company, unless the shares are being sold by a controlling shareholder of such company at a price in cash which is not substantially higher than the market price and the shares of such company are actively traded on a stock exchange;
- an offer for all the outstanding shares of a publicly traded company upon acquiring two-thirds or more of its voting shares (this offer must be made at a price not lower than the price at which appraisal rights may be exercised, that is, book value if the shares of the company are not actively traded or, if the shares of the company are actively traded, the weighted average price at which the stock has been traded during the 60 stock-exchange-business-day period between the 30<sup>th</sup> and the 90<sup>th</sup> stock-exchange-business-days immediately preceding the acquisition); and
- an offer for a controlling percentage of the shares of a publicly traded company if the acquiror intends to take control of the company (whether publicly traded or privately held) controlling such publicly traded company, to the extent that the latter represents 75.0% or more of the consolidated net assets of the former.

Article 200 of the Securities Market Law prohibits any shareholder that has taken control of a publicly traded company from acquiring, for a period of 12 months from the date of the transaction that granted it control of the publicly traded company, a number of shares equal to or higher than 3.0% of the outstanding issued shares of the target without making a tender offer at a price per share not lower than the price paid at the time of taking control. Should the acquisition from the other shareholders of the company be made on the floor of a stock exchange and on a pro rata basis, the controlling shareholder may purchase a higher percentage of shares, if so permitted by the regulations of the stock exchange.

Title XV of the Securities Market Law sets forth the basis for determining what constitutes a controlling power, a direct holding and a related party.

## Capitalization

Under Chilean law, the shareholders of a company, acting at an extraordinary shareholders' meeting, have the power to authorize an increase in the company's share capital. When an investor subscribes issued shares, the shares are registered in that investor's name even without payment, and the investor is treated as a shareholder for all purposes except with regard to receipt of dividends and return of capital, provided that the shareholders may, by amending the by-laws, also grant the right to receive dividends of distribution of capital despite not having paid for the subscribed shares. The investor becomes eligible to receive dividends once it has paid for the shares, or, if it has paid for only a portion of such shares, it is entitled to receive a corresponding pro rata portion of the dividends declared with respect to such shares, unless the company's by-laws provide otherwise. If an investor does not pay for shares for which it has subscribed on or prior to the date agreed upon for payment, the company is entitled under Chilean law to auction the shares on the appropriate stock exchange, and it has a cause of action against the investor to recover the difference between the subscription price and the price received for the sale of those shares at auction. However, until such shares are sold at auction, the investor continues to exercise all the rights of a shareholder (except the right to receive dividends and return of capital, as noted above). Regarding shares issued but not paid for within the period determined by the extraordinary shareholders' meeting for their payment (which period cannot exceed three years from the date of such shareholders' meeting), until January 1, 2010 they were canceled and no longer available for issuance by us. As of January 1, 2010, the board of directors of LATAM Airlines Group has a legal obligation to initiate the necessary legal actions to collect the unpaid amounts, unless the shareholders' meeting which authorized the capital increase allowed the board to abstain from taking such action by a vote of two thirds of the issued shares, in which case the former rule still applies. Once the foregoing legal actions are exhausted, the board of directors shall propose to the shareholders' meeting the appropriate capital adjustment measures, to be decided by simple majority. Fully paid shares are not subject to further calls or assessments or to liabilities of LATAM Airlines Group.

As of February, 28, 2017, our share capital consisted of 608,374,525 common shares of which 606,407,693 are subscribed and fully paid shares and 1,966,832 shares are pending of subscription and payment. The unsubscribed shares include (i) 1,500,000 shares allocated to stock option compensation plans and (ii) 466,832 that remain unsubscribed following our most recent capital increase. The current share capital amount reflects the expiration of stock options, covering 4,789,718 shares that had been granted under employee compensation plans. Upon the expiration of the stock options on December 21, 2016, the Company's capital stock was reduced to 608,374,525 shares.

Chilean law recognizes the right of corporations to issue common and preferred shares. To date, we have issued and are authorized by our shareholders to issue only common shares. Each share of stock is entitled to one vote. Pursuant to one employee compensation plan approved by extraordinary shareholders' meeting held on June 11, 2013, the issuance of the shares for this compensation plan has been authorized but has not been made effective.

## Preemptive Rights and Increases in Share Capital

The Chilean Corporation Law requires Chilean companies to offer existing shareholders the right to purchase a sufficient number of shares to maintain their existing percentage of ownership in a company whenever that company issues new shares for cash, except for up to 10% of the capital increase which may be designated to employee compensation pursuant to article 24 of the Corporation Law. Under this requirement, any preemptive rights will be offered by us to the depositary as the registered owner of the common shares underlying the ADSs, but holders of ADSs and shareholders located in the United States will not be allowed to exercise preemptive rights with respect to new issuances of shares by us unless a registration statement under the Securities Act is effective with respect to those common shares or an exemption from the registration requirements thereunder is available.

We intend to evaluate at the time of any preemptive rights offering the costs and potential liabilities associated with the preparation and filing of a registration statement with the SEC, as well as the indirect benefits of enabling the exercise by the holders of ADSs and shareholders located in the United States of preemptive rights and any other factors we consider appropriate at the time. No assurances can be given that any registration statement would be filed. If preemptive rights are not made available to ADS holders, the depositary may sell those holders' preemptive rights and distribute the proceeds thereof if a secondary market for such rights exists and a premium can be recognized over the cost of such sale. In the event that the depositary does not sell such rights at a premium over the cost of any such sale, all or certain holders of ADRs may receive no value for the preemptive rights. The inability of holders of ADSs to exercise preemptive rights in respect of common shares underlying their ADSs could result in a change in their percentage ownership of common shares following a preemptive rights offering.

Under Chilean law, preemptive rights are freely exercisable, transferable or waived by shareholders during a 30-day period commencing upon publication of the official notice announcing the start of the preemptive rights period in the newspaper designated by the shareholders' meeting. The preemptive right of the shareholders is the pro rata amount of the shares registered in their name in the shareholders' registry of LATAM Airlines Group as of the fifth business day prior to the date of publication of the notice announcing the start of the preemptive rights period. During such 30-day period (except for shares as to which preemptive rights have been waived), Chilean companies are not permitted to offer any newly issued common shares for sale to third parties. For that 30-day period and an additional 30-day period, Chilean publicly held corporations are not permitted to offer any unsubscribed common shares for sale to third parties on terms that are more favorable to the purchaser than those offered to shareholders. At the end of such additional 30-day period, Chilean publicly held corporations are authorized to sell non-subscribed shares to third parties on any terms, provided they are sold on a Chilean stock exchange.

## Directors

Our by-laws provide for a board of nine directors. Compensation to be paid to directors must be approved by vote at the annual shareholders' meeting. We hold elections for all positions on the board of directors every two years. Under our by-laws, directors are elected by cumulative voting. Each shareholder has one vote per share and may cast all of his or her votes in favor of one nominee or may apportion his or her votes among any number of nominees. These voting provisions currently ensure that a shareholder owning more than 10% of our outstanding shares is able to elect at least one representative to our board of directors.

Under the Chilean Corporation Law, transactions of a publicly-traded company with a "related" party must be conducted on an arm's-length basis and must satisfy certain approval and disclosure requirements which are different from the ones that apply to a privately-held company. The conditions apply to the publicly-traded company and to all of its subsidiaries .

These transactions include any negotiation, act, contract or operation in which the publicly-traded company intervenes together with either (i) parties which are legally deemed related pursuant to article 100 of the Chilean Securities Market Law, (ii) a director, senior manager, administrator, main executive or liquidator of the company, either on their own behalf or on behalf of a third party, including those individuals' spouses or close relatives, (iii) companies in which the foregoing individuals own at least 10% (directly or indirectly), or in which they serve as directors, senior managers, administrators or main executives, (iv) parties indicated as such in the publicly-traded company's by-laws, or identified by the directors' committee or (v) those who have served as directors, senior managers, administrators, main executives or liquidators of the counterparty in the last 18 months and are now serving in one of those positions at the publicly-traded company.

Corporations may enter into transactions with related parties if (i) the transaction is in the interest of the corporation, (ii) the transaction is made on an arm's-length basis at market conditions, (iii) the individuals involved in the transactions report them immediately to the board, (iv) the transaction is approved after a reasoned explanation by the majority of the board, excluding those directors or liquidators that are involved in the transaction (who shall, nonetheless, render an opinion on the matter if required by the board), (v) the decisions of the board are disclosed at the next shareholders' meeting, and (vi) in case the majority of the board is disqualified to vote, the majority of the non-involved directors have approved the transaction, or two thirds of the voting shares have approved the transaction).

If, as noted in clause (vi) of the preceding paragraph, the transaction is to be approved by the shareholders' meeting, the following additional rules apply: (i) the board shall appoint an independent appraiser that shall report to the shareholders on the transaction, (ii) the director's committee or the non-involved directors may appoint a second independent appraiser, (iii) the appraiser's reports shall be made available for 15 days, (iv) the receipt and availability of the reports shall be disclosed as a material fact and (iv) directors shall render an opinion on the transaction within five business days after receiving the reports.

Transactions which do not meet the foregoing requirements are valid and enforceable, but neither the corporation nor its shareholders shall have a cause of action to sue the infringing party for reimbursement on behalf of the corporation, for a total of the benefits reported to the interested party, in addition to indemnification for the damages caused. In such proceedings, the defendant shall prove that the transaction met the legal requirements.

The Chilean Corporation Law sets forth a number of exceptions to the foregoing rules. In the following situations, transactions with related parties may be carried out without complying with the foregoing rules: (i) if a transaction does not involve a substantial amount (it is deemed that a transaction does not involve a substantial amount if it does not exceed 1.0% of the net worth of the company and does not exceed the equivalent of 2,000 UF or approximately US\$89,238 as of the date of this annual report on Form 20-F) unless such a transaction exceeds 20,000 UF (for this calculation all similar transactions carried out within a consecutive 12-month period between the same parties or for the same subject matter, shall be deemed as a single transaction), (ii) transactions which according to the policies determined by the board of directors, are deemed to be within the ordinary course of business (the determination of such policies shall be disclosed as a material fact and made available to shareholders), and (iii) if the counterparty is an entity in which the publicly-traded company has, directly or indirectly, at least a 95.0% ownership. As per the exemption indicated in (ii) above, on December 29, 2009, the Board of Directors of LATAM Airlines Group established policies setting forth the transactions that fall within the ordinary course of business. That determination was publicly disclosed on the same day and is currently available on LATAM Airlines Group's website under the "Corporate Governance" section.

#### **Shareholders' Meetings and Voting Rights**

The Chilean Corporation Law requires that an ordinary annual meeting of shareholders be held within the first four months of each year after being called by the board of directors (generally they are held in April, but in any case following the preparation of our financial statements, including the report of our auditors, for the previous fiscal year). LATAM Airlines Group's by-laws further provide that the ordinary annual meeting of shareholders must take place between February 1 and April 30. The shareholders at the ordinary annual meeting approve the annual financial statements, including the report of our auditors, the annual report, the dividend policy and the final dividend on the prior year's profits, elect the board of directors (in our case, every two years or earlier if a vacancy occurs) and approve any other matter that does not require an extraordinary shareholders' meeting. The most recent extraordinary meeting of our shareholders was held on April 27, 2017, and the most recent ordinary annual meeting of our shareholders was held on April 27, 2017.

Extraordinary shareholders' meetings may be called by the board of directors, if deemed appropriate, and ordinary or extraordinary shareholders' meetings must be called by the board of directors when requested by shareholders representing at least 10.0% of the issued voting shares or by the CMF. In addition, as from January 1, 2010 there are two new rules in this regard: (i) the CMF may directly call for an extraordinary shareholders' meeting in case of a publicly-traded company, and (ii) any kind of shareholders' meeting may be self-convened and take place if all voting shares attend, regardless of the fulfillment of the notice and other type of procedural requirements.

Notice to convene the ordinary annual meeting or an extraordinary meeting is given by means of three notices which must be published in a newspaper of our corporate domicile (currently Santiago, Chile) designated by the shareholders at their annual meeting and, if the shareholders fail to make such designation, the notice must be published in the Chilean Official Gazette pursuant to legal requirements. The first notice must be published not less than 15 days and not more than 20 days in advance of the scheduled meeting. Notice also must be mailed not less than 15 days in advance of the meeting to each shareholder and to the CMF and the Chilean stock exchanges. Currently, we publish our official notices in the newspaper *La Tercera* (available online at [www.latercera.com](http://www.latercera.com)).

The quorum for a shareholders' meeting is established by the presence, in person or by proxy, of shareholders representing a majority of our issued common shares. If that quorum is not reached, the meeting can be reconvened within 45 days, and at the second meeting the shareholders present are deemed to constitute a quorum regardless of the percentage of the common shares that they represent.

Only shareholders registered with us on the fifth business day prior to the date of a meeting are entitled to attend and vote their shares. A shareholder may appoint another individual (who need not be a shareholder) as his or her proxy to attend and vote on his or her behalf. Proxies addressed to us that do not designate a person to exercise the proxy are taken into account in order to determine if there is a sufficient quorum to hold the meeting, but the shares represented thereby are not entitled to vote at the meeting. The proxies must fulfill the requirements set forth by the Chilean Corporation Law and its regulatory norms. Every shareholder entitled to attend and vote at a shareholders' meeting has one vote for every share subscribed.

The following matters can only be considered at an extraordinary shareholders' meeting:

- our dissolution;
- a merger, transformation, division or other change in our corporate form or the amendment of our by-laws;
- the issuance of bonds or debentures convertible into shares;
- the conveyance of 50% or more of our assets (whether or not it includes our liabilities);
- the adoption or amendment of any business plan which contemplates the conveyance of assets in excess of the foregoing percentage;
- the conveyance of 50% or more of the assets of a subsidiary, if the latter represents at least 20% of our assets;
- the conveyance of shares of a subsidiary which entails the transfer of control;
- granting of a security interest or a personal guarantee in each case to secure the obligations of third parties, unless to secure or guarantee the obligations of a subsidiary, in which case only the approval of the board of directors will suffice; and
- other matters that require shareholder approval according to Chilean law or the by-laws.

The matters referred to in the first seven items listed above may only be approved at a meeting held before a notary public, who shall certify that the minutes are a true record of the events and resolutions of the meeting.

The by-laws establish that resolutions are passed at shareholders' meetings by the affirmative vote of an absolute majority of those voting shares present or represented at the meeting. However, under the Chilean Corporation Law, the vote of a two-thirds majority of the outstanding voting shares is required to approve any of the following actions:

- a change in our corporate form, division or merger with another entity;
- amendment to our term of existence, if any;
- our early dissolution;
- change in our corporate domicile;
- decrease of our capital stock;
- approval of contributions and the assessment thereof whenever consisting of assets other than money;
- any modification of the authority reserved for the shareholders' meetings or limitations on the powers of the board of directors;
- decrease in the number of members of the board of directors;
- the conveyance of 50% or more of our assets (whether or not it includes our liabilities);
- the adoption or amendment of any business plan which contemplates the conveyance of assets in excess of the foregoing percentage;
- the conveyance of 50% or more of the assets of a subsidiary, if the latter represents at least 20% of our assets;
- the conveyance of shares of a subsidiary which entails the transfer of control;
- the form that dividends are paid in;
- granting a security interest or a personal guarantee in each case to secure obligations of third parties that exceeds 50% of our assets, unless to secure or guarantee the obligations of a subsidiary, in which case only approval of the board of directors will suffice;
- the acquisition of our own shares, when, and on the terms and conditions, permitted by law;
- all other matters provided for in the by-laws;
- the correction of any formal defect in our incorporation or any amendment to our by-laws that refers to any of the matters indicated in the first 13 items listed above;
- the institution of the right of the controlling shareholder who has purchased at least 95% of the shares to purchase shares of the outstanding minority shareholders pursuant to the procedure set forth in article 71 bis of the Corporation Law; and
- the approval or ratification of transactions with related parties, as per article 147 of the Corporation Law (described above).

Amendments to the by-laws that have the effect of establishing, modifying or eliminating any special rights pertaining to any series of shares require the consenting vote of holders of two-thirds of the shares of the affected series. As noted above, LATAM Airlines Group does not have special series of shares.

In general, Chilean law does not require a publicly held corporation to provide the level and type of information that the U.S. securities laws require a reporting company to provide to its shareholders in connection with a solicitation of proxies. However, shareholders are entitled to examine the books of the company and its subsidiaries within the 15-day period before a scheduled meeting. No later than 15 business days of the scheduled shareholder's meeting, the board of directors of a publicly held corporation is required to send to every shareholder notice by regular mail, a notice containing a reference to the issues that will be discussed, together with instructions to obtain all the appropriate documentation regarding those issues, and publish such notice on its website. The board is also required to make available to the shareholders the annual report and the financial statements of the company, and to publish such information in the company's webpage at least 10 days in advance of the scheduled shareholders meeting. In addition to these requirements, we regularly have provided, and currently intend to continue to provide, together with the notice of shareholders' meeting, a proposal for the final annual dividend for shareholder approval. See "—Dividend and Liquidation Rights" below.

The Chilean Corporation Law provides that, whenever shareholders representing 10% or more of the issued voting shares so request, a Chilean company's annual report must include such shareholders' comments and proposal in relation to the company's affairs, together with the comments and proposals set forth by the directors' committee. Similarly, the Chilean Corporation Law provides that whenever the board of directors of a publicly held corporation convenes an ordinary meeting of the shareholders and solicits proxies for that meeting, or distributes information supporting its decisions or other similar material, it is obligated to include as an annex to its annual report any pertinent comments and proposals that may have been made by shareholders owning 10% or more of the company's voting shares who have requested that such comments and proposals be included, together with the comments and proposals set forth by the directors' committee.

#### **Dividend and Liquidation Rights**

In accordance with the Chilean Corporation Law, LATAM Airlines Group must distribute an annual cash dividend equal to at least 30% of its annual net income calculated in accordance with IFRS, unless otherwise decided by a unanimous vote of the holders of all issued shares, and unless and except to the extent it has accumulated losses. If there is no net income in a given year, LATAM Airlines Group can elect but is not legally obligated to distribute dividends out of retained earnings. All outstanding common shares are entitled to share equally in all dividends declared by LATAM Airlines Group, unless the shares have not been fully paid by the shareholder after being subscribed.

For all dividend distributions agreed by the board of directors in excess of the mandatory minimum of 30% noted in the preceding paragraph, LATAM Airlines Group may grant an option to its shareholders to receive those dividends in cash, or in shares issued by either LATAM Airlines Group or other corporations. Shareholders who do not expressly elect to receive a dividend other than in cash are legally presumed to have decided to receive the dividend in cash. A U.S. holder of ADSs may, in the absence of an effective registration statement under the Securities Act or an available exemption from the registration requirement thereunder, effectively is required to receive a dividend in cash. See "—Preemptive Rights and Increases in Share Capital" above.

Dividends that are declared but not paid within the appropriate time period set forth in the Chilean Corporation Law (as to minimum dividends, 30 days after declaration; as to additional dividends, the date set for payment at the time of declaration) are adjusted to reflect the change in the value of the UF. The UF is a daily indexed, Chilean peso-denominated accounting unit designed to discount the effect of Chilean inflation and it is based on the previous month's inflation rate as officially determined. Such dividends also accrue interest at the then-prevailing rate for UF-denominated deposits during such period. The right to receive a dividend lapses if it is not claimed within five years from the date such dividend is payable. After that period, the amount not claimed is given to a non-profit organization, the *Cuerpos de Bomberos de Chile* (the National Corporation of Firefighters).

In the event of LATAM Airlines Group's liquidation, the holders of fully paid common shares would participate pro rata in the distribution of assets remaining after payment of all creditors. Holders of shares not fully paid will participate in such distribution in proportion to the amount paid.

#### **Approval of Financial Statements**

The board of directors is required to submit our consolidated financial statements to the shareholders for their approval at the annual ordinary shareholders' meeting. If the shareholders reject the financial statements, the board of directors must submit new financial statements not later than 60 days from the date of that meeting. If the shareholders reject the new financial statements, the entire board of directors is deemed removed from office and a new board is to be elected at the same meeting. Directors who approved such financial statements are disqualified for re-election for the ensuing period.



## Right of Dissenting Shareholders to Tender Their Shares

The Chilean Corporation Law provides that, upon the adoption at an extraordinary meeting of shareholders of any of the resolutions or if any of the situations enumerated below takes place, dissenting or affected shareholders acquire the right to withdraw and to compel the company to repurchase their shares, subject to the fulfillment of certain terms and conditions. However, such right shall be suspended if we are a debtor in a bankruptcy liquidation proceeding, or if we are subject to a reorganization agreement approved in accordance with Chilean law No. 20,720, unless such agreement allows the right to withdraw, or unless it is terminated by the issuance of a liquidation resolution. In the case of holders of ADRs, however, in order to exercise such rights, holders of ADRs would be required to first withdraw the common shares represented by the ADRs pursuant to the terms of the deposit agreement. Such holders of ADRs would need to perfect the withdrawal of the common shares on or before the fifth business day prior to the date of the meeting.

“Dissenting shareholders” are defined as those who attend a shareholders’ meeting and vote against a resolution which results in the withdrawal right, or, if absent at such a meeting, those who state in writing to the company their opposition to such resolution within the following 30 days. Dissenting shareholders must perfect their withdrawal rights by tendering their stock to the company within thirty days after adoption of the resolution.

The price paid to a dissenting shareholder of a publicly held corporation is the weighted average of the sales prices for the shares as reported on the Chilean stock exchanges on which the shares are quoted during the 60 stock-exchange-business-day period elapsed between the 30<sup>th</sup> and the 90<sup>th</sup> stock-exchange-business-days-preceding the event giving rise to the withdrawal right. If, because of the volume, frequency, number and diversity of the buyers and sellers, the CMF determines that the shares are not shares actively traded on a stock exchange (*acciones de transacción bursátil*), the price paid to the dissenting shareholder is the book value. Book value for this purpose equals paid capital plus reserves and profits, less losses, divided by the total number of subscribed shares (whether entirely or partially paid). For the purpose of making this calculation, the last annual balance sheet is used and adjusted to reflect inflation up to the date of the shareholders’ meeting that gave rise to the withdrawal right.

The resolutions and situations that result in a shareholder’s right to withdraw are the following:

- the transformation of the company;
- the merger of the company with or into another company;
- the conveyance of 50% or more of the assets of the company, whether or not such sale includes the company’s liabilities;
- the adoption or amendment of any business plan which contemplates the conveyance of assets in excess of the foregoing percentage;
- the conveyance of 50% or more of the assets of a subsidiary, if the latter represents at least 20% of our assets;
- the conveyance of shares of a subsidiary which entails the transfer of control;
- the creation of preferential rights for a class of shares or an extension, amendment or reduction to those already existing, in which case the right to withdraw only accrues to the dissenting shareholders of the class or classes of shares adversely affected;
- the correction of any formal defect in the incorporation of the company or any amendment to the company’s by-laws that grants the right to withdraw;
- the granting of security interests or personal guarantees to secure or guarantee third parties’ obligations exceeding 50% of the company’s assets, except with regard to subsidiaries;
- resolutions of the shareholders’ meeting approving the decision to make private a public corporation in case the requirements set forth in “—General” cease to be met;
- if a publicly-traded company ceases to be obligated to register its shares in the Securities Registry of the CMF, and an extraordinary shareholders’ meeting agrees to de-register the shares and finalize its disclosure obligations mandated by the Corporation Law;
- if the controlling shareholder of a publicly-traded company reaches over 95% of the shares (in such case, the right must be exercised within 30 days of the date in which the threshold is reached, circumstance that must be communicated by means of a publication); and
- such other causes as may be established by the company’s by-laws (no such additional resolutions currently are specified in our by-laws).

In addition, shareholders of publicly held corporations have the right to withdraw if a person acquires two-thirds or more of the outstanding shares of such corporation with the right to vote (except as a result of other shareholders not having subscribed and paid a capital increase) and does not make a tender offer for the remaining shares within 30 days after acquisition.

Under article 69 bis of the Chilean Corporation Law, the right to withdraw also is granted to shareholders (other than pension funds that administer private pension plans under the national pension law), under certain terms and conditions, if a company were to become controlled by the Chilean government, directly or through any of its agencies, and if two independent rating agencies downgrade the rating of its stock from first class because of certain actions specified in Article 69 bis undertaken by the company or the Chilean government that affect negatively and substantially the earnings of the company. Shareholders must perfect their withdrawal rights by tendering their shares to the company within 30 days of the date of the publication of the new rating by two independent rating agencies. If the withdrawal right is exercised by a shareholder invoking Article 69 bis, the price paid to the dissenting shareholder shall be the weighted average of the sales price for the shares as reported on the stock exchanges on which the company’s shares are quoted for the six-month period preceding the publication of the new rating by two independent rating agencies. If, as previously described, the CMF determines that the shares are not actively traded on a stock exchange, the price shall be the book value calculated as described above.

There is no legal precedent as to whether a shareholder that has voted both for and against a proposal (such as the depositary) may exercise withdrawal rights with respect to the shares voted against the proposal. As such, there is doubt as to whether holders of ADRs who have not surrendered their ADRs and withdrawn common shares on or before the fifth business day prior to the shareholder meeting will be able to exercise withdrawal rights either directly or through the depositary with respect to the shares represented by ADRs. Under the provisions of the deposit agreement the depositary will not exercise these withdrawal rights.

The circumstance indicated above regarding ownership in excess of 95% by the controlling shareholder creates not only a withdrawal right for the remaining minority shareholders, but as of January 1, 2010, it also creates a “squeeze out” right by the controlling shareholder with respect to those same shareholders (granting a call option by means of which the controlling shareholder may buy-out the existing ownership participations pursuant to the provisions of article 71 bis of the Corporation Law).

Registration and Transfers

The *Depósito Central de Valores* (“DCV”) acts as LATAM Airlines Group’s registration agent. In the case of jointly owned common shares, an attorney-in-fact must be appointed to represent the joint owners in dealings with us.

C. Material Contracts

Table of Material Contracts for the Purchase of Aircrafts			
Agreement	Date	Aircraft (number purchased)	Estimated Gross Value of Aircraft
Boeing 767-300 Fleet			
Purchase Agreement No. 2126 with the Boeing Company	January 30, 1998	Ø Boeing 767-300 passenger aircrafts (2)	US\$200,000,000
Supplemental Agreement No. 16 to Purchase Agreement No. 2126	November 11, 2004	Ø Boeing 767-300 passenger aircrafts (3)	US\$140,000,000
		Ø Boeing 767-300 freighter aircraft (1)	
Supplemental Agreement No. 20 to Purchase Agreement No. 2126	April 28, 2005	Ø Boeing 767-300 passenger aircraft (1)	US\$300,000,000
		Ø Boeing 767-300 freighter aircrafts (2)	
Supplemental Agreement No. 21 to Purchase Agreement No. 2126	July 20, 2005	Ø Boeing 767-300 passenger aircrafts (3)	US\$410,000,000
Supplemental Agreement No. 22 to Purchase Agreement No. 2126	March 31, 2006	Ø Boeing 767-300 (3)	US\$430,000,000
		Ø Converted two (2) Boeing 767-300 freighter aircrafts to two (2) Boeing 767-300 passenger aircrafts	
Supplemental Agreement No. 23 to Purchase Agreement No. 2126	December 14, 2006	Ø Boeing 767-300 passenger aircrafts (3)	US\$460,000,000

Agreement	Date	Aircraft (number purchased)	Estimated Gross Value of Aircraft
Supplemental Agreement No. 24 to Purchase Agreement No. 2126	November 10, 2008	<ul style="list-style-type: none"> <li>Ø Boeing 767-300 passenger aircrafts (4)</li> <li>Ø Two (2) aircrafts delivered in 2011, and two (2) aircrafts delivered in 2012</li> <li>Ø Two purchase rights for Boeing 767-300 aircraft</li> </ul>	US\$636,000,000
Supplemental Agreement No. 28 to the Purchase Agreement No. 2126	March 22, 2010	<ul style="list-style-type: none"> <li>Ø Accelerate the delivery of ten 787-8 aircraft, substitute four aircraft from 787-9 to 787-8 and substitute three 767-316ER to 767-316F freighter aircraft</li> </ul>	
Supplemental Agreement No. 29 to the Purchase Agreement No. 2126	November 10, 2010	<ul style="list-style-type: none"> <li>Ø Accelerate the delivery of three Aircraft and substitute those three aircraft from 767-316F to 767-316ER.</li> </ul>	
Supplemental Agreement No. 30 to Purchase Agreement No. 2126	February 15, 2011	<ul style="list-style-type: none"> <li>Ø Boeing 767-300 passenger aircrafts (3)</li> <li>Ø Delivery was scheduled to take place in 2012</li> </ul>	US\$510,000,000
Supplemental Agreement No. 31 to Purchase Agreement No. 2126	May 10, 2011	<ul style="list-style-type: none"> <li>Ø Boeing 767-300 passenger aircrafts (5)</li> <li>Ø Four purchase rights for Boeing 767-300 passenger aircraft</li> <li>Ø Delivery was scheduled to take place in 2012</li> </ul>	US\$780,000,000
Supplemental Agreement No. 32 to Purchase Agreement No. 2126	December 22, 2011	<ul style="list-style-type: none"> <li>Ø Exercise two purchase options for Boeing 767-300 aircrafts (2)</li> <li>Ø Delivery was scheduled to take place in 2012</li> <li>Ø Remaining purchase options deleted</li> </ul>	US\$340,000,000
Purchase Agreement No. 3256 with the Boeing Company	October 29, 2007	Boeing 787-8/9 Fleet <ul style="list-style-type: none"> <li>Ø Boeing 787-8 aircrafts (18)</li> <li>Ø Boeing 787-9 aircrafts (8)</li> <li>Ø Option of purchasing fifteen additional aircraft to be delivered in 2017 and 2018</li> </ul>	US\$3,200,000,000
Supplemental Agreement No. 1 to the Purchase Agreement No. 3256	March 22, 2010	<ul style="list-style-type: none"> <li>Ø Advance scheduled delivery date of ten Boeing 787-8 aircraft and substitute four Boeing 787-9 aircraft into four Boeing 787-8 aircraft.</li> </ul>	
Supplemental Agreement No. 2 to the Purchase Agreement No. 3256	July 8, 2010	<ul style="list-style-type: none"> <li>Ø Advance scheduled delivery date of two Boeing 787-8 aircraft.</li> </ul>	
Supplemental Agreement No. 3 to the Purchase Agreement No. 3256	August 24, 2012	<ul style="list-style-type: none"> <li>Ø Replace two Boeing 787-8 aircraft with two Boeing 787-8 aircraft with a later delivery.</li> </ul>	

Agreement	Date	Aircraft (number purchased)	Estimated Gross Value of Aircraft
Delay Settlement Agreement to the Purchase Agreement No. 3256	September 16, 2013	Ø Agreed to update delivery dates, settle consequences of delays and convert several future deliveries of B787-8 aircraft to B787-9 aircraft. This agreement was amended on April 22, 2015 to update delivery dates of certain aircraft.	
Supplemental Agreement No. 4 to the Purchase Agreement No. 3256	April 22, 2015	Ø Reschedule the delivery dates of four Boeing 787-8 aircraft and replace four Boeing 787-8 aircraft with four Boeing 787-9 aircraft.	
Supplemental Agreement No. 5 to the Purchase Agreement No. 3256	July 3, 2015	Ø Reschedule the delivery date of one Boeing 787-8 aircraft.	
Supplemental Agreement No. 6 to the Purchase Agreement No. 3256	May 27, 2016	Ø Convert four Model 787-8 Aircraft to four Model 787-9 Aircraft, and Defer of two Model 787-9 Aircraft from 1Q 2018 and 2Q 2018 to 3Q 2018 and 4Q 2018 respectively.	
Supplemental Agreement No. 7 to the Purchase Agreement No. 3256	December 20, 2016	Ø Reschedule the delivery of four Model 787-9 Aircraft and document the actual delivery months for two Model 787-9 Aircraft in 2019.	
Supplemental Agreement No. 8 to Purchase Agreement No. 3256	July 28, 2017	Ø Reschedule the delivery of two Model 787-9 Aircraft and document the actual delivery months for two Model 787-9 Aircraft in 2019	
Supplemental Agreement No. 8 to Purchase Agreement No. 3256	December 7, 2017	Ø Reschedule the delivery of two Model 787-9 Aircraft	
Purchase Agreement No. 3194 with the Boeing Company	July 3, 2007	Boeing 777 Freighter Fleet Ø Boeing 777 freighter aircrafts (2) Ø Delivery was scheduled to take place in 2011 and 2012	US\$545,000,000
Letter Agreement 6-1162-KSW-6454R2 to the Purchase Agreement No. 3194	March 22, 2010	Ø Transfer two purchase rights from Purchase Agreement No. 2126 to Purchase Agreement No. 3194.	
Supplemental Agreement No. 2 to Purchase Agreement No. 3194	November 2, 2010	Ø Exercise purchase option for Boeing 777 freighter aircraft (1)	US\$280,000,000
Supplemental Agreement No. 3 to the Purchase Agreement No. 3194	September 22, 2011	Ø Advance the scheduled delivery date of one firm Boeing 777 freighter aircraft during 2012.	
Supplemental Agreement No. 4 to the Purchase Agreement No. 3194	August 9, 2012	Ø Reflect the configuration of the aircraft covered under such Purchase Agreement.	

Agreement	Date	Aircraft (number purchased)	Estimated Gross Value of Aircraft
Second A320-Family Purchase Agreement with Airbus S.A.S.	March 20, 1998	Airbus A320-Family Fleet Ø Airbus A320-Family aircrafts (5)	US\$230,000,000
Amendment No. 1 to the Second A320-Family Purchase Agreement	November 14, 2003	Ø Exercise three purchase rights for Airbus 319 aircraft, among other things.	
Amendment No. 2 to the Second A320-Family Purchase Agreement	October 4, 2005	Ø Acquire 25 additional Airbus 320 family aircraft and 15 purchase rights for Airbus A320-Family aircraft.	
Amendment No. 3 to the Second A320-Family Purchase Agreement	March 6, 2007	Ø Exercise 15 purchase rights for 15 Airbus A320-Family Aircraft. Ø According to clause 12.2 of the Second A320-Family Purchase Agreement, applicable to all subsequent amendments, in case of a failure, as defined in such agreement, a service life policy for a period of 12 years after delivery of any given aircraft shall apply.	
Amendment No. 5 to the Second A320-Family Purchase Agreement	December 23, 2009	Ø Airbus A320-Family aircrafts (30)	US\$2,000,000,000
Amendment No. 6 to the Second A320-Family Purchase Agreement	May 10, 2010	Ø Convert the aircraft type of three aircraft and advance the scheduled delivery date of 13 aircraft.	
Amendment No. 7 to the Second A320-Family Purchase Agreement	May 19, 2010	Ø Advance the scheduled delivery date of three aircraft.	
Amendment No. 8 to the Second A320-Family Purchase Agreement	September 23, 2010	Ø Convert the aircraft type of one aircraft and advance the scheduled delivery date of four aircraft.	
Amendment No. 9 to the Second A320-Family Purchase Agreement	December 21, 2010	Ø Airbus A320-Family aircrafts (50)	US\$2,600,000,000
Amendment No. 10 to the Second A320-Family Purchase Agreement	June 10, 2011	Ø Convert the aircraft type of three aircraft, to select sharklets for some aircraft and to notify delivery dates for some aircraft.	
Amendment No. 11 to the Second A320-Family Purchase Agreement	November 3, 2011	Ø Convert the aircraft type of three aircraft and defer the scheduled delivery date of four aircraft.	
Amendment No. 12 to the Second A320-Family Purchase Agreement	November 19, 2012	Ø Convert the aircraft type of three aircraft, identify certain aircraft as Sharklet Installed Aircraft and others as Sharklet Capable Aircraft, as those are defined in such Purchase Agreement, and notify the scheduled delivery month for certain aircraft.	

Agreement	Date	Aircraft (number purchased)	Estimated Gross Value of Aircraft
Amendment No. 13 to the Second A320-Family Purchase Agreement	August 19, 2013	Ø Convert several A320 aircraft to A321 aircraft and to postpone the scheduled delivery dates of several aircraft.	
Amendment No. 14 to the Second A320-Family Purchase Agreement	March 31, 2014	Ø Covering the rescheduling of the scheduled delivery date of one Aircraft.	
Amendment No. 15 to the Second A320-Family Purchase Agreement	May 16, 2014	Ø Covering the rescheduling of the scheduled delivery month of certain Aircraft.	
Amendment No. 16 to the Second A320-Family Purchase Agreement	July 15, 2014	Ø Covering cancellation and substitution of certain Aircraft.	
Novation Agreement to the Second A320-Family Purchase Agreement	October 30, 2014	Ø Novation of the original TAM A320/A330 Family Purchase Agreement from TAM to LATAM.	
Amendment No. 17 to the Second A320-Family Purchase Agreement	December 11, 2014	Ø Covering the substitution of certain Aircraft.	
A320 NEO Purchase Agreement	June 22, 2011	Airbus A320 NEO-Family Fleet Ø Airbus 320 NEO Family aircraft (20) Ø Delivery scheduled to take place in 2017 and 2018	US\$1,700,000,000
Amendment No. 1 to the A320 NEO Purchase Agreement	February 27, 2014	Ø Covering the advancement of the date by which LATAM selects the propulsion systems.	
Amendment No. 2 to the A320 NEO Purchase Agreement	July 15, 2014	Ø Covering the order of incremental A320 NEO Aircraft.	
Amendment No. 3 to the A320 NEO Purchase Agreement	December 11, 2014	Ø Covering the order of incremental A320 NEO Aircraft and A321 NEO Aircraft.	
Amendment No. 4 to the A320 NEO Purchase Agreement	April 15, 2016	Ø Covering the reschedule of the delivery of eight Original NEO Aircraft and the conversion of four Original NEO Aircraft into A321 NEO Aircraft	
Amendment No. 5 to the A320 NEO Purchase Agreement	April 15, 2016	Ø Changes in the technical specifications of the aircraft to be received under this agreement.	
Amendment No. 6 to the A320 NEO Purchase Agreement	August 8, 2016	Ø Covering the cancellation of the delivery of four A320 NEO Aircraft.	

Agreement	Date	Aircraft (number purchased)	Estimated Gross Value of Aircraft
TAM Material Contracts – A320/A330 Family Purchase Agreement			
Purchase Agreement with Airbus S.A.S.	November 2006	Ø Airbus A320-Family aircrafts (31) Ø Airbus A330-200 aircrafts (6) Ø Delivery was scheduled to take place between 2007 and 2010	US\$3,300,000,000
New Purchase Agreement with Airbus S.A.S.	January 2008	Ø Airbus A320-Family aircrafts (20) Ø Airbus A330-200 aircrafts (4) Ø Delivery was scheduled to take place between 2007 and 2014	US\$2,140,000,000
New Purchase Agreement with Airbus S.A.S.	July 2010	Ø Airbus A320-Family aircrafts (20) Ø Delivery was scheduled to take place between 2014 and 2015	US\$1,450,000,000
New Purchase Agreement with Airbus S.A.S.	October 2011	Ø Airbus A320-Family aircrafts (10) Ø Airbus A320 NEO Family aircrafts (22) Ø Delivery scheduled to take place between 2016 and 2018 Ø Ten option rights for Airbus A320 NEO Family aircraft	US\$1,730,000,000
Amendment No. 12 to the A320/A330 Purchase Agreement	January 2012	Ø Reschedule the delivery dates of certain aircraft.	
Amendment No. 13 to the A320/A330 Purchase Agreement	November 2012	Ø Convert the aircraft type of A320 family aircraft.	
Amendment No. 14 to the A320/A330 Purchase Agreement	December 2012	Ø Convert the aircraft type of an A320 family aircraft and reschedule the delivery date of such aircraft.	
Amendment No. 15 to the A320/A330 Purchase Agreement	February 2013	Ø Changes to the scheduled delivery month of certain A320 Family Aircraft.	
Amendment No. 16 to the A320/A330 Purchase Agreement	February 2013	Ø Change to the aircraft type of certain A320 Family Aircraft, to the scheduled delivery month/quarter of certain A320 Family Aircraft and make certain changes to the dates by which TAM will select the propulsion systems and NEO propulsion systems for certain Aircraft.	
Amendment No. 17 to the A320/A330 Purchase Agreement	August 2013	Ø Change to the scheduled delivery month of a certain A320 Family Aircraft and to make the selection of the propulsion systems and NEO propulsion systems for certain Aircraft.	
Amendment No. 19 to the A320/A330 Purchase Agreement	December 2014	Ø Reschedule and substitute certain A321 Aircraft.	

Agreement	Date	Aircraft (number purchased)	Estimated Gross Value of Aircraft
Amendment No. 20 to the A320/A330 Purchase Agreement	June 2015	Ø Change to the schedule delivery month of one A321 Aircraft.	
Amendment No. 21 to the A320/A330 Purchase Agreement	December 2015	Ø Change to the schedule delivery month of two A320 NEO Aircraft.	
Amendment No. 22 to the A320/A330 Purchase Agreement	April 15, 2016	Ø Rescheduling of the delivery of one A321 Aircraft.	
Amendment No. 23 to the A320/A330 Purchase Agreement	April 15, 2016	Ø Reflect the changes in the technical specifications of the aircraft to be received under this agreement.	
Amendment No. 24 to the A320/A330 Purchase Agreement	August 8, 2016	Ø Cancel the delivery of eight A320 NEO Aircraft.	
Amendment No. 25 to the A320/A330 Purchase Agreement	September 22, 2017	Ø Reschedule of the delivery of one A321 Aircraft, one A320 NEO Aircraft and four A321 NEO Aircraft	
TAM Material Contracts – A350 Family Purchase Agreement			
Purchase Agreement with Airbus S.A.S.	January 2008	Ø Airbus A350 aircrafts (22) Ø Ten option rights for Airbus A350 aircraft	US\$6,480,000,000
Amendment No. 1 to the A350 Purchase Agreement	July 2010	Ø Exercise its option of five A350 XWB options.	
Amendment No. 2 to the A350 Purchase Agreement	July 2014	Ø Reschedule the delivery of certain A350-900XWB and to amend certain provisions to reflect the latest aircraft specification.	
Novation Agreement to the A350 Purchase Agreement	July 2014	Ø Novating the A350 purchase agreement from TAM to LATAM.	
Amendment No. 3 to the A350 Purchase Agreement	October 2014	Ø Reschedule the scheduled delivery month of a certain A350-900XWB aircraft.	
Amendment No. 4 to the A350 Purchase Agreement	September 2015	Ø Modify certain terms and conditions of such agreement and to convert a number of A350-900 XWB Aircraft into A350-1000 XWB Aircraft.	
Amendment No. 5 to the A350 Purchase Agreement	November 2015	Ø Convert a number of A350-900 XWB aircraft into six A350-1000 XWB aircraft and to reschedule the delivery of certain A350-900 XWB.	



Agreement	Date	Aircraft (number purchased)	Estimated Gross Value of Aircraft
Amendment No. 6 to the A350 Purchase Agreement	February 3, 2016	Ø Reschedule the delivery of two A350 - 900 XWB Aircraft.	
Amendment No. 7 to the A350 Purchase Agreement	August 8, 2016	Ø Change aircraft type, from two A350-900 XWB Aircraft to two A350 - 1000 XWB Aircraft.	
Amendment No. 8 to the A350 Purchase Agreement	September 9, 2016	Ø Reschedule the delivery of two A350 - 900 XWB Aircraft.	
Amendment No. 9 to the A350 purchase agreement	September 22, 2017	Ø Convert two A350-1000 XWB Aircraft into A350-900 XWB Aircraft	
Purchase Agreement with Boeing	February 2007	TAM Material Contracts – Boeing 777 Purchase Agreement Ø Boeing 777-32WER aircrafts (4)	US\$1,070,000
Supplemental Agreement No. 1 to the Purchase Agreement	August 2007	Ø Exercise four option aircraft and to define certain aircraft configuration.	
Supplemental Agreement No. 2 to the Purchase Agreement	March 2008	Ø Document its agreement on the descriptions and pricing of some options and master changes related to certain aircraft.	
Supplemental Agreement No. 3 to the Purchase Agreement	December 2008	Ø Purchase of two incremental 777 aircraft.	
Supplemental Agreement No. 5 to the Purchase Agreement	July 2010	Ø Reschedule the delivery of certain aircraft.	
Supplemental Agreement No. 6 to the Purchase Agreement	February 2011	Ø Purchase of two incremental 777 aircraft.	
Supplemental Agreement No. 7 to the Purchase Agreement	May 2014	Ø Substitute two 777-300ER Aircraft originally scheduled for delivery in 2014 for two 777-F aircraft for scheduled delivery in 2017.	
Supplemental Agreement No. 8 to the Purchase Agreement	April 2015	Ø Reschedule the delivery of certain aircraft.	

#### *Other Material Contracts*

##### *Boeing*

On May 9, 1997, we entered into the Aircraft General Terms Agreement with The Boeing Company (“AGTA”), applicable to all Boeing aircraft contracted for purchase from The Boeing Company.

##### *Airbus A320-Family Fleet*

Between April and August 2011, we entered into Buyback Agreements No. 3001, 3030, 3062, 3214 and 3216 with Airbus Financial Services for the sale of five A318 aircraft for approximately US\$107 million.

Between August 2012 and January 2013, we entered into Buyback Agreements No. 3371, 3390, 3438, 3469 and 3509 with Airbus Financial Services for the sale of five A318 aircraft for approximately US\$102 million.

*Aercap Holdings N.V.*

On May 28, 2013, we entered into a framework deed with Aercap Holdings N.V. for the sale and leaseback of several used A330-200 aircraft, which were returned to the lessor, and several new aircraft to be received from the manufacturer including A350-900, B787-8 and B787-9 aircraft. The estimated gross value (at list prices) of these aircraft is US\$3.0 billion.

*Aircastle Holding Corporation Limited*

On February 21, 2014, we entered into a framework deed with Aircastle Holding Corporation Limited for the lease of four B777-300ER already in fleet. The four aircraft were manufactured in 2012 and the estimated market value (at list prices) of these aircraft is US\$580 million. The average term of the original leases were 60 months, and the agreement was extended for another 84 months.

*GE Commercial Aviation*

On April 30, 2007, we also entered into an Aircraft Lease Common Terms Agreement with GE Commercial Aviation Services Limited and two Aircraft Lease Agreements with Wells Fargo Bank Northwest N.A., as owner trustee, for the lease of two Boeing B777-200LRF aircraft. These aircraft were delivered in 2009 and the leases shall remain in place for a term of 96 months.

*GE Engine Services LLC*

On June 12, 2014, we (and TAM Linhas Aereas S.A.) entered into engine services agreement with GE Engine Services, LLC and GE Celma Ltda. for the provision of maintenance services of CF6-80C2B6F engines (which powers our B767 fleet) during 200 shop visits or 10 years, whichever occurs first.

On July 28, 2009, TAM Linhas Aereas S.A. entered into an engine services agreement with GE Engine Services, Inc. for the provision of maintenance services of GE90-115BL engines, which power 10 B777 passenger fleet and 4 spare engines, for a period of 12 years per engine.

*CFM International*

On December 17, 2010, we entered into General Terms Agreement No. CFM-1-2377460475 (the “GTA”) and Letter Agreement No. 1 to GTA with CFM International, Inc. (“CFM”) for the sale and support by CFM of CFM56-5B engines to power 70 A320 family aircraft and up to 14 CFM56-5B spare engines. On the same date, we entered into a Rate Per Flight Hour Engine Shop Maintenance Services Agreement with CFM for the provision by CFM of maintenance services for the above-mentioned installed and spare engines.

On December 31, 2014, we entered Letter Agreement No. 2 to GTA with CFM International, Inc. (“CFM”) for the sale and support by CFM of CFM56-5B engines to power 20 A320 family aircraft and one spare engine.

On March 15, 2006, TAM Linhas Aereas S.A. entered into an engine services agreement with GE Celma Ltda. for the provision of maintenance services for CFM56-5B engines, which power 47 A320 Fam passenger fleet and 6 spare engines, for a period of 15 years per engine.

*PW1100G-JM Engine Maintenance Agreement*

In February 2014, we entered into an engine support and maintenance agreement with United Technologies International Corporation, Pratt & Whitney Division (“PW”) for the sale, support and maintenance by PW of PW1100G-JM engines to power 42 A320NEO family aircraft and nine spare engines. It is also a rate per engine flight hour contract agreement, which includes cost control mechanisms for LATAM.

*Rolls-Royce PLC & Rolls-Royce TotalCare Services Limited*

On September 30, 2009, we entered into General Terms Agreement No. DEG5307 (the “GTA”) with Rolls-Royce PLC for the sale and support by Rolls-Royce of Trent 1000 engines to power 32 B787 family aircraft and up to 10 Trent 1000 spare engines. On the same date, we entered into a Rate Per Flight Hour Engine Shop Maintenance Services Agreement with Rolls-Royce TotalCare Services Limited for the provision by Rolls-Royce of maintenance services for the above-mentioned installed and spare engines, for a period of 15 years per engine.

On January 11, 2011, TAM Linhas Aereas S.A. entered into General Terms Agreement No. DEG5292 (the “GTA”) with Rolls-Royce PLC for the sale and support by Rolls-Royce of Trent XWB engines to power 27 A350XWB family aircraft and up to 7 Trent XWB spare engines. On the same date, we entered into a Rate Per Flight Hour Engine Shop Maintenance Services Agreement with Rolls-Royce TotalCare Services Limited for the provision by Rolls-Royce of maintenance services for the above-mentioned installed and spare engines, for a period of 12 years per engine. Subsequently, on July 31, 2015, the aforementioned agreements were novated, so that LATAM Airlines Group S.A. replaces TAM Linhas Aereas S.A. in both agreements.

*International Aero Engines AG*

On October 12, 2006, we entered into an engine services agreement with IAE International Aero Engines AG for the provision of maintenance services of V2500-A5 engines, which power 53 A320 Fam passenger fleet and 9 spare engines, for a period of 12 years per engine.

On October 21, 2010, TAM Linhas Aereas S.A. entered into an engine services agreement with IAE International Aero Engines AG for the provision of maintenance services of V2500-A5 engines, which power 26 A320 Fam passenger fleet and 7 spare engines, for a period of 12 years per engine.

*CFM International*

On June 29, 2016, we entered into a Rate Per Flight Hour Agreement for Engine Shop Maintenance Services with CFM International, Inc., covering the maintenance, repair and overhaul of certain CFM56-5B engines.

*PAAL Gemini Company Limited – PAAL Aquila Company Limited*

During 2016, we entered into operating lease agreements with PAAL Gemini Company Limited and PAAL Aquila Company Limited, for the sale and lease back of four Airbus A321 received in our fleet in 2016. The term of each of the leases is 10 years and the estimated market value (at list prices) of these aircraft is US\$200 million.

*Jackson Square*

During 2016, we entered into operating lease agreements with JSA Aircraft 7126, LLC, JSA Aircraft 7128, LLC, JSA Aircraft 7239, LLC and JSA Aircraft 7298, LLC, for the sale and lease back of three Airbus A321 and one Airbus A320 Neo received in our fleet in 2016. The term of each of the leases is 10 years and the estimated market value (at list prices) of these aircraft is US\$200 million.

*Avolon Aerospace*

On May 10, 2017, we entered into a Framework Agreement with Avolon Aerospace for the assignment of two A350-900 aircraft. The estimated market value of these aircraft is US\$ 246,000,000.

On September 8, 2017, we entered into an Operating Lease Agreement with Avolon Aerospace for the Sale and Leaseback of five A320 neo aircraft. The estimated market value of these aircraft is US\$ 241,000,000. The average term of the leases is 144 months.

*SABRE Contract*

In November 2009, we entered into a master agreement with SABRE Inc., pursuant to which LATAM was granted with access and use of certain reservation systems and other SABRE software solutions. This agreement will remain in force for five years or until the expiration of all Work Orders to the agreement. In addition, on May 4, 2015, we entered into a Master Services License Agreement with SABRE Inc. Pursuant to this agreement SABRE Inc., will grant LATAM access and use of certain reservation systems. This agreement will enter into force after the expiration of Work Order No. 1 to the agreement entered in November 2009 by LATAM and SABRE Inc. and will be effective for an initial period of 10 years.

In addition, LATAM has distribution agreements in place with SABRE as well as with other distribution providers.

*CFM56-5B Engine Maintenance Contract*

In March 2006, TAM entered into a services agreement with GE Celma, a Brazilian subsidiary of General Electric Engine Services division, for the maintenance by GE Celma of CFM56-5B engines to power 25 A320 family aircraft and four spare engines.

In March 2007 TAM entered into the Amendment 1 to the above-mentioned services agreement with GE Celma, extending the maintenance services to the engines powering additional 16 A320 family aircraft and two spare engines.

#### *V2500-A5 Engine Maintenance Agreement*

In 2000, TAM entered into an engine maintenance contract with MTU Motoren-und Turbinen-Union München GmbH, or MTU, pursuant to which MTU agreed to provide certain maintenance, refurbishment, repair and modification services with respect to approximately 105 TAY650-15 aircraft engines. This contract is complemented by a novation and amendment agreement between us and Rolls-Royce Brazil Ltda. pursuant to which Rolls-Royce Brazil Ltda. replaced MTU as contract counterparty. This agreement terminates on June 30, 2015.

#### *SABRE Contract*

In October 2003, TAM entered into a general services agreement with SABRE Travel International Limited, pursuant to which TAM was granted a license (relating to the provision of maintenance services) for electronic reservation technology and database backup. The term of the agreement was tacitly and automatically extended to cover all Work Orders currently in force under the agreement and will expire at the same time with the expiration of the last Work Order. In addition, TAM has distribution agreements in place with SABRE as well as with other distribution providers.

In addition, on May 4, 2015, we entered into a Master Services License Agreement with SABRE Inc. Pursuant to this agreement SABRE Inc., will grant TAM access and use of certain reservation systems. This agreement will enter into force after the expiration of that Work Order No. 1 to the November 2009 agreement between LATAM and SABRE Inc., and will be effective for an initial period of 10 years.

#### *Amadeus Contract*

In July 2009, TAM entered into a general services agreement with Amadeus IT Group S.A., pursuant to which TAM was granted a license (relating to the provision of maintenance services) for electronic reservation technology and database backup. The term of this agreement was ten years, unless terminated early by either party. On March 1, 2016, as part of LATAM's plan to unify the Passenger Service Platform and migrate to a single service provider, TAM sent Amadeus an early termination notice to be effective during 2017. In addition, TAM has distribution agreements in place with Amadeus as well as with other distribution providers.

### **D. Exchange Controls**

#### **Foreign Investment and Exchange Controls in Chile**

The Central Bank of Chile is responsible, among other things, for monetary policies and exchange controls in Chile. Equity investments, including investments in shares of stock by persons who are non-Chilean residents, have been generally subject in the past to various exchange control regulations restricting the repatriation of their investments and the earnings thereon.

Article 47 of the Central Bank Act and former Chapter XXVI of the Central Bank Foreign Exchange Regulations regulated the foreign exchange aspects of the issuance of ADSs by a Chilean company until April 2001. According to former Chapter XXVI, the Central Bank of Chile and the depositary had to enter into an agreement in order to gain access to the formal exchange market. The issuers of the shares underlying the ADSs and the custodian could also be parties to these agreements.

On April 16, 2001, the Central Bank of Chile agreed that, effective April 19, 2001:

- prior foreign exchange restrictions would be eliminated; and
- a new Compendium of Foreign Exchange Regulations (*Compendio de Normas de Cambios Internacionales*) would be applied.

The main objective of these amendments, as declared by the Central Bank of Chile, is to facilitate movement of capital in and out of Chile and to encourage foreign investment.

In connection with the change in policy, the Central Bank of Chile eliminated the following restrictions:

- a reserve requirement with the Central Bank of Chile for a period of one year (this mandatory reserve was imposed on foreign loans and funds brought into Chile to purchase shares other than those acquired in the establishment of a new company or in the capital increase of the issuing company; the reserve requirement was gradually decreased from 30% of the proposed investment to 0%);

- the requirement of prior approval by the Central Bank of Chile for certain operations;
- mandatory return of foreign currency to Chile; and
- mandatory conversion of foreign currency into Chilean pesos.

Under the new regulations, only the following limitations apply to these operations:

- the Central Bank of Chile must be provided with information related to certain operations; and
- certain operations must be conducted with the Formal Exchange Market.

The Central Bank of Chile also eliminated Chapter XXVI of the Compendium of Foreign Exchange Regulations, which regulated the establishment of an ADR facility by a Chilean company. Pursuant to the new rules, it is no longer necessary to seek the Central Bank of Chile's prior approval in order to establish an ADR facility or to enter into a foreign investment contract with the Central Bank of Chile. The establishment of an ADR facility is now regarded as an ordinary foreign investment, and simply requires that the Central Bank of Chile be informed of the transaction pursuant to Chapter XIV of the amended Compendium of Foreign Exchange Regulations and that the foreign currency transactions related thereby be conducted through the Formal Exchange Market.

However, all contracts executed under the provisions of former Chapter XXVI (including the foreign investment contract among LATAM Airlines Group, the Central Bank of Chile and the ADS depositary, or the "Foreign Investment Contract"), remained in full force and effect and continued to be governed by the provisions, and continued to be subject to the restrictions, set forth in former Chapter XXVI at the time of its abrogation. Our Foreign Investment Contract guaranteed ADS investors access to the Formal Exchange Market to convert amounts from Chilean pesos into U.S. dollars and repatriate amounts received with respect to deposited common shares or common shares withdrawn from deposit or surrender of ADRs (including amounts received as cash dividends and proceeds from the sale in Chile of the underlying common shares and any rights arising from them).

On May 10, 2007, the Board of the Central Bank of Chile resolved to interpret the regulations regarding the former Chapter XXVI in connection with the access granted to the Formal Exchange Market. These regulations allowed entities that carry out capital increases by means of the issuance of cash shares before August 31, 2007 to apply the aforementioned regulation to their capital increases, but only once and only if those shares can be fully subscribed and paid by August 31, 2008, among other conditions. Consequently, capital increases carried out after August 31, 2007 will have no guaranteed access to the Formal Exchange Market.

On October 17, 2012, the Central Bank of Chile, the depositary and LATAM Airlines Group entered into a termination agreement in respect of LATAM's existing foreign investment contract. ADR holders were notified about this termination in accordance with Section 16 of the Deposit Agreement. Upon termination of the foreign investment contract, holders of ADSs and the depositary no longer have guaranteed access to the Formal Exchange Market. Currently, the ADS facility is governed by Chapter XIV of the Compendium on "Regulations applicable to Credits, Deposits, Investments and Capital Contributions from Abroad." According to Chapter XIV, the establishment or maintenance of an ADS facility is regarded as an ordinary foreign investment, and it is not necessary to seek the Central Bank of Chile's prior approval in order to establish an ADS facility. The establishment or maintenance of an ADS facility only requires that the Central Bank of Chile be informed of the transaction, and that the foreign currency transactions related thereby be conducted through the Formal Exchange Market.

#### **Investment in Our Shares and ADRs after the business combination with TAM**

As a result of the combination with TAM, investments made in shares of our common stock are subject to the following requirements:

- any foreign investor acquiring shares of our common stock who brought funds into Chile for that purpose must bring those funds through an entity participating in the Formal Exchange Market;
- any foreign investor acquiring shares of our common stock to be converted into ADSs or deposited into an ADR program who brought funds into Chile for that purpose must bring those funds through an entity participating in the Formal Exchange Market;
- in both cases, the entity of the Formal Exchange Market through which the funds are brought into Chile must report such investment to the Central Bank of Chile;
- all remittances of funds from Chile to the foreign investor upon the sale of the acquired shares of our common stock or from dividends or other distributions made in connection therewith must be made through the Formal Exchange Market;
- all remittances of funds from Chile to the foreign investor upon the sale of shares underlying ADSs or from dividends or other distributions made in connection therewith must be made through the Formal Exchange Market; and
- all remittances of funds made to the foreign investor must be reported to the Central Bank of Chile by the intervening entity of the Formal Exchange Market.

When funds are brought into Chile for a purpose other than to acquire shares to convert them into ADSs or deposit them into an ADR program and subsequently such funds are used to acquire shares to be converted into ADSs or deposited into an ADR program such investment must be reported to the Central Bank of Chile by the custodian within 10 days following the end of each month within which the custodian is obligated to deliver periodic reports to the Central Bank of Chile.

When funds to acquire shares of our common stock or to acquire shares to convert them into ADSs or deposit them into an ADR program are received by us abroad (i.e., outside of Chile), such investment must be reported to the Central Bank of Chile directly by the foreign investor or by an entity participating in the Formal Exchange Market within ten days following the end of the month in which the investment was made.

All payments in foreign currency in connection with our shares of common stock or ADSs made from Chile through the Formal Exchange Market must be reported to the Central Bank of Chile by the entity participating in the transaction. In the event there are payments made outside of Chile, the foreign investor must provide the relevant information to the Central Bank of Chile directly or through an entity of the Formal Exchange Market within the first ten calendar days of the month following the date on which the payment was made.

There can be no assurance that additional Chilean restrictions applicable to the holders of ADSs, the disposition of shares of our common shares underlying ADSs or the conversion or repatriation of the proceeds from such disposition will not be imposed in the future, nor can we assess the duration or impact of such restriction if imposed.

This summary does not purport to be complete and is qualified by reference to Chapter XIV of the Central Bank of Chile's Foreign Exchange Regulations, a copy of which is available in Spanish and English versions at the Central Bank's website at [www.bcentral.cl](http://www.bcentral.cl).

#### **Voting Rights**

Holders of our ADSs, which represent common shares, may instruct the depositary to vote the shares underlying their ADRs. If we ask holders for instructions, the depositary will notify such holders of the upcoming vote and arrange to deliver our voting materials to such holders. The materials will describe the matters to be voted on and explain how holders may instruct the depositary to vote the shares or other deposited securities underlying their ADSs as they direct by a specified date. For instructions to be valid, the depositary must receive them on or before the date specified as "Vote Cut-Off Date." The depositary will try, as far as practical, subject to Chilean law and the provisions of our by-laws, to vote or to have its agents vote the shares or other deposited securities as holders instruct. Otherwise, holders will not be able to exercise their right to vote unless they withdraw the shares. However, holders may not know about the meeting far enough in advance to withdraw the shares. We will use our best efforts to request that the depositary notify holders of upcoming votes and ask for their instructions.

If the depositary does not receive voting instructions from a holder by the specified date, it will consider such holder to have authorized and directed it to give a discretionary proxy to a person designated by our board of directors to vote the number of deposited securities represented by such holder's ADSs. The depositary will give a discretionary proxy in those circumstances to vote on all questions to be voted upon unless we notify the depositary that:

- we do not wish to receive a discretionary proxy;
- we think there is substantial shareholder opposition to the particular question; or
- we think the particular question would have an adverse impact on our shareholders.

The depositary will only vote or attempt to vote as such holder instructs or as described above.

We cannot assure holders that they receive the voting materials in time to ensure that they can instruct the depositary to vote their shares. This means that holders may not be able to exercise their right to vote and there may be nothing they can do if their shares are not voted as they requested.

#### **Exchange Rates**

Prior to 1989, Chilean law permitted the purchase and sale of foreign exchange only in those cases explicitly authorized by the Central Bank of Chile. The Central Bank Act liberalized the rules that govern the ability to buy and sell foreign currency. The Central Bank Act empowers the Central Bank of Chile to determine that certain purchases and sales of foreign currency specified by law must be carried out exclusively in the Formal Exchange Market, which is made up of the banks and other entities authorized by the Central Bank of Chile. All payments and distributions with respect to the ADSs must be conducted exclusively in the Formal Exchange Market.

For purposes of the operation of the Formal Exchange Market, the Central Bank of Chile sets a reference exchange rate (*dólar acuerdo*). The Central Bank of Chile resets the reference exchange rate monthly, taking internal and external inflation into account, and adjusts the reference exchange rate daily to reflect variations in parities between the Chilean peso, the U.S. dollar, the Japanese yen and the European euro.

The observed exchange rate (*dólar observado*) is the average exchange rate at which transactions were actually carried out in the Formal Exchange Market on a particular day, as certified by the Central Bank of Chile on the next banking day.

Prior to September 3, 1999, the Central Bank of Chile was authorized to buy or sell dollars in the Formal Exchange Market to maintain the observed exchange rate within a specified range above or below the reference exchange rate. On September 3, 1999, the Central Bank of Chile eliminated the exchange band. As a result, the Central Bank of Chile may buy and sell foreign exchange in the Formal Exchange Market in order to maintain the observed exchange rate at a level the Central Bank of Chile determines.

Purchases and sales of foreign exchange may be effected outside the Formal Exchange Market through the Informal Exchange Market (*Mercado Cambiario Informal*) established by the Central Bank in 1990. There are no limits on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the observed exchange rate.

Although our results of operations have not been significantly affected by fluctuations in the exchange rates between the peso and the U.S. dollar because our functional currency is the U.S. dollar, we are exposed to foreign exchange losses and gains due to exchange rate fluctuations. Even though the majority of our revenues are denominated in or pegged to the U.S. dollar, the Chilean government's economic policies affecting foreign exchange and future fluctuations in the value of the peso against the U.S. dollar could adversely affect our results of operations and an investor's return on an investment in ADSs.

## E. Taxation

### Chilean Tax

The following discussion relates to Chilean income tax laws presently in force, including Ruling No. 324 of January 29, 1990 of the Chilean Internal Revenue Service ("Chilean IRS") and other applicable regulations and rulings, all of which are subject to change. The discussion summarizes the principal Chilean income tax consequences of an investment in the ADSs or common shares by a person who is neither domiciled in, nor a resident of, Chile or by a legal entity that is incorporated abroad not organized under the laws of Chile and does not have a branch or a permanent establishment located in Chile (such an individual or entity is referred to herein as a Foreign Holder). For purposes of Chilean tax law, an individual holder is a resident of Chile if such person has resided in Chile for more than six consecutive months in one calendar year or for a total of six months in two consecutive tax years. In addition, an individual is considered domiciled in Chile in case he or she resides in Chile with the actual or presumptive intent of staying in the country. The discussion is not intended as tax advice to any particular investor, which can be rendered only in light of that investor's particular tax situation.

Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign investors, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may only be amended by another statute. In addition, the Chilean tax authorities enact rulings and regulations of either general or specific application and interpret the provisions of Chilean tax law. Chilean tax may not be assessed retroactively against taxpayers who act in good faith relying on such rulings, regulations and interpretations, but Chilean tax authorities may change these rulings, regulations and interpretations prospectively. On February 4, 2010, representatives of the governments of the United States and Chile signed an income tax treaty. The treaty will have to be approved by the U.S. Senate and the Chilean Congress before it becomes effective.

Law No. 20,780, enacted on September 29, 2014, in conjunction with Law No. 20,899, enacted on February 8, 2016 (both, the "Tax Reform Act") introduced a comprehensive modification to the Chilean income tax system. The Tax Reform Act introduced changes to the corporate tax rate, mandating a gradual increase of the rate from 20% to 25% or 27% in certain cases, the rules regarding minimum capitalization, and the taxation of Chilean investments abroad (the controlled-foreign-corporation rules), and introduced two new alternative general income tax regimes for Chilean taxpayers (Fully Integrated Regime and Partially Integrated Regime), among others. The new rules are currently effective, with the implementation process having commenced on October 1, 2014. The Fully Integrated Regime and the Partially Integrated Regime apply as from January 1, 2017. The mandatory regime for entities organized as stock corporations like Latam Airlines Group S.A. is the Partially Integrated System. The Corporate Income Tax rate for companies under this regime is 27% from 2018 onward. A transition rate of 25.5% applied in 2017.

## Cash Dividends and Other Distributions

Under the new Partially Integrated Regime, cash dividends we pay with respect to the ADSs or common shares held by a Foreign Holder will be subject to a 35% Chilean withholding tax, which we withhold and pay over to the Chilean tax authorities and which we refer to as the Withholding Tax. A credit against the Withholding Tax is available based on the corporate income tax rate of the year of distribution and provided a sufficient balance of accumulated corporate income tax credits is available. These credits correspond to corporate income tax we actually paid on the accumulated income (referred to herein as the First Category Tax or FCIT). However, this credit does not reduce the Withholding Tax on a one-for-one basis because it also increases the base on which the Withholding Tax is imposed. If we register net income but taxable losses, no credit against the Withholding Tax may be available. In addition, if we distribute less than all of our distributable income, the credit for First Category Tax we pay is proportionately reduced.

The Partially Integrated Regime reduces the amount of First Category Tax creditable against the Withholding Tax for certain Foreign Holders. As a general rule, only 65% of the First Category Income Tax credit will actually offset the Withholding Tax. 35% of the credit must be added back to the Withholding Tax amount to be paid into the Treasury (referred to herein as First Category Tax Credit Restitution). However, if a tax treaty is in place between Chile and the country of domicile of a Foreign Holder and such Foreign Holder is entitled to treaty benefits in relation to the income, the full First Category Tax credit will continue to be available to offset against the Withholding Tax.

Under a transitory provision in force until December 31, 2021, the full 27% First Category Tax will also be creditable against the 35% Withholding Tax if the recipient of a dividend distribution is a shareholder resident in a country with which Chile has a tax treaty signed before January 1st, 2019, although such treaty is not yet in force.

In general, the example below illustrates the effective Withholding Tax burden on a cash dividend received by a Foreign Holder assuming a Withholding Tax rate of 35%, a First Category Tax rate of 27% and a distribution of 30% of the consolidated net income of the Company after payment of the First Category Tax:

	Foreign Holder in Treaty Country	Foreign Holder in Non Treaty country
The Company's taxable income	100.00	100.00
First Category Tax (27% of Ch\$100)(*)	(27.00)	(27.00)
Net distributable income	73.00	73.00
Dividend distributed (*)	21.90	21.90
First category increase	8.10	8.10
Amount subject to Withholding Tax (**)	30.00	30.00
Withholding Tax	(10.50)	(10.50)
Credit for First Category Tax	8.10	8.10
Add back 35% of the First Category Tax	N/A	(2.84)
Net tax withheld	(2.40)	(5.24)
Net dividend received	19.5	16.66
Effective dividend withholding rate	11%	24%

(\*) Special considerations apply to a distribution performed in 2017

(\*\*) 30% of net distributable income.

(\*\*) The dividend of Ch\$21.90 grossed up with the First Category Tax credit of Ch\$8.10.



The effective rate of Withholding Tax to be imposed on dividends we pay will depend on the First Category Tax rate applicable in the year of distribution and on the balance of First Category Income Tax credits accumulated by the company. The First Category Tax rate will be 27% for 2018 and following years. Special considerations applied to a distribution performed during 2017. These considerations are set out in a separate paragraph further below. The First Category Income Tax credits generated under the new tax regime, i.e. as of 2017, will be allocated first. Once the balance of First Category Tax credits generated as of 2017 are exhausted, the First Category Tax credits accumulated until December 31, 2016 will be used. In that event the First Category Tax credit available against the Withholding Tax will not correspond to the First Category Tax rate of the year of distribution but to the average rate of First Category Tax credits accumulated until December 31, 2016. This average rate will be determined by dividing the aggregate First Category Tax Credits accumulated until December 31, 2016 by the aggregate retained taxable profits accumulated at the same date. The First Category Tax credits accumulated until December 31, 2016 are not subject to the First Category Tax Credit Restitution irrespective of whether a tax treaty is in place with the country of the Foreign Holder or not.

The First Category Tax credits accumulated until December 31, 2016 correspond to the First Category Tax we actually paid on the income generated in a given year. For earnings generated from 1991 until 2001, the First Category Tax rate was 15%. The rate was 16.0% in 2002, 16.5% in 2003, 17% from 2004 until 2010, 20% from 2011 until 2013, 21% in 2014, 22.5% in 2015 and 24% in 2016.

In the event that the accumulated First Category Tax credits are not sufficient to cover any particular dividend, we will generally withhold tax from the dividend at the full 35% rate.

Dividend distributions made in kind would be subject to the same Chilean tax rules as cash dividends based on the fair market value of the relevant assets. Stock dividends and the distribution of preemptive rights are not subject to Chilean taxation.

#### *Special Considerations for distributions performed during 2017*

The First Category Tax rate for 2017 was 25.5%. However, in 2017 the First Category Tax credit available against the Withholding Tax did not correspond to the First Category Tax rate of the year but to the average rate of First Category Tax credits accumulated until December 31, 2016. This average rate is determined by dividing the aggregate First Category Tax Credits accumulated until December 31, 2016 by the aggregate retained taxable profits accumulated at the same date. These credits are not subject to the First Category Tax Credit Restitution, irrespective of whether a tax treaty is in place with the country of the Foreign Holder or not.

#### *Capital Gains*

Gain from the sale or other disposition by a Foreign Holder of ADRs evidencing ADSs outside Chile will not be subject to Chilean taxation. The deposit and withdrawal of common shares in exchange for ADRs will not be subject to any Chilean taxes.

Gain recognized on a sale or disposition of common shares by a Foreign Holder (as distinguished from sales or exchanges of ADRs evidencing ADSs representing such common shares) may be subject to a 35% Withholding Tax. Moreover, a gain not exceeding 10 Annual Tax Units (US\$9,169 as of December 31, 2017) recognized by a Foreign Holder without taxable presence in Chile in a sale to a non-related buyer will not be taxable.

The gain on the sale of shares of common stock by a Foreign Holder is subject to a withholding of 35% of the gain. If the gain subject to taxation cannot be determined, the Foreign Holder is subject to a provisional withholding of 10% of the total (sale price) amount, without any deduction, when the amounts are paid to, credited to, accounted for, put at the disposal of, or corresponding to, the Foreign Holder. The Foreign Holder would be entitled to request a tax refund for any amounts withheld in excess of the taxes actually due in April of the following year upon filing its corresponding tax return. Gain recognized in the transfer of common shares that have a high presence in the stock exchange, however, is not subject to capital gains tax in Chile, provided that the common shares are transferred in a local stock exchange or within the process of a public tender of common shares governed by the Securities Market Law. The common shares must have been acquired either in a local stock exchange, within the process of a public tender of common shares governed by the Securities Market Law, in an initial public offer of common shares resulting from the formation of a corporation or a capital increase of the same, or in an exchange of convertible bonds.

Notwithstanding the foregoing paragraph, Chile's tax authority Ruling No. 1,480 (issued on August 22, 2014) confirmed that capital gains stemming from the sale of shares with high stock market presence acquired through the exchange of American Depositary Receipts (ADRs) for shares is not subject to capital gains tax in Chile. Such exemption is applicable provided that the ADRs comply with the requirements established by the CMF for the public offering of securities in Chile (i.e. if the ADRs are registered in the Foreign Securities Registry of the CMF, or their registration has been exempted by the CMF under a cooperation agreement signed with regulators of foreign markets), and the underlying shares have been registered in the Securities Registry of the CMF and on a Chilean Stock exchange. Shares are considered to have a high presence in the stock exchange when they:

- are registered in the Securities Registry;
- are registered in a Chilean Stock exchange; and
- meet at least one of the following requirements:
  - i. have an adjusted presence equal to or above 25%;
  - ii. have a Market Maker.

To calculate the adjusted presence of a particular share, the aforementioned regulation first requires a determination of the number of days in which the operations regarding the stock exceeded, in Chilean pesos, the equivalent of 1,000 UF (US\$43,592 as of December 31, 2017) within the previous 180 business days of the stock market. That number must then be divided by 180, multiplied by 100, and expressed in a percentage value. This tax regime does not apply if the transaction involves an amount of shares that would allow the acquirer to take control of the publicly traded corporation, in which case the ordinary tax regime referred to in the previous paragraph will apply, unless the transfer is part of a tender offer governed by the Securities Market Law or the transfer is done on a Chilean stock exchange, without substantially exceeding the market price.

To meet the "Market Maker" requirement the issuer of the shares must execute a written contract with a stock broker incorporated in Chile that fulfills some additional requirements.

A capital gains tax exemption for "foreign institutional investors" such as mutual funds and pension funds was repealed as from May 1, 2014 by Law 20,712. However, the law includes a grandfathering provision for shares acquired before May 1, 2014. This provision establishes an exemption on the capital gain obtained in the sale of shares that are publicly traded and have a high presence in a stock exchange when the sale is made by a foreign institutional investor, provided that the sale is made in a local stock exchange or in a public tender in accordance with the provisions of the Securities Market Law, or in the redemption of fund quotas, and the shares were acquired before May 1, 2014.

Pursuant to the regulations of the grandfathering rule, to qualify as a foreign institutional investor an entity must be formed outside of Chile, not have a domicile in Chile, and must be at least one of the following:

- a fund registered with a regulatory authority of a EU or OECD country, or other country duly authorized by the CMF;
- a pension fund that is formed exclusively by natural persons that receive pensions out of an accumulated capital in the fund, regulated by an authority of the countries mentioned above;
- an insurance company regulated by the competent regulatory authority of the insurance business, as appropriate, which must be part of IAIS, *International Association of Insurance Supervisors*, or ASSAL, *Asociación de Supervisores de Seguros de América Latina*;
- a foreign State or a division with political autonomy recognized by Chile, whether they invest through its government, central bank, issuing bank or corresponding monetary authority. Moreover, the investment can be made through investment authorities, investment agencies, investment corporations or other entities, provided that its purpose is to provide financial resources for the exclusive benefit of the foreign State or territorial division, and provided that the vehicle is not used also for investments or resources other than those of the sovereign fund; or
- an endowment funds duly registered in a EU or OECD country, or other country duly authorized by the CMF.

The foreign institutional investor must not directly or indirectly participate in the control of the corporations issuing the shares it invests in, nor possess or participate directly or indirectly in 10% or more of the capital or the profits of such corporations.

Another requirement for the exemption is that the foreign institutional investor must execute a written contract with a bank or a stock broker incorporated in Chile. In this contract, the bank or stock broker must undertake to execute purchase and sale orders, verify the applicability of the tax exemption or tax withholding and inform the Chilean IRS of the investors it works with and the transactions it performs. Finally, the foreign institutional investor must register with the Chilean IRS by means of a sworn statement issued by such bank or stock broker.

The tax basis of common shares received in exchange for ADRs will be the acquisition value of the common shares on the date of exchange duly adjusted for local inflation. The valuation procedure set forth in the deposit agreement, which values common shares which are being exchanged at the highest price at which they trade on the SSE on the date of the exchange, will determine the acquisition value for this purpose. Consequently, the surrender of ADRs for common shares and the immediate sale of the common shares for the value established under the Deposit Agreement will not generate a capital gain subject to taxation in Chile, provided that the sale of the common shares is made on the same date on which the exchange of ADRs for common shares is recorded, or if the price of the common shares at the exchange date, as determined above, is higher than the price at which the common shares are sold.

The exercise of preemptive rights relating to the common shares will not be subject to Chilean taxation. Any gain obtained by a Foreign Holder without taxable presence in Chile on the sale of preemptive rights relating to the common shares will be subject to Withholding Tax (the former being creditable against the latter).

#### *Other Chilean Taxes*

There are no Chilean inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of ADSs by a Foreign Holder, but such taxes generally will apply to the transfer at death or by gift of the common shares by a Foreign Holder. There are no Chilean stamp, issue, registration or similar taxes or duties payable by Foreign Holders of ADSs or common shares.

#### *Withholding Tax Certificates*

Upon request, we will provide to Foreign Holders appropriate documentation evidencing the payment of the Withholding Tax (net of the applicable First Category Tax credit).

### **United States Federal Income Tax Considerations**

This section describes the material United States federal income tax consequences to a U.S. holder (as defined below) of owning common shares or ADSs. It applies to you only if you hold your common shares or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,
- a tax-exempt organization,
- a financial institution,
- a regulated investment company,
- a real estate investment trust,
- a life insurance company,
- a person liable for alternative minimum tax,
- a person that directly, indirectly or constructively owns 10% or more of the vote or value of our stock,
- a person that holds common shares or ADSs as part of a straddle or a hedging or conversion transaction,
- a person that purchases or sells common shares or ADSs as part of a wash sale for tax purposes, or
- a U.S. holder (as defined below) whose functional currency is not the U.S. dollar.

If you are a member of a special class of holders subject to special rules, you should consult your tax advisor with regard to the United States federal income tax treatment of an investment in the common shares or ADSs, including the potential impact of recently enacted legislation (P.L. 115-97) commonly referred to as the Tax Cut and Jobs Act (the “Act”). Moreover, this summary does not address the U.S. federal estate, gift, or alternative minimum tax considerations, or any U.S. state, local, or non-U.S. tax considerations of the acquisition, ownership and disposition of common shares and ADSs.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed Treasury regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. There is currently no comprehensive income tax treaty in effect between the United States and the Republic of Chile. In addition, this section is based in part upon the representations of the Depository and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

If a partnership holds the common shares or ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the common shares or ADSs should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the common shares or ADSs, including the potential impact of the Act.

You are a U.S. holder if you are a beneficial owner of common shares or ADSs and you are:

- a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

*You should consult your own tax advisor regarding the United States federal, state and local and the Chilean and other tax consequences of owning and disposing of common shares and ADSs in your particular circumstances.*

#### ADSs

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the common shares represented by those ADRs. Exchanges of common shares for ADRs, and ADRs for common shares, generally will not be subject to United States federal income tax.

#### *Taxation of Dividends*

Under the United States federal income tax laws, and subject to the passive foreign investment company (“PFIC”) rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation.

If you are a noncorporate U.S. holder, dividends paid on the ADSs or common shares that constitute qualified dividend income will be taxable to you at the preferential rates applicable to long-term capital gains if you hold the ADSs or common shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends paid on the ADSs or common shares will be treated as qualified dividend income if:

- the ADSs or common shares are readily tradable on an established securities market in the United States; and
- we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a PFIC.

We believe that our common shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes. See “—PFIC Rules” below.

The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Accordingly, we expect that dividends we pay with respect to the ADSs will be qualified dividend income. Because our common shares are not expected to be listed on any United States securities market, it is unclear whether dividends we pay with respect to the common shares will also be qualified dividend income. If dividends we pay with respect to our common shares are not qualified dividend income, then the U.S. dollar amount of such dividends received by a U.S. holder (including dividends received by a noncorporate U.S. holder) will be subject to taxation at ordinary income tax rates.

You must include any Chilean tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of common shares, or the Depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Chilean pesos payments made, determined at the spot Chilean pesos/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the common shares or ADSs and thereafter as capital gain. However, we do not expect to calculate earnings and profits in accordance with United States federal income tax principles. Accordingly, you should expect to generally treat distributions we make as dividends.

Subject to generally applicable limitations and conditions under the Internal Revenue Code, Chilean Withholding Tax withheld and paid over to the Chilean tax authorities (after taking into account the credit for the First Category Tax, when it is available) generally will be creditable or deductible against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the preferential tax rates. To the extent a refund of the tax withheld is available to you under Chilean law, as is the case if the amount of Chilean Withholding Tax initially withheld from a dividend is determined to be excessive as described above under “—Taxation—Chilean Tax—Cash Dividends and Other Distributions,” the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability.

Dividends will generally be income from sources outside the United States and will, depending on your circumstances, generally be either “passive” or “general” or “foreign branch” income for purposes of computing the foreign tax credit allowable to you. The rules relating to foreign tax credits and deductions are complex. U.S. holders should consult their tax advisors concerning the application of these rules in their particular circumstances.

#### *Taxation of Capital Gains*

Subject to the PFIC rules discussed below, if you sell or otherwise dispose of your common shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your common shares or ADSs. Capital gain of a noncorporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. Consequently, you may not be able to use the foreign tax credit arising from any Chilean tax imposed on the disposition of common shares or ADSs unless such credit can be applied against tax due on other income treated as derived from foreign sources in the appropriate limitation category.

#### *Medicare Tax*

A U.S. holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the U.S. holder’s “net investment income” (or “undistributed net investment income” in the case of an estate or trust) for the relevant taxable year and (2) the excess of the U.S. holder’s modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between \$125,000 and \$250,000, depending on the individual’s circumstances). A holder’s net investment income generally includes its dividend income and its net gains from the disposition of common shares or ADSs, unless such dividend income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the common shares or ADSs.

## *PFIC Rules*

We believe that common shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, gain realized on the sale or other disposition of your common shares or ADSs would in general not be treated as capital gain. Instead, if you are a U.S. holder, unless you elect to be taxed annually on a mark-to-market basis with respect to your common shares or ADSs, or you elect to be taxed annually on the earnings of the PFIC attributable to your shares or ADSs as a “qualified electing fund”, you would be treated as if you had realized such gain and certain “excess distributions” ratably over your holding period for the common shares or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your common shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your common shares or ADSs. Dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are treated as a PFIC with respect to you either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

## *Information Reporting and Backup Withholding*

U.S. information reporting and backup withholding tax requirements generally apply to certain payments to certain non-corporate holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, common shares or ADSs made within the United States to a holder of common shares or ADSs (other than an exempt recipient, including a corporation, a payee that is not a U.S. holder that provides an appropriate certification, and certain other persons).

A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, common shares or ADSs within the United States to you, unless you are an exempt recipient, if you fail to furnish your correct taxpayer identification number or otherwise fail to establish an exception from backup withholding tax requirements. U.S. holders who are required to establish their exempt status may be required to provide such certification on U.S. Internal Revenue Service Form W-9. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to you may be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is furnished timely to the U.S. Internal Revenue Service.

## *Foreign Asset Reporting*

Certain U.S. holders who are individuals (and certain entities) that hold an interest in “specified foreign financial assets” (which may include the shares) are required to report information relating to such assets, subject to certain exceptions (including an exception for stock held in accounts maintained by certain financial institutions). Penalties can apply if U.S. holders fail to satisfy such reporting requirements. U.S. holders should consult their tax advisors regarding the effect, if any, of this requirement on their ownership and disposition of common shares and ADSs.

## **F. Dividends and Paying Agents**

Not applicable.

## **G. Statement by Experts**

Not applicable.

## **H. Documents on Display**

We are subject to the information requirements of the Exchange Act, as amended. In accordance with these requirements, we file reports, including annual reports on Form 20-F and other information with the SEC. These materials, including this annual report and the exhibits hereto, may be inspected and copied at the SEC’s public reference rooms in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. In addition, some of our SEC filings, including those filed on and after February 19, 2002, are also available to the public through the SEC’s website at [www.sec.gov](http://www.sec.gov).

As a foreign private issuer, we are not subject to the same disclosure requirements as a domestic U.S. registrant under the Exchange Act. For example, we are not required to prepare and issue quarterly reports. However, we furnish our shareholders with annual reports containing financial statements audited by our independent auditors and make available to our shareholders quarterly reports containing unaudited financial data for the first three quarters of each fiscal year. We file such quarterly reports with the SEC within two months of each quarter of our fiscal year, and we file annual reports on Form 20-F within the time period required by the SEC, which is currently six months from December 31, the end of our fiscal year.

## **I. Subsidiary Information**

Not applicable.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **General**

Given the nature of its business, LATAM is exposed mainly to three types of market risk:

- Fuel price fluctuations;
- Foreign exchange fluctuations; and
- Interest rate fluctuations.

Management assesses the level of our exposure to these risks periodically to determine which ones should be hedged and the most effective mechanisms to be implemented. LATAM purchases derivative instruments in foreign markets to offset market risk exposure, typically utilizing a mix of financial and commodity derivatives. LATAM does not enter into or hold derivative contracts for trading purposes.

### **Risk of Fluctuations in Fuel Prices**

Jet fuel price fluctuations are largely dependent on supply and demand for crude oil, OPEC decisions, refinery capacities, stock levels of crude oil, natural disasters, climatic risk and geopolitical factors.

LATAM fuel consumption for 2017 was 1,179.6 million gallons and the consumption forecast for 2018 is 1,270.1 million gallons. To manage its exposure to the cost of fuel, LATAM has a hedging program based on a Fuel Hedging Policy, which is annually updated and approved by Board of Directors. LATAM's Fuel Hedging Program seeks to mitigate the liquidity risk in the short/medium term. LATAM has defined different time periods to hedge the fuel exposure, based on advance purchase behavior by customers, pass-through and fuel invoicing process.

Jet Fuel is not the only underlying asset that LATAM may use for hedging purposes. It may also consider derivative instruments in other underlying commodity assets such as ICE Brent, West Texas Intermediate (WTI) or NYMEX Heating Oil (HO).

LATAM has decided to use protective and non-speculative instruments to reduce the operating margin exposure to fuel price volatility. Also, LATAM will not use financial derivatives to speculate on financial markets and consequently obtain gains from these types of transactions, and will not receive premiums as cash from sold options (nevertheless LATAM could buy and sell options as a structured product).

LATAM periodically reviews its exposure with each counterparty in order to monitor its credit concentration.

During 2017, 2016 and 2015 we entered into a mix of swaps and option contracts on ICE BRENT, NYMEX HEATING OIL and JET FUEL 54 USGC with investment grade banks and other financial entities for notional fuel purchases (non-delivery). Details of the fuel hedging program are shown below:

LATAM Fuel Hedging Year ended December 31,			
	2017 LATAM	2016 LATAM	2015 LATAM
Gallons Purchased (million)	441.1	781.2	544.7
% Total Annual Fuel Consumption	37.7%	66.7%	43.6%
Combined Result of Hedges (in million of US\$)	15.1	(48.0)	(239.4)

As of December 31, 2017, the fair value of our outstanding fuel related derivative contracts was estimated to be US\$ 10.7 million (positive).

Gains and losses on the hedging contracts outlined above are recognized as a cost of sales in the income statement when the fuel subject to the hedge is consumed. Premiums paid related to fuel derivative contracts are recorded as prepaid expenses (current assets) and recorded as an expense at the time the contract expires.

Under IFRS, the fair value of the hedging derivatives is booked as a non-current asset or liability if the remaining maturity of the item is hedged for more than 12 months, and as a current asset or liability if the remaining term of the item is hedged for less than 12 months. The fair value of the derivative contracts is deferred within an equity reserve account. Please see Note 2.10 to our audited consolidated financial statements. As the current positions do not represent changes in cash flows but a variation in the exposure to the market value, the Company's current hedge positions have no impact on income; they are booked as cash flow hedge contracts, so a variation in fuel prices has an impact on the Company's net equity.

The following table shows the sensitivity analysis of our hedging contracts to reasonable changes in fuel prices and their effect on equity. The term used for the projection was December 31, 2017, the last maturity date of our current fuel hedge contracts. The calculations were made considering a parallel movement of US\$5 per barrel in the curve of the BRENT and JET crude futures benchmark price at the end of December 2017, 2016 and 2015.

LATAM fuel price sensitivity (effect on equity) Position as of December 31,			
	2017 LATAM	2016 LATAM	2015 LATAM
(millions of US\$ per barrel)			
<b>BRENT or JET benchmark price</b>			
+5	+1.8	+3.1	+5.4
-5	-3.3	-4.8	-2.8

During the periods presented, the Company has not recorded amounts for ineffectiveness in the consolidated income statement pursuant to IFRS principles for recognizing and measuring financial instruments.

Given the fuel hedge structure as of December 31, 2017, which reflects only a partial hedge of our expected fuel consumption, a vertical fall by US\$5 in the BRENT and JET benchmark price (the monthly daily average) for each month would have meant savings of approximately US\$ 109.7 million in the cost of the Company's total fuel consumption. A vertical increase by US\$5 in the JET and BRENT benchmark price (the monthly daily average) for each month would have meant an additional cost of approximately US\$ 110.5 million of the Company's total fuel consumption.

#### Risk of Variation in Foreign Exchange Rates

The functional currency of the LATAM holding company is the U.S. dollar. Since LATAM conducts its business in local currencies in several countries, it faces the risk of variations in multiple foreign currency exchange rates. Depreciation of these currencies against the U.S. dollar could have adverse effects both transactional and translational, because part of our revenues and expenses are denominated in those currencies.

At the same time, LATAM's affiliates are exposed to foreign exchange risk, which could in turn impact the consolidated results of the Company.

The greatest exposure to future cash flows is mainly presented by the subsidiary TAM S.A. and volatility in the R\$/US\$ exchange rate. TAM S.A.'s earnings are generated largely in R\$. We actively manage the R\$/US\$ exchange rate risk by entering into FX derivative contracts and carrying out internal operations for obtaining natural hedging. Additionally, LATAM manages its economic exposures of future flows revenues on Great Britain Pound (GBP), by entering into FX derivative contracts.

In lower concentration, the company also faces foreign exchange risk relating to additional currencies such as: Euro, Chilean Peso, Australian Dollars, Argentinean Peso, Paraguayan Guaraní, Mexican Peso, Peruvian Nuevo Sol, Colombian Peso and New Zealand Dollars. These currencies may also be hedged where the exposure and volatility is of concern to LATAM's risk management. As of December 31, 2017, the fair value of our FX derivative contracts was estimated to be US\$ 4.4 million (positive).



Because of changes in the values of existing FX derivative positions do not represent changes in cash flows, but a variation in the exposure of market value, the outstanding hedging positions do not impact results (they are registered as cash flow hedges under IFRS, therefore, a change in the foreign exchange rate has an impact on the equity of the Company).

The following table shows the sensitivity of the fair value of financial instruments as a result of reasonable changes in the exchange rates of Brazilian Real. The term projection is defined until the end of the last hedging contract in force:

LATAM foreign exchange sensitivity Derivatives Position as of December 31, 2017	
Appreciation (depreciation) of US\$	Effect on equity (Millions of US\$)
+10%	+9.7
-10%	-10.7

As of December 31, 2017, the Company has FX derivatives of US\$180 million (notional) for FX BRL.

Balance sheet exposure of LATAM to the Brazilian Real is related to the functional currency of LATAM Airlines Brazil and its balance sheet currency mismatch, as LATAM Airlines Brazil has a net US\$ liability position. When the balance sheet denominated in U.S. dollars is translated to Brazilian Real, the financial results of LATAM Airlines Brazil may fluctuate and therefore could impact LATAM's financial results.

The exposure to the Brazilian real on TAM's balance sheet has been reduced from over US\$4.0 billion since the combination in June 2012 to around US\$0.8 billion as of December 31, 2017. The Company continues working to mitigate this exposure through financial and operational proposals.

The following table shows the sensitivity of TAM's financial results to changes in the R\$/US\$ exchange rate:

TAM exchange rate sensitivity Position effect on pre-tax earnings as of December 31,			
	2017	2016	2015
	LATAM	LATAM	LATAM
	(millions of US\$)		
Appreciation (depreciation) of R\$/US\$			
-10%	+80.5	+119.2	+67.6
+10%	-80.5	-119.2	-67.6

Our foreign currency exchange exposure as of December 31, 2017 was as follows:

LATAM foreign currency exchange exposure									
	U.S. Dollars MUS\$	% of total	Brazilian real MUS\$	% of total	Chilean pesos MUS\$	% of total	Other currencies MUS\$	% of total	Total MUS\$
Current assets	1,713,681	45.8%	1,327,119	35.4%	281,530	7.5%	423,169	11.3%	3,745,499
Other assets	9,652,566	64.1%	5,182,800	34.4%	8,693	0.1%	208,393	1.4%	15,052,452
Total assets	11,366,247	60.5%	6,509,919	34.6%	290,223	1.5%	631,562	3.4%	18,797,951
Current liabilities	2,942,683	50.4%	1,777,575	30.4%	543,150	9.3%	579,298	9.9%	5,842,706
Long-term liabilities	7,385,258	85.0%	773,543	8.9%	507,784	5.8%	21,437	0.2%	8,688,022
Total liabilities and shareholders' equity	10,327,941	71.1%	2,551,118	17.6%	1,050,934	7.2%	600,735	4.1%	14,530,736

For more information on Market Risk, see Note 3 “Financial Risk Management” to our audited consolidated financial statements.

#### Risk of Fluctuations in Interest Rates

As of December 31, 2017, LATAM had US\$7,976 million in outstanding interest bearing loans. LATAM uses interest rate derivatives to reduce the impact of an increase of interest rates. 63.3% of LATAM outstanding debt as of December 31, 2017 was effectively at a fixed rate, either as fixed rate loans or variable rate loans hedged using a floating to fixed rate derivative instrument.

LATAM’s interest bearing loans can be classified by: variable interest rate debt, fixed interest rate debt and interest rate hedged debt. LATAM’s variable interest rate debt amounts to US\$2,926 million, from which 86.7% is assigned to aircraft financing and 13.3% to non-aircraft financing. The fixed interest rate debt amounts are US\$ 5,050 million of which 58.2% is assigned to aircraft financing and 41.8% to non-aircraft financing. The interest rate hedged debt amounts to US\$135 million of which 100% is assigned to interest rate swaps.

Under IFRS, the positive fair value of these interest rate swaps is reflected in the balance sheet as hedging assets and the negative fair value of these agreements is reflected as hedging liabilities. As of December 31, 2017, the fair value of all the interest rate swaps was US\$ 6.6 million (negative).

The use of the aforementioned hedging instruments, combined with fixed interest rate financing for our aircraft financing, has enabled the Company to have predictable interest rate costs, reducing the cash volatility.

As of December 31 2017, the average interest rate of our entire outstanding interest-bearing long-term debt rate was 4.1%.

The following table summarizes our principal payment obligations on all of our interest-bearing debt as of December 31, 2017 and the related average interest rate for such debt. The average interest rate has been calculated based on the prevailing interest rate on December 31, 2016 for each loan.

	LATAM's principal payment obligations by year of expected maturity <sup>(1)</sup>						
	Average interest rate <sup>(2)</sup>	2018	2019	2020	2021	2022	2023 and thereafter
				(millions of US\$)			
Interest-bearing liabilities	4.1%	1,244	1,332	1,465	634	786	2,513

(1) At cost.

(2) Average interest rate means the average prevailing interest rate on our debt on December 31, 2017 after giving effect to hedging arrangements.

The following table shows the sensitivity of changes in our long-term interest bearing liabilities and capital leases that are not hedged against interest-rate variations. These changes are considered reasonably possible based on current market conditions.

LATAM's interest rate sensitivity (effect on pre-tax earnings) Position as of December 31,			
	2017 LATAM	2016 LATAM	2015 LATAM
	(millions of US\$)		
<b>Increase (decrease) in LIBOR</b>			
+100 basis points	-29.3	-32.2	-26.7
-100 basis points	+29.3	+32.2	+26.7

Changes in market conditions produce a change in the valuation of current financial instruments hedging against fluctuations in 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 by increasing (decreasing) 100 basis points of the three-month Libor futures curve.

LATAM's interest rate sensitivity (effect on equity) Position as of December 31,			
	2017 LATAM	2016 LATAM	2015 LATAM
	(millions of US\$)		
<b>Increase (decrease) in three month LIBOR</b>			
<i>Future rates</i>			
+100 basis points	+1.9	+3.9	+8.7
-100 basis points	-1.9	-4.0	-9.0

During the periods presented, the Company has not recorded amounts for ineffectiveness in the consolidated income statement pursuant to IFRS.

There are market-related limitations in the method used for the sensitivity analysis. These limitations derive from the fact that the levels indicated by the futures curves may not be necessarily met and may change in each period.

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.

### C. Other Securities

Not applicable.

### D. American Depositary Shares

In the United States, our common shares trade in the form of ADS. Since August 2007, each ADS represents one common share, issued by The Bank of New York Mellon, as Depositary pursuant to a Deposit Agreement. ADSs commenced trading on the NYSE in 1997. In October 2011, our Depositary bank changed from The Bank of New York Mellon to JP Morgan Chase Bank, N.A. ("JP Morgan").

### Fees and Charges for ADR Holders

The Bank of New York Mellon, and since October 2011 JP Morgan, as depositary, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of the distributable property to pay the fees. The depositary may also collect its annual fee for depositary services by deductions from cash distributions, by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:	For:
US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	<ul style="list-style-type: none"> <li>• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property</li> <li>• Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates</li> </ul>
US\$0.05 (or less) per ADS	<ul style="list-style-type: none"> <li>• Any cash distribution to ADS registered holders</li> </ul>
A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance of ADSs	<ul style="list-style-type: none"> <li>• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders</li> </ul>
US\$0.05 <sup>4</sup> (or less) per ADSs per calendar year	<ul style="list-style-type: none"> <li>• Depositary services</li> </ul>
Registration or transfer fees	<ul style="list-style-type: none"> <li>• Transfer and registration of shares on the depositary’s share register to or from the name of the depositary or its agent when investors deposit or withdraw shares</li> </ul>
Expenses of the depositary	<ul style="list-style-type: none"> <li>• Cable, telex and facsimile transmissions</li> <li>• Conversion of foreign currencies into U.S. dollars</li> </ul>
Taxes and other governmental charges the depositary or the custodian has to pay on any ADS or share underlying an ADS, such as stock transfer taxes, stamp duty or withholding taxes	<ul style="list-style-type: none"> <li>• As necessary</li> </ul>
Any charges incurred by the depositary or its agents for servicing the deposited securities	<ul style="list-style-type: none"> <li>• As necessary</li> </ul>

**Fees and Direct and Indirect Payments Made by the Depositary to the Foreign Issuer**

**Past Fees and Payments**

During 2017, the Company received US\$703,745 from the depositary for continuing annual stock exchange listing fees, standard out-of-pocket maintenance costs for the ADRs (consisting of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls), payments related to applicable performance indicators relating to the ADR facility, underwriting fees and legal fees.

**Future Fees and Payments**

JP Morgan, as the depositary bank, has agreed to reimburse the Company for certain of our reasonable expenses related to our ADS program and incurred by us in connection with the program. The reimbursements include direct payments (legal and accounting fees incurred in connection with preparation of Form 20-F and ongoing SEC compliance and listing requirements, listing fees, investor relations expenses, advertising and public relations expenses and fees payable to service providers for the distribution of hard copy materials to beneficial ADR holders in the Depositary Trust Company, such as information related to shareholders’ meetings and related voting instruction cards); and indirect payments (third-party expenses paid directly and fees waived).

Withdrawing Deposited Securities; there are no such fees in respect of the Shares as of the date of the Deposit Agreement), and (iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency). Such charges may at any time and from time to time be changed by agreement between the Company and the Depositary.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

### ITEM 15. CONTROLS AND PROCEDURES

#### Controls and Procedures

Management carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2017. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon such evaluation, management, with the participation of the chief executive officer and chief financial officer concluded that the disclosure controls and procedures, as of December 31, 2017, were effective in providing reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act, as amended, is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management including our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

#### Management's annual report on internal control over financial reporting

The management of the Company, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, as amended.

The 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. The 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 the effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate. LATAM Airlines Group S.A.'s management, including the Chief Executive Officer and the Chief Financial Officer, has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017 based on the criteria established in "Internal Control-Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and, based on such criteria, LATAM Airlines Group S.A.'s management has concluded that, as of December 31, 2017, the Company's internal control over financial reporting is effective. The company's internal control over financial reporting effectiveness as of December 31, 2017 has been audited by PricewaterhouseCoopers Consultores Auditores SpA, an independent registered public accounting firm, as stated in their report included herein.

(a) *Attestation report of the registered public accounting firm.* See page F-2 of our audited consolidated financial statements.

(b) *Changes in internal control over financial reporting.* There have been no changes have materially affected, or are likely to materially affect, our internal controls over financial reporting.

**ITEM 16. RESERVED****A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our Board of Directors has designated Georges de Bourguignon Arndt as an “audit committee financial expert” within the meaning of this Item 16. A. Mr. de Bourguignon is independent within the meaning of Rule 10A-3 under the Exchange Act. See “Item 6. Directors, Senior Management and Employees— A. Directors and Senior Management.”

**B. CODE OF ETHICS**

We have adopted a code of ethics and conduct, as defined in Item 16B of Form 20-F under the Exchange Act. Our code of ethics applies to our senior management, including our Chief Executive Officer, our Chief Financial Officer and our Chief Accounting Officer, as well as to other employees. Our code is freely available online at our website, [www.latam.com](http://www.latam.com), under the heading “Corporate Governance” on the Investor Relations page. In addition, upon written request, by regular mail, to the following address: LATAM Airlines Group S.A., Investor Relations Department, attention: Investor Relations, Av. Presidente Riesco 5711, Piso 20, Comuna Las Condes, Santiago, Chile, or by e-mail at [InvestorRelations@latam.com](mailto:InvestorRelations@latam.com) we will provide any person with a copy of it without charge. If we amend the provisions of our code of ethics that apply to our senior management or to other persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website.

**C. PRINCIPAL ACCOUNTANT FEES AND SERVICES****Audit and Non-Audit Fees**

The following table sets forth the fees paid to our independent registered public accounting firm, PricewaterhouseCoopers, during the fiscal years ended December 31, 2017 and 2016:

	2017	2016
	USD (in thousands)	
Audit fees	1,780	1,734
Audit-related fees	19	21
Tax fees	-	-
All Other fees	15	40
Total fees	1,814	1,795

Audit-related fees in the above table are the aggregate fees billed by PricewaterhouseCoopers for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements or that are traditionally performed by the external auditor, including due diligence and other audit related services. Fees in 2017 correspond to attestation services related with revenues in Argentina and expenses in Ecuador. Fees in 2016 correspond to review over sustentability report and attestation services related with revenues in Argentina.

Other fees in the above table are fees billed by PricewaterhouseCoopers as of December 31, 2017 and correspond to training in connection with the Foreign Corrupt Practices Act. Fees in 2016 correspond primarily for review of requirements necessary for building construction authorization and survey salary in Peru.

**Board of Directors’ Committee Pre-Approval Policies and Procedures**

Since January 2004, LATAM has complied with SEC regulations regarding the type of additional services our independent auditors are authorized to offer to us. In addition, our Board of Directors’ Committee (which serves as our Audit Committee) has decided to automatically authorize any such accepted services for an amount of up to 10% of the fees charged by the auditing firm, and for an amount of up to 50% when adding all such services provided by the auditing firm in the aggregate. If the amount of any services is larger than these thresholds, approval by the Board of Directors’ Committee will be required.

**D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None.

**E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

None.

F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

None.

G. CORPORATE GOVERNANCE

New York Stock Exchange Corporate Governance Comparison

Pursuant to Section 303A.11 of the Listed Company Manual of the NYSE, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. We are a Chilean corporation with shares listed on the SSE, the Chilean Electronic Exchange and the Valparaiso Stock Exchange and our ADSs listed on the NYSE. Our corporate governance practices are governed by our bylaws, the Chilean Corporation Law and the Securities Market Law.

The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

NYSE Standards

**Director Independence.** Majority of board of directors must be independent. §303A.01

Our Corporate Governance Practice

Under Chilean law, we are not required to have a majority of independent directors on our board.

Our board of directors’ committee (all of whom are members of our board of directors) is composed of three directors, two of whom must be independent if we have a sufficient number of independent directors on our board.

The definition of independence applicable to us pursuant to the Chilean Corporation Law differs in certain respects from the definition applicable to U.S. issuers under the NYSE rules.

**Pursuant to Law No. 20,382 on Corporate Governance, which came into effect on January 1, 2010, we are also required to have at least one independent director.**

Starting on January 1, 2010, directors are deemed to be independent if they have not fallen within any of the following categories during the 18 months prior to their election: (i) had a relevant relationship, interest or dependence on us, our affiliates, controlling shareholders, main executives or any of them, or had served any of the foregoing a directors, managers, administrators, main executives or advisors; (ii) had a close family relationship with any of the individuals indicated in (i); (iii) had served as directors, managers, administrators or main executives in a non-profit organization which received significant funds from the individuals indicated in (i); (iv) had been a partner or shareholder (with a direct or indirect participation in excess of 10%) in, or had served as directors, managers, administrators or main executives at a company which has rendered legal or consulting services (for relevant amounts) or external auditing services to the individuals indicated in (i); (v) had been a partner or shareholder (with a direct or indirect participation in excess of 10%) in, or had served as directors, managers, administrators or main executives, our main competitors, suppliers or clients. In addition, the election of such an independent director is subject to a procedure set forth by the cited Corporation Law.

There is no similar requirement under our bylaws or under applicable Chilean law.

**Executive Sessions.** Non-management directors must meet regularly in executive sessions without management. Independent directors should meet alone in an executive session at least once a year. §303A.03

## NYSE Standards

**Audit committee.** *Audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act, as amended, and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07*

**Nominating/corporate governance committee.** *Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.04*

**Compensation committee.** *Compensation committee of independent directors is required, which must approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.05*

**Equity compensation plans.** *Equity compensation plans require shareholder approval, subject to limited exemptions. §303A.08*

**Disclosure of Corporate Governance.** *Listed companies must adopt and disclose corporate governance guidelines. §303A.09*

**Code of Ethics.** *Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. §303A.10*

**Disclosure of Compliance.** *Each listed company CEO must (a) certify to the NYSE each year that he or she is not aware of any violation by the listed company of NYSE corporate governance listing standards; (b) promptly notify the NYSE in writing after any executive officer becomes aware of any material non-compliance with any applicable provisions of Section 303A; and (c) must submit an executed Written Affirmation annually to the NYSE. In addition, each listed company must submit an interim Written Affirmation as and when required by the interim Written Affirmation form specified by the NYSE. The annual and interim Written Affirmations must be in the form specified by the NYSE. §303A.12*

The disclosure of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards is also posted on our website and can be accessed at [www.latamairlinesgroup.net](http://www.latamairlinesgroup.net)

## H. Mine Safety Disclosure

Not applicable.

## ITEM 17. FINANCIAL STATEMENTS

See “Item 18. Financial Statements.”

## ITEM 18. FINANCIAL STATEMENTS

See our consolidated Financial Statements beginning on page F-1.

## Our Corporate Governance Practice

We are in compliance with Rule 10A-3. We are not required to satisfy the NYSE independence and other audit committee standards that are not prescribed by Rule 10A-3.

We are not required to have, and do not have, a nominating/corporate governance committee.

We are not required to have a compensation committee. Pursuant to the Chilean Corporation Law, our board of directors’ committee must approve our senior management’s and employee’s compensation.

Under the Chilean Corporation Law, equity compensation plans require shareholder approval.

Chilean law does not require that corporate governance guidelines be adopted. Directors’ responsibilities and access to management and independent advisors are directly provided for by applicable law. Directors’ compensation is approved at the annual meeting of shareholders, pursuant to applicable law.

We have adopted a code of ethics and conduct applicable to our senior management, including our chief executive officer, our chief financial officer and our chief accounting officer, as well as to other employees. Our code is freely available online at our website, [www.latamairlinesgroup.net](http://www.latamairlinesgroup.net), under the heading “Corporate Governance” in the Investor Relations informational page. In addition, upon written request, by regular mail to LATAM Airlines Group S.A., Investor Relations Department, attention: Investor Relations, Av. Presidente Riesco 5711, 20<sup>th</sup> floor, Comuna Las Condes, Santiago, Chile or by e-mail at [Investor.Relations@latam.com](mailto:Investor.Relations@latam.com), we will provide any person with a copy of our code of ethics without charge. We are required by Item 16B of Form 20-F to disclose any waivers granted to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions.

Not required in the Chilean regulations. The Company must only comply with Section 303A.12 (b) and (c).



ITEM 19. EXHIBITS

Documents filed as exhibits to this annual report

Exhibit No.	Description
<a href="#">1.1*</a>	<a href="#">Amended By-laws of LATAM Airlines Group S.A.</a>
<a href="#">2.1</a>	<a href="#">Second Amended and Restated Deposit Agreement, dated as of October 28, 2011, between the Company and JPMorgan Chase Bank, N.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984), filed on November 15, 2011).</a>
<a href="#">2.3</a>	<a href="#">Indenture, dated as of April 25, 2007, among TAM Capital Inc., Tam S.A., TAM Linhas Aéreas S.A., The Bank of New York and The Bank of New York (Luxembourg) S.A., incorporated herein by reference from our second pre-effective amendment to our Registration Statement on Form F-4, File No. 333-131938.</a>
<a href="#">2.4</a>	<a href="#">Indenture, dated as of October 29, 2009, among TAM Capital 2 Inc., TAM S.A., TAM Linhas Aéreas S.A., The Bank of New York Mellon and The Bank of New York Mellon (Luxembourg) S.A., incorporated herein by reference from our Annual Report for the fiscal year ended December 31, 2009 on Form 20-F, filed June 30, 2010, File No. 333-131938.</a>
<a href="#">2.5</a>	<a href="#">Indenture, dated as of June 3, 2011, between TAM Capital 3 Inc., TAM S.A., TAM Linhas Aéreas S.A., The Bank of New York Mellon and The Bank of New York Mellon (Luxembourg) S.A., incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016.</a>
<a href="#">2.6</a>	<a href="#">Indenture, dated as of November 7, 2013, between Guanay Finance Limited and Citibank N.A., incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016.</a>
<a href="#">2.7</a>	<a href="#">Form of Indenture and Security Agreement between Parina Leasing Limited, Cucillo Leasing Limited, Rayador Leasing Limited or Canastero Leasing Limited and Wilmington Trust Company (including Annex A), incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016.</a>
<a href="#">2.8</a>	<a href="#">Indenture, dated as of June 9, 2015, between LATAM Airlines Group S.A. and The Bank of New York Mellon, incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016.</a>
<a href="#">2.9*</a>	<a href="#">Indenture, dated as of April 11, 2017, between LATAM Finance Limited, as issuer, LATAM Airlines Group S.A., as guarantor, and The Bank of New York Mellon, as trustee, transfer agent and paying agent.</a>
2.10	We hereby agree to furnish to the SEC, upon its request, copies of any instruments defining the rights of holders of our long-term debt (or any long-term debt of our subsidiaries for which we are required to file consolidated or unconsolidated financial statements), where such indebtedness does not exceed 10% of our total consolidated assets.
4.1	Second A320-Family Purchase Agreement, dated March 20, 1998, between the Company and Airbus Industry relating to Airbus A320-Family Aircraft (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on June 24, 2001, and portions of which have been omitted pursuant to a request for confidential treatment).
<a href="#">4.1.1</a>	<a href="#">Amendment No. 1, dated as of November 14, 2003, and Amendment No. 2, dated as of October 4, 2005, to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (as successor to Airbus Industry), (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on June 30, 2006, and portions of which have been omitted pursuant to a request for confidential treatment).</a>
<a href="#">4.1.2</a>	<a href="#">Amendment No. 3, dated as of March 6, 2007, to the Second A320-Family Purchase Agreement, dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on June 30, 2006, and portions of which have been omitted pursuant to a request for confidential treatment).</a>
<a href="#">4.1.3</a>	<a href="#">Amendment No. 5, dated as of December 23, 2009, to the Second A320-Family Purchase Agreement, dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on June 29, 2010, and portions of which have been omitted pursuant to a request for confidential treatment).</a>
<a href="#">4.1.4</a>	<a href="#">Amendments No. 6, 7, 8 and 9 (dated as of May 10, 2010, May 19, 2010, September 23, 2010 and December 21, 2010, respectively), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011, and portions of which have been omitted pursuant to a request for confidential treatment).</a>
<a href="#">4.1.5</a>	<a href="#">Amendments No. 10 and 11 (dated as of June 10, 2011 and November 8, 2011, respectively), to the Second A320-Family Purchase Agreement, dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).</a>

Exhibit No.	Description
<a href="#"><u>4.1.6</u></a>	<a href="#"><u>Amendment No. 12 (dated as of November 19, 2012), to the Second A320-Family Purchase Agreement, dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.1.7</u></a>	<a href="#"><u>Amendment No. 13 (dated as of August 19, 2013), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. Portions of these documents have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.</u></a>
<a href="#"><u>4.1.8</u></a>	<a href="#"><u>Amendments No. 14, 15, 16 and 17 (dated as of March 31, 2014, May 16, 2014, July 15, 2015 and December 11, 2014, respectively), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.1.9</u></a>	<a href="#"><u>Novation Agreement (dated as of October 30, 2014) between TAM Linhas Aereas S.A., LATAM Airlines Group S.A. and Airbus S.A.S., relating to the A320 Family/A330 purchase agreement dated November 14, 2006, as amended and restated, between Airbus S.A.S. and TAM Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.2</u></a>	<a href="#"><u>Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company as amended and supplemented, relating to Model 767-316ER, Model 767-38EF, and Model 767-316F Aircraft (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on December 21, 2004, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.2.1</u></a>	<a href="#"><u>Supplemental Agreements No. 16, 19, 20, 21 and 22 (dated as of November 11, 2004, January 21, March 10, April 1, April 28, and July 20, 2005, and March 31, 2006, respectively) to the Purchase Agreement No. 2126, dated January 30, 1998, between the Company and The Boeing Company, relating to Model 767-316ER, Model 767-38EF, and Model 767-316F Aircraft (incorporated by reference to our amended annual report filed on Form 20-F (File No. 001-14728) filed on May 7, 2007 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.2.2</u></a>	<a href="#"><u>Supplemental Agreement No. 23, dated as of March 6, 2007, to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on April 23, 2007, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.2.3</u></a>	<a href="#"><u>Supplemental Agreement No. 24, dated as of November 10, 2008, to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on June 25, 2009, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.2.4</u></a>	<a href="#"><u>Supplemental Agreements No. 28 and 29 (dated as of March 22, 2010 and November 10, 2010, respectively), to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company. Portions of these documents have been omitted pursuant to a request for confidential treatment (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.2.5</u></a>	<a href="#"><u>Supplemental Agreements No. 30, 31 and 32 (dated as of February 15, 2011, May 10, 2011 and December 22, 2011, respectively), to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.3</u></a>	<a href="#"><u>Aircraft Lease Common Terms Agreement between GE Commercial Aviation Services Limited and LAN Cargo S.A., dated as of April 30, 2007, and Aircraft Lease Agreements between Wells Fargo Bank Northwest N.A., as owner trustee, and LAN Cargo S.A., dated as of April 30, 2007 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 7, 2007, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>

Exhibit No.	Description
<a href="#"><u>4.4</u></a>	<a href="#"><u>Purchase Agreement No. 3194 between the Company and The Boeing Company relating to Boeing Model 777-Freighter aircraft, dated as of July 3, 2007, (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on June 25, 2008, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.4.1</u></a>	<a href="#"><u>Supplemental Agreement No. 2, dated as of November 2, 2010, to the Purchase Agreement No. 3194 between the Company and The Boeing Company, dated as of July 3, 2007 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.4.2</u></a>	<a href="#"><u>Supplemental Agreement No. 3, dated as of September 24, 2011, to the Purchase Agreement No. 3194 between the Company and The Boeing Company, dated as of July 3, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.4.3</u></a>	<a href="#"><u>Supplemental Agreement No. 4, dated as of August 9, 2012, to the Purchase Agreement No. 3194 between the Company and The Boeing Company, dated as of July 3, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.5</u></a>	<a href="#"><u>Purchase Agreement No. 3256 between the Company and The Boeing Company relating to Boeing Model 787-8 and 787-9 aircraft, dated as of October 29, 2007, (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on June 25, 2008, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.5.1</u></a>	<a href="#"><u>Supplemental Agreements No. 1 and 2, (dated March 22, 2010 and July 8, 2010, respectively) to the Purchase Agreement No. 3256, dated October 29, 2007, as amended, between the Company and The Boeing Company (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.5.2</u></a>	<a href="#"><u>Supplemental Agreement No. 3, dated as of August 24, 2012, to the Purchase Agreement No. 3256, as amended, between the Company and The Boeing Company, dated as of October 29, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.5.3</u></a>	<a href="#"><u>Delay Settlement Agreement, dated as of September 16, 2013, to the Purchase Agreement No. 3256, as amended, between the Company and The Boeing Company, dated as of October 29, 2007. Portions of this document have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.</u></a>
<a href="#"><u>4.5.4</u></a>	<a href="#"><u>Supplemental Agreements No. 4 and 5 (dated as of April 22, 2015 and July 3, 2015, respectively) to the Purchase Agreement No. 3256, as amended, between the Company and The Boeing Company, dated as of October 29, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.5.5</u></a>	<a href="#"><u>Supplemental Agreements No. 6 and 7 (dated as of May 27, 2016 and December 20, 2016, respectively) to the Purchase Agreement No. 3256, as amended, between the Company and The Boeing Company, dated as of October 29, 2007. Portions of these documents have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.</u></a>
<a href="#"><u>4.6</u></a>	<a href="#"><u>General Terms Agreement No. CFM-1-2377460475 and Letter Agreement No. 1 to General Terms Agreement No. CFM-1-2377460475 between the Company and CFM International, Inc., both dated December 17, 2010 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.7</u></a>	<a href="#"><u>Rate Per Flight Hour Engine Shop Maintenance Services Agreement between the Company and CFM International, Inc., dated December 17, 2010 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>

Exhibit No.	Description
<a href="#"><u>4.8</u></a>	<a href="#"><u>Implementation Agreement, dated as of January 18, 2011, among the Company, Costa Verde Aeronáutica S.A., Inversiones Mineras del Cantábrico S.A., TAM S.A., TAM Empreendimentos e Participações S.A. and Maria Cláudia Oliveira Amaro, Maurício Rolim Amaro, Noemy Almeida Oliveira Amaro and João Francisco Amaro (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011).</u></a>
<a href="#"><u>4.9.1</u></a>	<a href="#"><u>Extension Letter to the Implementation Agreement and Exchange Offer Agreement, dated January 12, 2012, among the Company, Costa Verde Aeronáutica S.A., Inversiones Mineras del Cantábrico S.A., TAM S.A., TAM Empreendimentos e Participações S.A. and Maria Cláudia Oliveira Amaro, Maurício Rolim Amaro, Noemy Almeida Oliveira Amaro and João Francisco Amaro (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984), filed on November 15, 2011).</u></a>
<a href="#"><u>4.9</u></a>	<a href="#"><u>Exchange Offer Agreement, dated as of January 18, 2011, among LAN Airlines S.A., Costa Verde Aeronáutica S.A., Inversiones Mineras del Cantábrico S.A., TAM S.A., TAM Empreendimentos e Participações S.A. and Maria Cláudia Oliveira Amaro, Maurício Rolim Amaro, Noemy Almeida Oliveira Amaro and João Francisco Amaro (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011).</u></a>
<a href="#"><u>4.10</u></a>	<a href="#"><u>Shareholders Agreement, dated as of January 25, 2012, between the Company and TEP Chile S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984), filed on November 15, 2011).</u></a>
<a href="#"><u>4.11</u></a>	<a href="#"><u>Shareholders Agreement, dated as of January 25, 2012, among the Company, TEP Chile S.A. and Holdco I S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984), filed on November 15, 2011).</u></a>
<a href="#"><u>4.12</u></a>	<a href="#"><u>Shareholders Agreement, dated as of January 25, 2012, among the Company, TEP Chile S.A., Holdco I S.A. and TAM S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984), filed on November 15, 2011).</u></a>
<a href="#"><u>4.13</u></a>	<a href="#"><u>Letter Agreement No. 12 (GTA No. 6-9576), dated July 11, 2011, between the Company and the General Electric Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.14</u></a>	<a href="#"><u>A320 NEO Purchase Agreement, dated as of June 22, 2011, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.14.1</u></a>	<a href="#"><u>Amendments No. 1, 2 and 3 (dated as of February 27, 2013, July 15, 2014 and December 11, 2014, respectively), to the A320 NEO Purchase Agreement dated as of June 22, 2011, between the Company and Airbus S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.14.2</u></a>	<a href="#"><u>Letter Agreement No. 1 (dated as of July 15, 2014) to Amendment No. 2 (dated as of July 15, 2014) to the A320 NEO Purchase Agreement dated as of June 22, 2011, between the Company and Airbus S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.14.3</u></a>	<a href="#"><u>Amendment No. 4, 5 and 6 (dated as of April 15, 2016, April 15, 2016, and August 8, 2016, respectively), to the A320 NEO Purchase Agreement dated as of June 22, 2011, between the Company and Airbus S.A.. Portions of these documents have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.</u></a>
<a href="#"><u>4.15</u></a>	<a href="#"><u>Buyback Agreement No. 3001 relating to One (1) Airbus A318-100 Aircraft MSN 3001, dated as of April 14, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.16</u></a>	<a href="#"><u>Buyback Agreement No. 3030 relating to One (1) Airbus A318-100 Aircraft MSN 3003, dated as of August 10, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>

Exhibit No.	Description
<a href="#"><u>4.17</u></a>	<a href="#"><u>Buyback Agreement No. 3062, to One (1) Airbus A318-100 Aircraft MSN 3062, dated as of May 13, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.18</u></a>	<a href="#"><u>Buyback Agreement No. 3214, to One (1) Airbus A318-100 Aircraft MSN 3214, dated as of June 9, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.19</u></a>	<a href="#"><u>Buyback Agreement No. 3216, to One (1) Airbus A318-100 Aircraft MSN 3216, dated as of July 13, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.20</u></a>	<a href="#"><u>Aircraft General Terms Agreement Number AGTA-LAN, dated May 9, 1997, between the Company and The Boeing Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.21</u></a>	<a href="#"><u>Buyback Agreement No. 3371, dated as of July 25, 2012, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.22</u></a>	<a href="#"><u>Buyback Agreement No. 3390, dated as of October 26, 2012, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.23</u></a>	<a href="#"><u>Buyback Agreement No. 3438, dated as of December 5, 2012, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.24</u></a>	<a href="#"><u>Buyback Agreement No. 3469, dated as of January 4, 2013, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.25</u></a>	<a href="#"><u>Buyback Agreement No. 3509, dated as of February 20, 2013, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.26</u></a>	<a href="#"><u>A320 Family Purchase Agreement, dated March 19, 1998, between Airbus S.A.S. (formerly known as Airbus Industrie GIE) and TAM Linhas Aéreas S.A. (formerly known as TAM Transportes Aéreos Meridionais S.A. and as successor in interest in TAM-Transportes Aéreos Regionais S.A.), incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.</u></a>
<a href="#"><u>4.26.1</u></a>	<a href="#"><u>Amendments No. 12, 13 and 14 (dated as of January 27, 2012 and November 30, 2012 and December 14, 2012, respectively), to the Second A320-Family Purchase Agreement, dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.27</u></a>	<a href="#"><u>A350 Family Purchase Agreement, dated December 20, 2005, between Airbus S.A.S. and TAM Linhas Aéreas S.A., incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.</u></a>

Exhibit No.	Description
<a href="#"><u>4.27.1</u></a>	<a href="#"><u>A350 Family Purchase Agreement, dated December 20, 2005, as amended and restated on January 21, 2008, between Airbus S.A.S. and TAM Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.27.2</u></a>	<a href="#"><u>Amendments No. 1, 2 and 3 (dated July 28, 2010, July 15, 2014 and October 30, 2014, respectively) to the A350 Purchase Agreement, dated December 20, 2005, as amended and restated on January 21, 2008, between Airbus S.A.S. and TAM Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.27.3</u></a>	<a href="#"><u>Novation Agreement (dated as of July 21, 2014) between TAM Linhas Aereas S.A., LATAM Airlines Group S.A. and Airbus S.A.S., relating to the A350 Family Purchase Agreement, dated December 20, 2005, as amended and restated on January 21, 2008, between Airbus S.A.S. and TAM Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.27.4</u></a>	<a href="#"><u>Amendments No. 4 and 5 (dated September 15, 2015 and November 19, 2015, respectively) to the A350 Purchase Agreement, dated December 20, 2005, as amended and restated on January 21, 2008, between Airbus S.A.S. and TAM Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.27.5</u></a>	<a href="#"><u>Amendments No. 6, 7 and 8 (dated February 3, 2016, August 8, 2016, and September 9, 2016, respectively) to the A350 Purchase Agreement, dated December 20, 2005, as amended and restated on January 21, 2008, between Airbus S.A.S. and TAM Linhas Aereas S.A.. Portions of these documents have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.</u></a>
<a href="#"><u>4.29</u></a>	<a href="#"><u>V2500 Maintenance Agreement, dated September 14, 2000, between TAM Transportes Aéreos Regionais S.A. (incorporated by TAM Linhas Aéreas S.A.) and MTU Maintenance Hannover GmbH (MTU), incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.</u></a>
<a href="#"><u>4.30</u></a>	<a href="#"><u>PW1100G-JM Engine Support and Maintenance Agreement, dated February 26, 2014, between LATAM Airlines Group S.A. and Pratt &amp; Whitney Division. Portions of this document have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.</u></a>
<a href="#"><u>4.31</u></a>	<a href="#"><u>Framework Deed, dated May 28, 2013, between LATAM Airlines Group S.A. and Aercap Holdings N.V. Portions of this document have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.</u></a>
<a href="#"><u>4.32</u></a>	<a href="#"><u>A320 Family/A330 Purchase Agreement (dated as of November 14, 2006) between Airbus S.A.S. and TAM – Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.32.1</u></a>	<a href="#"><u>Amendments No. 15, 16, 17, 18, and 19 (dated as of February 18, 2013, February 27, 2013, August 19, 2013, July 15, 2014 and December 11, 2014, respectively) to the A320 Family/A330 Purchase Agreement (dated as of November 14, 2006) between Airbus S.A.S. and TAM – Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.32.2</u></a>	<a href="#"><u>Amendments No. 20 and 21 (dated as of June 3, 2015 and December 21, 2015, respectively) to the A320 Family/A330 Purchase Agreement (dated as of November 14, 2006) between Airbus S.A.S. and TAM – Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.32.3</u></a>	<a href="#"><u>Amendments No. 22, 23 and 24 (dated as of April 15, 2016, April 15, 2016, and August 8, 2016, respectively) to the A320 Family/A330 Purchase Agreement (dated as of November 14, 2006) between Airbus S.A.S. and TAM – Linhas Aereas S.A.. Portions of these documents have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.</u></a>

Exhibit No.	Description
<a href="#"><u>4.33</u></a>	<a href="#"><u>Supplemental Agreement No. 7 (dated as of May 2014) to the Boeing 777-32WER Purchase Agreement (dated as of February 2007) between TAM – Linhas Aereas S.A. and The Boeing Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>4.33.1</u></a>	<a href="#"><u>Supplemental Agreement No. 8, dated as of April 22, 2015, to the Boeing 777-32WER Purchase Agreement (dated as of February 2007) between TAM Linhas Aéreas and The Boeing Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016 and portions of which have been omitted pursuant to a request for confidential treatment).</u></a>
<a href="#"><u>8.1*</u></a>	<a href="#"><u>List of subsidiaries of the Company.</u></a>
<a href="#"><u>12.1*</u></a>	<a href="#"><u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>12.2*</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>13.1*</u></a>	<a href="#"><u>Certifications of Chief Financial Officer and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

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\* Filed herewith

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

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VEF	-	STRONG BOLIVAR





## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
Latam Airlines Group S.A.

### *Opinions on the Financial Statements and Internal Control over Financial Reporting*

We have audited the accompanying consolidated statement of financial position of Latam Airlines Group S.A. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income by function, comprehensive income, changes in equity and cash flows direct – method for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 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, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### *Basis for Opinions*

The Company’s management is responsible for these consolidated 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 the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

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Latam Airlines Group S.A.

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Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

#### *Definition and Limitations of Internal Control over Financial Reporting*

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.

A handwritten signature in blue ink that reads "Ignacio Lehoucq".

Santiago, Chile  
April 4, 2018

We have served as the Company's auditor since 1991

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LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

	Note	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Current assets			
Cash and cash equivalents	6 - 7	1,142,004	949,327
Other financial assets	7 - 11	559,919	712,828
Other non-financial assets	12	221,188	212,242
Trade and other accounts receivable	7 - 8	1,214,050	1,107,889
Accounts receivable from related entities	7 - 9	2,582	554
Inventories	10	236,666	241,363
Tax assets	18	77,987	65,377
Total current assets other than non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners		3,454,396	3,289,580
Non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners	13	291,103	337,195
Total current assets		3,745,499	3,626,775
Non-current assets			
Other financial assets	7 - 11	88,090	102,125
Other non-financial assets	12	220,807	237,344
Accounts receivable	7 - 8	6,891	8,254
Intangible assets other than goodwill	15	1,617,247	1,610,313
Goodwill	16	2,672,550	2,710,382
Property, plant and equipment	17	10,065,335	10,498,149
Tax assets	18	17,532	20,272
Deferred tax assets	18	364,021	384,580
Total non-current assets		15,052,473	15,571,419
Total assets		18,797,972	19,198,194

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES AND EQUITY

	Note	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
<b>LIABILITIES</b>			
Current liabilities			
Other financial liabilities	7 - 19	1,300,949	1,839,528
Trade and other accounts payables	7 - 20	1,695,202	1,593,068
Accounts payable to related entities	7 - 9	760	269
Other provisions	21	2,783	2,643
Tax liabilities	18	3,511	14,286
Other non-financial liabilities	22	2,823,963	2,762,245
		<u>5,827,168</u>	<u>6,212,039</u>
Liabilities included in disposal groups classified as held for sale	13	15,546	10,152
Total current liabilities		<u>5,842,714</u>	<u>6,222,191</u>
Non-current liabilities			
Other financial liabilities	7 - 19	6,605,508	6,796,952
Accounts payable	7 - 24	498,832	359,391
Other provisions	21	374,593	422,494
Deferred tax liabilities	18	949,697	915,759
Employee benefits	23	101,087	82,322
Other non-financial liabilities	22	158,305	213,781
Total non-current liabilities		<u>8,688,022</u>	<u>8,790,699</u>
Total liabilities		<u>14,530,736</u>	<u>15,012,890</u>
<b>EQUITY</b>			
Share capital	25	3,146,265	3,149,564
Retained earnings	25	475,118	366,404
Treasury Shares	25	(178)	(178)
Other reserves		<u>554,884</u>	<u>580,870</u>
Parent's ownership interest		4,176,089	4,096,660
Non-controlling interest	14	91,147	88,644
Total equity		<u>4,267,236</u>	<u>4,185,304</u>
Total liabilities and equity		<u>18,797,972</u>	<u>19,198,194</u>

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

			For the period ended December 31,	
	Note	2017	2016	2015
		ThUS\$	ThUS\$	ThUS\$
Revenue	26	9,613,907	8,988,340	9,740,045
Cost of sales		(7,441,849)	(6,967,037)	(7,636,709)
Gross margin		2,172,058	2,021,303	2,103,336
Other income	28	549,889	538,748	385,781
Distribution costs		(699,600)	(747,426)	(783,304)
Administrative expenses		(938,931)	(872,954)	(878,006)
Other expenses		(368,883)	(373,738)	(323,987)
Other gains/(losses)		(7,754)	(72,634)	(55,280)
Income from operation activities		706,779	493,299	448,540
Financial income		78,695	74,949	75,080
Financial costs	27	(393,286)	(416,336)	(413,357)
Share of profit of investments accounted for using the equity method		-	-	37
Foreign exchange gains/(losses)	29	(18,718)	121,651	(467,896)
Result of indexation units		748	311	481
Income (loss) before taxes		374,218	273,874	(357,115)
Income (loss) tax expense / benefit	18	(173,504)	(163,204)	178,383
NET INCOME (LOSS) FOR THE PERIOD		200,714	110,670	(178,732)
Income (loss) attributable to owners of the parent		155,304	69,220	(219,274)
Income (loss) attributable to non-controlling interest	14	45,410	41,450	40,542
Net income (loss) for the year		200,714	110,670	(178,732)
<b>EARNINGS PER SHARE</b>				
Basic earnings (losses) per share (US\$)	30	0.25610	0.12665	(0.40193)
Diluted earnings (losses) per share (US\$)	30	0.25610	0.12665	(0.40193)

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the period ended December 31,		
	Note	2017 ThUS\$	2016 ThUS\$	2015 ThUS\$
NET INCOME (LOSS)		200,714	110,670	(178,732)
Components of other comprehensive income that will not be reclassified to income before taxes				
Other comprehensive income, before taxes, gains (losses) by new measurements on defined benefit plans	25	2,763	(3,105)	(14,631)
Total other comprehensive income that will not be reclassified to income before taxes		2,763	(3,105)	(14,631)
Components of other comprehensive income that will be reclassified to income before taxes				
Currency translation differences				
Gains (losses) on currency translation, before tax	29	(47,495)	494,362	(1,409,439)
Other comprehensive income, before taxes, currency translation differences		(47,495)	494,362	(1,409,439)
Cash flow hedges				
Gains (losses) on cash flow hedges before taxes	19	18,344	127,390	80,387
Other comprehensive income (losses), before taxes, cash flow hedges		18,344	127,390	80,387
Total other comprehensive income that will be reclassified to income before taxes		(29,151)	621,752	(1,329,052)
Other components of other comprehensive income (loss), before taxes		(26,388)	618,647	(1,343,683)
Income tax relating to other comprehensive income that will not be reclassified to income				
Income tax relating to new measurements on defined benefit plans	18	(785)	921	3,911
Accumulate income tax relating to other comprehensive income that will not be reclassified to income		(785)	921	3,911
Income tax relating to other comprehensive income that will be reclassified to income				
Income tax related to cash flow hedges in other comprehensive income		(1,770)	(34,695)	(21,103)
Income taxes related to components of other comprehensive income that will be reclassified to income		(1,770)	(34,695)	(21,103)
Total Other comprehensive income		(28,943)	584,873	(1,360,875)
Total comprehensive income (loss)		171,771	695,543	(1,539,607)
Comprehensive income (loss) attributable to owners of the parent		128,876	648,539	(1,551,331)
Comprehensive income (loss) attributable to non-controlling interests		42,895	47,004	11,724
TOTAL COMPREHENSIVE INCOME (LOSS)		171,771	695,543	(1,539,607)

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.



LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to owners of the parent											Non-controlling interest	Total equity
		Share capital	Treasury shares	Change in other reserves										
				Currency translation reserve	Cash flow hedging reserve	Actuarial gains or losses on defined benefit plans reserve	Shares based payments reserve	Other sundry reserve	Total other reserve	Retained earnings	Parent's ownership interest			
												ThUS\$		
		ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	
Equity as of January 1, 2017		3,149,564	(178)	(2,086,555)	1,506	(12,900)	38,538	2,640,281	580,870	366,404	4,096,660	88,644	4,185,304	
Total increase (decrease) in equity														
Comprehensive income														
Gain (losses)	25	-	-	-	-	-	-	-	-	155,304	155,304	45,410	200,714	
Other comprehensive income		-	-	(45,036)	16,634	1,974	-	-	(26,428)	-	(26,428)	(2,515)	(28,943)	
Total comprehensive income		-	-	(45,036)	16,634	1,974	-	-	(26,428)	155,304	128,876	42,895	171,771	
Transactions with shareholders														
Dividends	25	-	-	-	-	-	-	-	-	(46,590)	(46,590)	-	(46,590)	
Increase (decrease) through transfers and other changes, equity	25-34	(3,299)	-	-	-	-	943	(501)	442	-	(2,857)	(40,392)	(43,249)	
Total transactions with shareholders		(3,299)	-	-	-	-	943	(501)	442	(46,590)	(49,447)	(40,392)	(89,839)	
Closing balance as of December 31, 2017		3,146,265	(178)	(2,131,591)	18,140	(10,926)	39,481	2,639,780	554,884	475,118	4,176,089	91,147	4,267,236	

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

**LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Attributable to owners of the parent												
	Note	Share capital ThUS\$	Treasury shares ThUS\$	Change in other reserves							Parent's ownership interest ThUS\$	Non-controlling interest ThUS\$	Total equity ThUS\$
				Currency translation reserve ThUS\$	Cash flow hedging reserve ThUS\$	Actuarial gains or losses on defined benefit plans reserve ThUS\$	Shares based payments reserve ThUS\$	Other sundry reserve ThUS\$	Total other reserve ThUS\$	Retained earnings ThUS\$			
Equity as of January 1, 2016		2,545,705	(178)	(2,576,041)	(90,510)	(10,717)	35,647	2,634,679	(6,942)	317,950	2,856,535	81,013	2,937,548
Total increase (decrease) in equity													
Comprehensive income													
Gain (losses)	25	-	-	-	-	-	-	-	-	69,220	69,220	41,450	110,670
Other comprehensive income		-	-	489,486	92,016	(2,183)	-	-	579,319	-	579,319	5,554	584,873
Total comprehensive income		-	-	489,486	92,016	(2,183)	-	-	579,319	69,220	648,539	47,004	695,543
Transactions with shareholders													
Equity issue	25-34	608,496	-	-	-	-	-	-	-	-	608,496	-	608,496
Dividends	25	-	-	-	-	-	-	-	-	(20,766)	(20,766)	-	(20,766)
Increase (decrease) through transfers and other changes, equity	25-34	(4,637)	-	-	-	-	2,891	5,602	8,493	-	3,856	(39,373)	(35,517)
Total transactions with shareholders		603,859	-	-	-	-	2,891	5,602	8,493	(20,766)	591,586	(39,373)	552,213
Closing balance as of December 31, 2016		3,149,564	(178)	(2,086,555)	1,506	(12,900)	38,538	2,640,281	580,870	366,404	4,096,660	88,644	4,185,304

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to owners of the parent											Total equity ThUS\$
		Share capital ThUS\$	Treasury shares ThUS\$	Currency translation reserve ThUS\$	Cash flow hedging reserve ThUS\$	Change in other reserves				Retained earnings ThUS\$	Parent's ownership interest ThUS\$	Non-controlling interest ThUS\$	
						Actuarial gains or losses on defined benefit plans reserve ThUS\$	Shares based payments reserve ThUS\$	Other sundry reserve ThUS\$	Total other reserve ThUS\$				
Equity as of January 1, 2015		2,545,705	(178)	(1,193,871)	(151,340)	-	29,642	2,635,748	1,320,179	536,190	4,401,896	101,799	4,503,695
Total increase (decrease) in equity													
Comprehensive income													
Gain (losses)	25	-	-	-	-	-	-	-	-	(219,274)	(219,274)	40,542	(178,732)
Other comprehensive income		-	-	(1,382,170)	60,830	(10,717)	-	-	(1,332,057)	-	(1,332,057)	(28,818)	(1,360,875)
Total comprehensive income		-	-	(1,382,170)	60,830	(10,717)	-	-	(1,332,057)	(219,274)	(1,551,331)	11,724	(1,539,607)
Transactions with shareholders													
Increase (decrease) through transfers and other changes, equity	25-34	-	-	-	-	-	6,005	(1,069)	4,936	1,034	5,970	(32,510)	(26,540)
Total transactions with shareholders		-	-	-	-	-	6,005	(1,069)	4,936	1,034	5,970	(32,510)	(26,540)
Closing balance as of December 31, 2015		<u>2,545,705</u>	<u>(178)</u>	<u>(2,576,041)</u>	<u>(90,510)</u>	<u>(10,717)</u>	<u>35,647</u>	<u>2,634,679</u>	<u>(6,942)</u>	<u>317,950</u>	<u>2,856,535</u>	<u>81,013</u>	<u>2,937,548</u>

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT – METHOD

		For the periods ended December 31,		
	Note	2017 ThUS\$	2016 ThUS\$	2015 ThUS\$
Cash flows from operating activities				
Cash collection from operating activities				
Proceeds from sales of goods and services		10,595,718	9,918,589	11,372,397
Other cash receipts from operating activities		73,668	70,359	88,237
Payments for operating activities				
Payments to suppliers for goods and services		(6,722,713)	(6,756,121)	(7,029,582)
Payments to and on behalf of employees		(1,955,310)	(1,820,279)	(2,165,184)
Other payments for operating activities		(223,706)	(162,839)	(351,177)
Income taxes refunded (paid)		(91,986)	(59,556)	(57,963)
Other cash inflows (outflows)	35	(8,931)	(209,269)	(184,627)
Net cash flows from operating activities		<u>1,666,740</u>	<u>980,884</u>	<u>1,672,101</u>
Cash flows used in investing activities				
Cash flows from losses of control of subsidiaries or other businesses		6,503	-	-
Other cash receipts from sales of equity or debt instruments of other entities		3,248,693	2,969,731	519,460
Other payments to acquire equity or debt instruments of other entities		(3,106,411)	(2,706,733)	(704,115)
Amounts raised from sale of property, plant and equipment		51,316	76,084	57,117
Purchases of property, plant and equipment		(403,666)	(694,370)	(1,569,749)
Amounts raised from sale of intangible assets		-	1	91
Purchases of intangible assets		(87,318)	(88,587)	(52,449)
Interest received		12,684	11,242	43,374
Other cash inflows (outflows)	35	(9,223)	843	10,576
Net cash flow from (used in) investing activities		<u>(287,422)</u>	<u>(431,789)</u>	<u>(1,695,695)</u>
Cash flows from (used in) financing activities				
Amounts raised from issuance of shares		-	608,496	-
Amounts raised from long-term loans		1,305,384	1,820,016	1,791,484
Amounts raised from short-term loans		132,280	279,593	205,000
Loans repayments		(1,829,191)	(2,121,130)	(1,263,793)
Payments of finance lease liabilities		(344,901)	(314,580)	(342,614)
Dividends paid	35	(66,642)	(41,223)	(35,032)
Interest paid		(389,724)	(398,288)	(383,648)
Other cash inflows (outflows)	35	13,706	(229,163)	(99,757)
Net cash flows from (used in) financing activities		<u>(1,179,088)</u>	<u>(396,279)</u>	<u>(128,360)</u>
Net increase (decrease) in cash and cash equivalents before effect of exchanges rate change		200,230	152,816	(151,954)
Effects of variation in the exchange rate on cash and cash equivalents		(7,553)	43,014	(83,945)
Net increase (decrease) in cash and cash equivalents		<u>192,677</u>	<u>195,830</u>	<u>(235,899)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6	949,327	753,497	989,396
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6	<u>1,142,004</u>	<u>949,327</u>	<u>753,497</u>

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

NOTE 1 - GENERAL INFORMATION

LATAM Airlines Group S.A. (the “Company”) is a public company registered with the Commission for the Financial Market (1), under No.306, whose shares are quoted in Chile on the Stock Brokers - Stock Exchange (Valparaíso) - the Chilean Electronic Stock Exchange and the Santiago Stock Exchange; it is also quoted in the United States of America on the New York Stock Exchange (“NYSE”) in New York 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, Ecuador and Brazil and in a developed series of regional and international routes in America, Europe and Oceania. These businesses are developed directly or by their subsidiaries in different countries. In addition, the Company has subsidiaries operating in the freight business in Mexico, Brazil and Colombia.

The Company is located in Santiago, Chile, at Avenida Américo Vespucio Sur No. 901, commune of Renca.

Corporate Governance practices of the Company are set in accordance with Securities Market Law the Corporations Law and its regulations, and the regulations of the Commission for the Financial Market (1) and the laws and regulations of the United States of America and the U.S. Securities and Exchange Commission (“SEC”) of that country, with respect to the issuance of ADRs (2).

At December 31, 2017, the Company's capital stock is represented by 608,374,525 shares, all common shares, without par value, which is divided into: (a) the 606,407,693 subscribed and paid shares; and (b) 1,966,832 shares pending of subscription and payment, of which: (i) 1,500,000 shares are allocated to compensation stock option plan; And (ii) 466,832 correspond to the balance of shares pending of placement of the last capital increase approved at the extraordinary meeting of shareholders of August 18, 2016.

(1) On February 23, 2017 the Law No. 21.000 was published in the Official Journal, creating the new Commission for the Financial Market (CMF), a collegiate and technical entity that replaced the Superintendency of Securities and Insurance (SVS).

(2) As reported in due course, during 2016, LATAM discontinued its Brazilian receipts program - BDR level III, currently LATAM not counting with securities in the Brazilian market.

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 Law 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., Costa Verde Aeronáutica SpA, Costa Verde Aeronáutica Tres SpA, Inversiones Nueva Costa Verde Aeronáutica Ltda., Inversiones Priesca Dos y Cía. Ltda., Inversiones Caravia Dos y Cía. Ltda., Inversiones El Fano Dos y Cía. Ltda., Inversiones La Espasa Dos S.A. and Inversiones La Espasa Dos y Cía. Ltda., owns 27.91% of the shares issued by the Company, and therefore is the controlling shareholder of the Company in accordance with the provisions of the letter b) of Article 97 and Article 99 of the Securities Market Law, given that there is a decisive influence on its administration.

As of December 31, 2017, the Company had a total of 1,485 registered shareholders. At that date approximately 4.14% of the Company's share capital was in the form of ADRs.

For the period ended December 31, 2017, the Company had an average of 43,593 employees, ending this period with a total of 43,095 employees, spread over 6,922 Administrative employees, 4,742 in Maintenance, 15,126 in Operations, 9,016 in Cabin Crew, 3,957 in Controls Crew, and 3,332 in Sales.

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

a) Participation rate

Tax No.	Company	Country of origin	Functional Currency	As December 31, 2017			As December 31, 2016			As December 31, 2015		
				Direct %	Indirect %	Total %	Direct %	Indirect %	Total %	Direct %	Indirect %	Total %
96.518.860-6	Latam Travel Chile S.A. and Subsidiary (*)	Chile	US\$	99.9900	0.0100	100.0000	99.9900	0.0100	100.0000	99.9900	0.0100	100.0000
96.763.900-1	Inmobiliaria Aeronáutica S.A.	Chile	US\$	0.0000	0.0000	0.0000	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	99.8361	0.1639	100.0000
Foreign	Lan Perú S.A.	Peru	US\$	49.0000	21.0000	70.0000	49.0000	21.0000	70.0000	49.0000	21.0000	70.0000
Foreign	Lan Chile Investments Limited and Subsidiary	Cayman Islands	US\$	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	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	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	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	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	0.0000	100.0000	100.0000
Foreign	Aircraft International Leasing Limited	U.S.A.	US\$	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	100.0000	100.0000
96.631.520-2	Fast Air Almacenes de Carga S.A.	Chile	US\$	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	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	0.0000	100.0000	100.0000
Foreign	Laser Cargo S.R.L.	Argentina	CLP	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	100.0000	100.0000
Foreign	Lan Cargo Overseas Limited and Subsidiaries	Bahamas	ARS	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.969.690-8	Lan Cargo Inversiones S.A. and Subsidiary	Chile	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.575.810-0	Inversiones Lan S.A. and Subsidiaries	Chile	US\$	99.7100	0.2900	100.0000	99.7100	0.2900	100.0000	99.7100	0.2900	100.0000
96.847.880-K	Technical Training LATAM S.A.	Chile	US\$	99.8300	0.1700	100.0000	99.8300	0.1700	100.0000	99.8300	0.1700	100.0000
Foreign	Latam Finance Limited	Cayman Islands	CLP	99.8300	0.1700	100.0000	99.8300	0.1700	100.0000	99.8300	0.1700	100.0000
Foreign	Peuco Finance Limited	Cayman Islands	US\$	100.0000	0.0000	100.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Foreign	Profesional Airline Services INC.	U.S.A.	US\$	100.0000	0.0000	100.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Foreign	TAM S.A. and Subsidiaries (**)	Brazil	US\$	100.0000	0.0000	100.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
			BRL	63.0901	36.9099	100.0000	63.0901	36.9099	100.0000	63.0901	36.9099	100.0000

(\*) In June 2016, Lantours Division de Servicios Terrestres S.A. changes its name to Latam Travel Chile S.A.

(\*\*) As of December 31, 2017, indirect ownership participation on TAM S.A and subsidiaries is from Holdco I S.A., LATAM is entitled to 99,9983% of the economic rights and 49% of the rights politicians product of provisional measure No. 714 of the Brazilian Government implemented during 2016 which allows foreign capital to have up to 49% of the property.

Thus, since April 2016, LATAM Airlines Group S.A. owns 901 voting shares of Holdco I S.A., equivalent to 49% of the total shares with voting rights of said company and TEP Chile S.A. owns 938 voting shares of Holdco I S.A., equivalent to 51% of the total voting shares of that company.

## b) Financial Information

Statement of financial position											Net Income		
Tax No.	Company	As of December 31, 2017			As of December 31, 2016			As of December 31, 2015			For the periods ended		
		Assets	Liabilities	Equity	Assets	Liabilities	Equity	Assets	Liabilities	Equity	2017	2016	2015
		ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	Gain/(loss)	ThUS\$
96.518.860-6	Latam TravelChile S.A. and Subsidiary (*)	6,771	2,197	4,574	5,468	2,727	2,741	5,613	5,522	91	1,833	2,650	2,341
96.763.900-1	Inmobiliaria Aeronáutica S.A.	-	-	-	36,756	8,843	27,913	39,302	14,832	24,470	-	3,443	1,404
96.969.680-0	Lan PaxGroup S.A. and Subsidiaries (**)	499,345	1,101,548	(596,406)	475,763	1,045,761	(561,472)	519,663	1,049,232	(521,907)	(35,943)	(36,331)	(35,187)
Foreign	Lan Perú S.A.	315,607	303,204	12,403	306,111	294,912	11,199	255,691	240,938	14,753	1,205	(2,164)	5,068
Foreign	Lan Chile Investments Limited and Subsidiary (**)	-	-	-	-	-	-	2,015	13	2,002	-	23	(13)
93.383.000-4	Lan Cargo S.A.	584,169	371,934	212,235	480,908	239,728	241,180	483,033	217,037	265,966	(30,220)	(24,813)	(74,408)
Foreign	Connecta Corporation	38,735	17,248	21,487	31,981	23,525	8,456	37,070	38,298	(1,228)	13,013	9,684	194
Foreign	Prime Airport Services Inc. and Subsidiary (**)	12,671	15,722	(3,051)	7,385	11,294	(3,909)	6,683	11,180	(4,497)	857	588	279
96.951.280-7	Transporte Aéreo S.A.	324,498	104,357	220,141	340,940	124,805	216,135	331,117	122,666	208,451	2,172	8,206	5,878
Foreign	Aircraft International Leasing Limited	-	-	-	-	-	-	-	4	(4)	-	9	(4)
96.631.520-2	Fast Air Almacenes de Carga S.A.	12,931	4,863	8,068	10,023	3,645	6,378	8,985	4,641	4,344	939	1,717	1,811
Foreign	Laser Cargo S.R.L.	18	27	(9)	21	32	(11)	27	39	(12)	2	(1)	69
Foreign	Lan Cargo Overseas Limited and Subsidiaries (**)	66,039	42,271	18,808	54,092	35,178	15,737	62,406	43,759	15,563	3,438	176	3,344
96.969.690-8	Lan Cargo Inversiones S.A. and Subsidiary (**)	144,884	156,005	(10,112)	80,644	95,747	(13,506)	54,179	68,220	(12,601)	3,389	(910)	113
96.575.810-0	Inversiones Lan S.A. and Subsidiaries (**)	11,681	5,201	6,377	10,971	6,452	4,452	16,512	14,676	1,828	1,561	2,549	2,772
96.847.880-K	Technical Training LATAM S.A.	1,967	367	1,600	1,745	284	1,461	1,527	266	1,261	109	73	(72)
Foreign	Latam Finance Limited	678,289	708,306	(30,017)	-	-	-	-	-	-	(30,017)	-	-
Foreign	Peuco Finance Limited	608,191	608,191	-	-	-	-	-	-	-	-	-	-
Foreign	Profesional Airline Services INC.	3,703	3,438	265	-	-	-	-	-	-	294	-	-
Foreign	TAM S.A. and Subsidiaries (**)	4,490,714	3,555,423	856,829	5,287,286	4,710,308	495,562	4,969,553	4,199,223	423,190	160,582	2,107	(183,581)

(\*) In June 2016, Lantours Division of Terrestrial Services S.A. changed its name to Latam Travel Chile S.A.

(\*\*) The Equity reported corresponds to Equity attributable to owners of the parent, it does not include Non-controlling interest.



Additionally, we have proceeded to consolidate the following special purpose entities: 1. Chercán Leasing Limited created to finance the pre-delivery payments on aircraft; 2. Guanay Finance Limited created to issue a bond collateralized with future credit card receivables; 3. Private investment funds and 4. Avoceta Leasing Limited created to finance the pre-delivery payments on aircraft. These companies have been consolidated as required by IFRS 10.

All controlled entities have been included in the consolidation.

Changes in the scope of consolidation between January 1, 2016 and December 31, 2017, are detailed below:

(1) Incorporation or acquisition of companies

- On January 2016, the increase in the share capital and statutory amendment for the purpose of creating a new class of shares of Lan Argentina SA, a subsidiary of Lan Pax Group SA, for a total amount was registered in the Public Registry of Commerce. of 90,000,000 nominated "C" class shares not endorsable and without the right to vote. Lan Pax Group S.A. participated in this capital increase, modifying its ownership in 4.87%, as a result of which, the indirect participation of LATAM Airlines Group S.A. increases to 99.8656%.
- On April 1, 2016, Multiplus Corretora de Seguros Ltda. was created, the ownership of which corresponds to 99.99% of Multiplus S.A. direct subsidiary of TAM S.A.
- On September 2016, Latam Finance Limited, a wholly-owned subsidiary of LATAM Airlines Group S.A., was created. Company operation started on April 2017.
- On November 2015, the company Peuco Finance Limited was created, whose ownership corresponds 100% to LATAM Airlines Group S.A. The operation of this company began in December 2017.
- Prismah Fidelidade Ltda. is constituted on June 29, 2012, whose ownership corresponds 99.99% to Multiplus S.A. direct subsidiary of TAM S.A. The operation of this company began in December 2017.
- On December 11, 2017, a capital increase was made in TAM S.A. for a total of MR \$ 697,935 (ThUS \$ 210,000), with no new shares issues. This capital increase was paid a whole 100% by the shareholder LATAM Airlines Goup S.A.  
  
The foregoing, in accordance with the TAM's shareholder Holdco I S.A., who renounces to any right arising from this increase.
- As of December 31, 2017, Inversiones LAN S.A., subsidiary of LATAM Airlines Group S.A., acquired 4,951 shares of Aerovías de Integración Regional Aires S.A. a non-controlling shareholder, equivalent to 0.09498%, consequently, the indirect participation of LATAM Airlines Group S.A. increases to 99.19414%

- (2)      Dissolution of companies
- During the period 2016, Lan Chile Investments Limited, a subsidiary of LATAM Airlines Group S.A.; and Aircraft International Leasing Limited, a subsidiary of Lan Cargo S.A., were dissolved.
  - On November 20, 2017 LATAM Airlines Group S.A. acquired 100% of the shares of Inmobiliaria Aeronáutica S.A., a merger and subsequent dissolution of said company was carried out.
- (3)      Sale of companies.
- On May 5, 2017 Lan Pax Group S.A. and Inversiones Lan S.A., both subsidiaries of LATAM Airlines Group S.A., sold to Talma Servicios Aeroportuarios S.A. and Inversiones Talma S.A.C. 100% of the capital stock of Rampas Andes Airport Services S.A.
- The sale value of Rampas Andes Airport Services S.A. was ThUS \$ 8,624.

## 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.      Basis of Preparation

The consolidated financial statements of LATAM Airlines Group S.A. for the period ended December 31, 2017, have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") incorporated therein and with the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRIC).

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.

During 2016 the Company recorded out of period adjustments resulting in an aggregate net decrease of US\$ 18.2 million to "Net income (loss) for the period" for the year ended December 31, 2016. These adjustments include US\$ 39.5 million (loss) resulting from an account reconciliation process initiated after the Company's affiliate TAM S.A. and its subsidiaries completed the implementation of the SAP system. A further US\$ 11.0 million (loss) reflect adjustments related to foreign exchange differences, also relating to the Company's subsidiaries in Brazil. The balance of US\$ 32.3 million (gain) includes principally the adjustment of unclaimed fees for expired tickets for the Company and its affiliates outside Brazil. Management of TAM S.A. has concluded that the out of period adjustments that have been identified are material to the 2015 financial statements of TAM S.A., which should therefore require a restatement in Brazil. However, Management of LATAM has evaluated the impact of all out of period adjustments, both individually and in the aggregate, and concluding that due to their relative size and to qualitative factors they are not material to the annual consolidated financial statements for 2016 of Latam Airlines Group S.A. or to any previously reported consolidated financial statements, therefore no restatement or revision is necessary.

In order to facilitate comparison, some minor reclassifications have been made to the consolidated financial statements for the previous year.

(a) Accounting pronouncements with implementation effective from January 1, 2017:

		Mandatory Application: Annual periods beginning on or after
(i) Standards and amendments	Date of issue	
Amendment to IAS 7: Statement of cash flow	January 2016	01/01/2017
Amendment to IAS 12: Income tax	January 2016	01/01/2017
(ii) Improvements		
Improvements to International Financial Reporting Standards (2014-2016 cycle): IFRS 12 Disclosure of interests in other entities	December 2016	01/01/2017

The application of standards, amendments, interpretations and improvements had no material impact on the consolidated financial statements of the Company.

(b) Accounting pronouncements not yet in force for financial years beginning on January 1, 2017 and which has not been effected early adoption

		Mandatory Application: Annual periods beginning on or after
(i) Standards and amendments	Date of issue	
IFRS 9: Financial instruments.	December 2009	01/01/2018
Amendment to IFRS 9: Financial instruments.	November 2013	01/01/2018
IFRS 15: Revenue from contracts with customers (1).	May 2014	01/01/2018
Amendment to IFRS 15: Revenue from contracts with customers.	April 2016	01/01/2018

(i) Standards and amendments	Date of issue	Mandatory Application: Annual periods beginning on or after
Amendment to IFRS 2: Share-based payments	June 2016	01/01/2018
Amendment to IFRS 4: Insurance contracts.	September 2016	01/01/2018
Amendment to IAS 40: Investment property	December 2016	01/01/2018
IFRS 16: Leases (2).	January 2016	01/01/2019
Amendment to IFRS 9: Financial Instruments	October 2017	01/01/2019
Amendment to IAS 28: Investments in associates and joint ventures	October 2017	01/01/2019
IFRS 17: Insurance contracts	May 2017	01/01/2021
Amendment to IFRS 10: Consolidated financial statements and IAS 28 Investments in associates and joint ventures.	September 2014	To be determined
(ii) Improvements		
Improvements to International Financial Reporting Standards. (cycle 2014-2016) IFRS 1: First-time adoption of international financial reporting standards and IAS 28 investments in associates and joint ventures.	December 2016	01/01/2018
Improvements to International Financial Reporting Standards. (cycle 2015-2017) IFRS 3: Business combinations, IAS 12: Income tax, IFRS 11: Joint arrangements and IAS 23: Borrowing costs	December 2017	01/01/2019
(iii) Interpretations		
IFRIC 22: Foreign currency transactions and advance consideration	December 2016	01/01/2018
IFRIC 23: Uncertain tax positions	June 2017	01/01/2019

The Company's management believes that the adoption of the standards, amendments and interpretations described above but not yet effective would not have a significant impact on the Company's consolidated financial statements in the year of their first application, except for IFRS 15 and IFRS 16:

- (1) IFRS 15 Revenue from Contracts with Customers supersedes actual standard for revenue recognition that actually uses the Company, as IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standards supersedes IFRS 15 supersedes, IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers; and SIC-31 Revenue - Barter Transactions Involving Advertising Services.

The Company evaluated the possible adoption impacts that this new standard will have on the consolidated financial statements and has identified changes in: i) the recognition of the income associated with the fines for changes, which were previously recognized at the time of the sale and now will be considered as a modification of the initial transport contract and therefore the recognition must be deferred until the rendering of the service; ii) the moment of recognition of the income from the sale of some services or products, where the Company concluded that it acted as principal, and therefore the revenues must be deferred until the service is rendered; and iii) the presentation of the income associated with the sale of products, where the Company concluded that it acted as agent and therefore the income must be presented net of the associated costs.

As of December 31, 2017, the effect of the changes indicated above As of December 31, 2017, the effect of the changes indicated above will not have a significant impact on the Company's consolidated financial statements in the year of its first adoption.

- (2) The IFRS 16 Leases add important changes in the accounting for lessees by introducing a similar treatment to financial leases for all operating leases with a term of more than 12 months. This mean, in general terms, that an asset should be recognized for the right to use the underlying leased assets and a liability representing its present value of payments associate to the agreement. Monthly leases payments will be replace by the asset depreciation and a financial cost in the income statement.

We are evaluating the impact that the adoption of the new lease rule will have on the consolidated financial statements. Currently, we believe that the adoption of this new standard will have a significant impact on the consolidated statement of financial position due to the recording of an asset for right of use and a liability, corresponding to the recording of the leases that are currently registered as operating leases.

LATAM Airlines Group S.A. and subsidiaries are still assessing this standard to determinate the effect on their Financial Statements, covenants and other financial indicators.

## 2.2. Basis of 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 at the date of the consolidated financial statements 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 results and flows are incorporated from the date of acquisition.

Balances, transactions 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.

To account for and identify the financial information revealed when carrying out a business combination, such as the acquisition of an entity by the Company, is apply the acquisition method provided for in IFRS 3: Business combination.

(b) Transactions with non-controlling interests

The Company 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) Sales of subsidiaries

When a subsidiary is sold and a percentage of participation is not retained, the Company derecognizes assets and liabilities of the subsidiary, the non-controlling and other components of equity related to the subsidiary. Any gain or loss resulting from the loss of control is recognized in the consolidated income statement in Other gains (losses).

If LATAM Airlines Group S.A. and Subsidiaries retain an ownership of participation in the sold subsidiary, and does not represent control, this is recognized at fair value on the date that control is lost, the amounts previously recognized in Other comprehensive income are accounted as if the Company had disposed directly from the assets and related liabilities, which can cause these amounts are reclassified to profit or loss. The percentage retained valued at fair value is subsequently accounted using the equity method.

(d) Investees or associates

Investees or associates are all entities over which LATAM Airlines Group S.A. and Subsidiaries have significant influence but have no control. This usually arises from holding between 20% and 50% of the voting rights. Investments in associates are booked using the equity method and are initially recognized at their cost.

2.3. Foreign currency transactions

(a) Presentation and functional currencies

The items included in the financial statements of each of the entities of LATAM Airlines Group 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 LATAM Airlines Group S.A. is the United States dollar which is also the presentation currency of the consolidated financial statements of LATAM Airlines Group 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 by function except when deferred in Other comprehensive income as qualifying cash flow hedges.

(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 presentation currency are translated to the presentation currency 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 income statement account are translated at the exchange rates prevailing on the transaction dates, and
- (iii) All the resultant exchange differences by conversion are shown as a separate component in other comprehensive income.

The exchange rates used correspond to those fixed in the country where the subsidiary is located, whose functional currency is different to the U.S. dollar.

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 closing exchange rate or period informed.

2.4. Property, plant and equipment

The land of LATAM Airlines Group S.A. and Subsidiaries, are recognized at cost less any accumulated impairment loss. The rest of the Properties, plants and equipment are recorded, both in their initial recognition and in their subsequent measurement, at their historical cost less the corresponding depreciation and any loss due to deterioration.

The amounts of advances paid to the aircraft manufacturers are activated by the Company under Construction in progress until they are received.

Subsequent costs (replacement of components, improvements, extensions, etc.) are included in the value of the initial asset or are recognized as a separate asset, only when it is probable that the future economic benefits associated with the elements of property, plant and equipment, they will flow to the Company and the cost of the item can be determined reliably. The value of the replaced component is written off. The rest of the repairs and maintenance are charged to the result of the year in which they are incurred.

The depreciation of the properties, plants and equipment is calculated using the linear 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 the useful life of the assets are reviewed and adjusted, if necessary, once a year.

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

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

## 2.5. Intangible assets other than goodwill

### (a) Airport slots and Loyalty program

Airport slots and the Coalition and Loyalty program are intangible assets of indefinite useful life and are subject to impairment tests annually as an integral part of each CGU, in accordance with the premises that are applicable, included as follows:

Airport slots – Air transport CGU

Loyalty program – Coalition and loyalty program Multiplus CGU

(See Note 16)

The airport slots correspond to an administrative authorization to carry out operations of arrival and departure of aircraft at a specific airport, within a specified period.

The Loyalty program corresponds to the system of accumulation and redemption of points that has developed Multiplus S.A., subsidiary of TAM S.A.

The Brands, airport Slots and Loyalty program were recognized in fair values determined in accordance with IFRS 3, as a consequence of the business combination with TAM and Subsidiaries.

### (b) 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, for which the Company has been defined useful lives between 3 and 10 years.

Expenses related to the development or maintenance of computer software which do not qualify for capitalization, are shown as an expense when incurred. The personnel costs and others costs directly related to the production of unique and identifiable computer software controlled by the Company, are shown as intangible Assets others than Goodwill when they have met all the criteria for capitalization.

### (c) Brands

The Brands were acquired in the business combination with TAM S.A. and Subsidiaries and recognized at fair value under IFRS. During the year 2016, the estimated useful life of the brands change from an indefinite useful life to a five-year period, the period in which the value of the brands will be amortized (See Note 15).



## 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 or associate on the acquisition date. Goodwill related to acquisition of subsidiaries is not amortized but tested for impairment annually or each time that there is evidence of impairment. 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 recognized in the consolidated income statement when they are accrued.

## 2.8. Losses for impairment of non-financial assets

Intangible assets that have an indefinite useful life, and developing IT projects, are not subject to amortization and are subject to annual testing for impairment. 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 reviewed if there are indicators of reverse losses at each reporting date.

## 2.9. Financial assets

The Company classifies its financial instruments in the following categories: financial assets at fair value through profit and loss and loans and receivables. 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 transaction.

### (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 which have been designated at fair value through profit or loss in their initial classification. 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 held for trading unless they are designated as hedges. The financial assets in this category and have been designated initial recognition through profit or loss, are classified as Cash and cash equivalents and Other current financial assets and those designated as instruments held for trading are classified as Other current and non-current financial assets.

(b) Loans and receivables

Loans and receivables 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 receivables are included in trade and other accounts receivable in the consolidated statement of financial position (Note 2.12).

The 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 losses 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.

The 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 rate method.

At the date of each consolidated statement of financial position, the Company assesses if there is objective evidence that a financial asset or group of financial assets may have suffered an impairment loss.

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 transactions. 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 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.

(a) Fair value hedges

Changes in the fair value of designated derivatives 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 the statement of other comprehensive income. The loss or gain relating to the ineffective portion is recognized immediately in the consolidated statement of income under other gains (losses). Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

In case of variable interest-rate hedges, the amounts recognized in the statement of other comprehensive income are reclassified to results within financial costs at the same time the associated debts accrue interest.

For fuel price hedges, the amounts shown in the statement of other comprehensive income are reclassified to results under the line item Cost of sales to the extent that the fuel subject to the hedge is used.

For foreign currency hedges, the amounts recognized in the statement of other comprehensive income are reclassified to income as deferred revenue resulting from the use of points, are recognized as Income.

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 the statement of Other comprehensive income until that moment remains in the statement of other comprehensive income 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 the statement of other comprehensive income is taken immediately to the consolidated statement of income as “Other gains (losses)”.

(c) Derivatives 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 (WAC). The net realizable value is the estimated selling price in the normal course of business, less 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 loss 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 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 highly liquid 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 received from the placement of shares.

#### 2.15. Trade and other accounts payables

Trade payables and other accounts payable are initially recognized at fair value and subsequently at amortized cost.

#### 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. Current and deferred taxes

The expense by current tax is comprised of income and deferred taxes.

The charge for current tax is calculated based on tax laws in force on the date of statement of financial position, in the countries in which the subsidiaries and associates operate and generate taxable income.

Deferred taxes are calculated using the liability 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 consolidated financial statements close, and are expected to apply when the related deferred tax asset is realized or the deferred tax liability discharged.

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

The tax (current and deferred) is recognized in income by function, unless it relates to an item recognized in other comprehensive income, directly in equity or from business combination. In that case the tax is also recognized in other comprehensive income, directly in income by function or goodwill, respectively.

## 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 based on the shares of the Company are recognized in the consolidated financial statements in accordance with IFRS 2: Share-based payments, for plans based on the granting of options, the effect of fair value is recorded in equity with a charge to remuneration in a linear manner between the date of grant of said options and the date on which they become irrevocable, for the plans considered as cash settled award the fair value, updated as of the closing date of each reporting period, is recorded as a liability with charge to remuneration.

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

Provisions are made for these obligations by applying the method of the projected unit credit method, and taking 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 other comprehensive income.

(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 recognized when:

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

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

(i) Passenger and cargo transport

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

Consistent with the foregoing, the Company presents the deferred revenues, generated by anticipated sale of flight tickets and freight services, in heading other non - financial liabilities in the Consolidated Statement of Financial Position.

(ii) Frequent flyer program

The Company currently has a frequent flyer programs, whose objective is customer loyalty through the delivery of kilometers or points fly whenever the programs holders make certain flights, use the services of entities registered with the program or make purchases with an associated credit card. The kilometers or points earned can be exchanged for flight 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 or points accumulated pending use at that date, in accordance with IFRIC 13: Customer loyalty programs.

(iii) Other revenues

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

(b) 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 initially recorded 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 other financial liabilities. The element of interest in the financial cost is charged to 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 year. The asset acquired under a financial lease is depreciated over its useful life 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) classified as assets held for sale 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 heavy 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 the use of the aircraft expressed in terms of cycles and flight hours.

In case of own aircraft or under financial leases, these maintenance cost are capitalized as Property, plant and equipment, while in the case of aircraft under operating leases, a liability is accrued based on the use of the main components is recognized, since a contractual obligation with the lessor to return the aircraft on agreed terms of maintenance levels exists. These are recognized as Cost of sales.

Additionally, some leases establish the obligation of the lessee to make deposits to the lessor as a guarantee of compliance with the maintenance and return conditions. These deposits, often called maintenance reserves, accumulate until a major maintenance is performed, once made, the recovery is requested to the lessor. At the end of the contract period, there is comparison between the reserves that have been paid and required return conditions, and compensation between the parties are made if applicable.

The unscheduled maintenance of aircraft and engines, as well as minor maintenance, are charged to results as incurred.

#### 2.24. Environmental costs

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

### NOTE 3 - FINANCIAL RISK MANAGEMENT

#### 3.1. Financial risk factors

The Company is exposed to different financial risks: (a) market risk, (b) credit risk, and (c) liquidity risk. The program overall risk management of the Company aims to minimize the adverse effects of financial risks affecting the company.

##### (a) Market risk

Due to the nature of its operations, the Company is exposed to market factors such as: (i) fuel-price risk, (ii) exchange -rate risk, and (iii) interest -rate risk.

The Company has developed policies and procedures for managing market risk, which aim to identify, quantify, monitor and mitigate the adverse effects of changes in market factors mentioned above.

For this, the Administration monitors the evolution of price levels, exchange rates and interest rates, and quantifies their risk exposures (Value at Risk), and develops and implements hedging strategies.

##### (i) Fuel-price risk:

###### Exposition:

For the execution of its operations the Company purchases a fuel called Jet Fuel grade 54 USGC, which is subject to the fluctuations of international fuel prices.

###### Mitigation:

To cover the risk exposure fuel, the Company operates with derivative instruments (swaps and options) whose underlying assets may be different from Jet Fuel, being possible use West Texas Intermediate ("WTI") crude, Brent ("BRENT") crude and distillate Heating Oil ("HO"), which have a high correlation with Jet Fuel and greater liquidity.

###### Fuel Hedging Results:

During the period ended December 31, 2017, the Company recognized gains of US \$ 15.1 million for fuel net premium coverage. During the same period of 2016, the Company recognized losses of US \$ 48.0 million for the same concept.



As of December 31, 2017, the market value of fuel positions amounted to US \$ 10.7 million (positive). At the end of December 2016, this market value was US \$ 8.1 million (positive).

The following tables show the level of hedge for different periods:

Positions as of December 31, 2017 (*)	Maturities		
	Q118	Q218	Q318
Percentage of coverage over the expected volume of consumption	19%	12%	5%
			Total
			12%

(\*) The volume shown in the table considers all the hedging instruments (swaps and options).

Positions as of December 31, 2016 (*)	Maturities		
	Q117	Q217	Total
Percentage of coverage over the expected volume of consumption	21%	16%	18%

(\*) The volume shown in the table considers all the hedging instruments (swaps and options).

#### Sensitivity analysis

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

The current hedge positions 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 the third quarter of 2018.

The calculations were made considering a parallel movement of US\$ 5 per barrel in the curve of the BRENT and JET crude futures benchmark price at the end of December 2017 and the end of December, 2016.

Benchmark price (US\$ per barrel)	Positions as of December 31, 2017 effect on equity (millions of US\$)	Positions as of December 31, 2016 effect on equity (millions of US\$)
+5	+1.8	+3.12
-5	- 3.3	-4.78

Given the structure of fuel coverage during 2017, considers a hedge-free portion, a vertical drop of 5 dollars in the JET reference price (considered as the monthly average), would have meant an approximate impact US \$ 109.7 million of lower fuel costs. For the same period, a vertical rise of \$ 5 in the JET reference price (considered as the monthly average) would have meant an impact of approximately US \$ 110.5 million of higher fuel costs.

(ii) Foreign exchange rate risk:

Exposition:

The functional and presentation currency of the Financial Statements of the Parent Company is the US dollar, so that the risk of the Transactional and Conversion exchange rate arises mainly from the Company's business, strategic and accounting operating activities that are expressed in a monetary unit other than the functional currency.

The subsidiaries of LATAM are also exposed to foreign exchange risk whose impact affects the Company's Consolidated Income.

The largest operational exposure to LATAM's exchange risk comes from the concentration of businesses in Brazil, which are mostly denominated in Brazilian Real (BRL), and are actively managed by the company.

At a lower concentration, the Company is also exposed to the fluctuation of other currencies, such as: euro, pound sterling, Australian dollar, Colombian peso, Chilean peso, Argentine peso, Paraguayan guarani, Mexican peso, Peruvian nuevo sol and New Zealand dollar.

Mitigation:

The Company mitigates currency risk exposures by contracting derivative instruments or through natural hedges or execution of internal operations.

FX Hedging Results:

In order to reduce the exposure to the exchange rate risk in the operational cash flows of 2017, and to ensure the operating margin, LATAM makes hedges using FX derivatives.

As of December 31, 2017, the market value of FX derivative positions amounted to US \$ 4.4 million (positive). At the end of December 2016, this market value was US \$ 1.1 million (negative).

During the period ended December 31, 2017, the Company recognized losses of US \$ 9.7 million for FX net premium coverage. During the same period of 2016, the company recognized losses of US \$ 40.3 million for this concept.

As of December 31, 2017, the Company has contracted FX derivatives for US \$ 180 million for BRL. By the end of December 2016, the company had contracted FX derivatives for US \$ 60 million for BRL, and US \$ 10 million for GBP.

Sensitivity analysis:

A depreciation of the R \$ / US \$ exchange rate, negatively affects the Company's operating cash flows, however, also positively affects the value of the positions of derivatives contracted.

FX derivatives are recorded as cash flow hedge contracts; therefore, a variation in the exchange rate has an impact on the market value of the derivatives, the changes of which affect the Company's net equity.

The following table shows the awareness of FX derivative instruments according to reasonable changes in the exchange rate and its effect on equity. The projection term was defined until the end of the last contract of coverage in force, being the last business day of the second quarter of the year 2018:

Appreciation (depreciation) of R\$ (*)	Effect at December 31, 2017 Millions of US\$	Effect at December 31, 2016 Millions of US\$
-10%	-10.7	-1.02
+10%	+9.7	+3.44

(\*)Both currencies (BRL and GBP) only apply period to the closing of 2016.

During 2017, the Company contracted derivative currency swaps to hedge debt issued the same year for a notional UF 8.7 million. As of December 31, 2017, the market value of derivative positions of currency swaps amounted to US\$ 30.6 million (positive).

As of December 31, 2017, the Company has recorded an amount for ineffectiveness in the consolidated statement of income for this type of hedges for US \$ 6.2 million (positive).

In the case of TAM S.A, whose functional currency is the Brazilian real, a large part of its liabilities are expressed in US dollars. Therefore, when converting financial assets and liabilities, from dollars to reais, they have an impact on the result of TAM S.A., which is consolidated in the Company's Income Statement.

With the objective of reducing the impact on the Company's results caused by appreciations or depreciations of R\$/US \$, the Company has executed internal operations to reduce the net exposure in US\$ for TAM S.A.

The following table shows the variation of financial performance to appreciate or depreciate 10% exchange rate R\$/US\$:

Appreciation (depreciation)* of R\$/US\$	Effect at December 31, 2017 Millons of US\$	Effect at December 31, 2016 Millons of US\$
-10%	+80.5	+119.2
+10%	-80.5	-119.2

(\*) Appreciation (depreciation) of US\$ regard to the covered currencies.

#### Effects of exchange rate derivatives in the Financial Statements

The profit or losses caused by changes in the fair value of hedging instruments are segregated between intrinsic value and temporary value. The intrinsic value is the actual percentage of cash flow covered, initially shown in equity and later transferred to income, while the hedge transaction is recorded in income. The temporary value corresponds to the ineffective portion of cash flow hedge which is recognized in the financial results of the Company (Note 19).

Due to the functional currency of TAM S.A. and Subsidiaries is the Brazilian real, the Company presents the effects of the exchange rate fluctuations in Other comprehensive income by converting the Statement of financial position and Income statement of TAM S.A. and Subsidiaries from their functional currency to the U.S. dollar, which is the presentation currency of the consolidated financial statement of LATAM Airlines Group S.A. and Subsidiaries. The Goodwill generated in the Business combination is recognized as an asset of TAM S.A. and Subsidiaries in Brazilian real whose conversion to U.S. dollar also produces effects in other comprehensive income.

The following table shows the change in Other comprehensive income recognized in Total equity in the case of appreciate or depreciate 10% the exchange rate R\$/US\$:

Appreciation (depreciation) of R\$/US\$	Effect at December 31, 2017 Millions of US\$	Effect at December 31, 2016 Millions of US\$
-10%	+386.62	+351.04
+10%	-316.33	-287.22

(iii) Interest -rate risk:

Exposition:

The Company is exposed to fluctuations in interest rates affecting the markets future cash flows of the assets, and current and future financial liabilities.

The Company is exposed in one portion to the variations of London Inter-Bank Offer Rate ("LIBOR") and other interest rates of less relevance are Brazilian Interbank Deposit Certificate ("ILC").

Mitigation:

In order to reduce the risk of an eventual rise in interest rates, the Company has signed interest-rate swap and call option contracts. Currently a 63% (63% at December 31, 2016) of the debt is fixed to fluctuations in interest rate.

Rate Hedging Results:

At December 31, 2017, the market value of the positions of interest rate derivatives amounted to US\$ 6.6 million (negative). At end of December 2016 this market value was US\$ 17.2 million (negative).

### Sensitivity analysis:

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 each date.

Increase (decrease) futures curve in libor 3 months	Positions as of December 31, 2017 effect on profit or loss before tax (millions of US\$)	Positions as of December 31, 2016 effect on profit or loss before tax (millions of US\$)
+100 basis points	-29.26	-32.16
-100 basis points	+29.26	+32.16

Much of the current rate derivatives are registered for as hedges of cash flow, therefore, a variation in the exchange rate has an impact on the market value of derivatives, whose changes impact on the Company's net equity.

The calculations were made increasing (decreasing) vertically 100 basis points of the three-month Libor futures curve, being both reasonably possible scenarios according to historical market conditions.

Increase (decrease) futures curve in libor 3 months	Positions as of December 31, 2017 effect on equity (millions of US\$)	Positions as of December 31, 2016 effect on equity (millions of US\$)
+100 basis points	+1.9	+3.93
-100 basis points	-1.9	-4.03

The assumptions of sensitivity calculation must assume that forward curves of interest rates do not necessarily reflect the real value of the compensation flows. Moreover, the structure of interest rates is dynamic over time.

During the periods presented, the Company has no registered amounts by ineffectiveness in consolidated statement of income for this kind of hedging.

### (b) Credit risk

Credit risk occurs when the counterparty to a financial agreement or instrument fails to discharge an obligation due or financial instrument, leading to a loss in market value of a financial instrument (only financial assets, not liabilities).

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.

To reduce the credit risk associated with operational activities, the Company has established credit limits to abridge the exposure of their debtors which are monitored permanently (mainly in case of operational activities in Brazil with travel agents).

As a way to mitigate credit risk related to financial activities, the Company requires that the counterparty to the financial activities remain at least investment grade by major Risk Assessment Agencies. Additionally the Company has established maximum limits for investments which are monitored regularly.

(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, private investment funds, 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 other current financial assets.

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.

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 International Air Transport Association, international ("IATA") 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 100% by the issuing institutions.

The exposure consists of the term granted, which 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. Currently the sales invoicing of TAM Linhas Aéreas S.A. related with travel agents and cargo agents for domestic transportation in Brazil is done directly by TAM Linhas Aéreas S.A.

Credit quality of financial assets

The external credit evaluation system used by the Company is 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.

To reduce the credit risk associated with operational activities, the Company has established credit limits to abridge the exposure of their debtors which are monitored permanently (mainly in case of operational activities of TAM Linhas Aéreas S.A. with travel agents).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 sufficient 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, the Company requires liquid funds, defined as cash and cash equivalents plus other short term financial assets, to meet its payment obligations.

The liquid funds, the future cash generation and the capacity to obtain additional funding, through bond issuance and banking loans, will allow the Company to obtain sufficient alternatives to face its investment and financing future commitments.

At December 31, 2017 is US\$ 1,614 million (US\$ 1,486 million at December 31, 2016), invested in short term instruments through financial high credit rating levels entities.

In addition to the liquid funds, the Company has access to short term credit line. As of December 31, 2017, LATAM has working capital credit lines with multiple banks and additionally has a US\$ 450 million undrawn committed credit line (US\$ 325 million at December 31, 2016) subject to borrowing base availability.

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2017  
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2 Chile.

Tax No.	Creditor	Creditor country	Currency	Up to 90 days ThUS\$	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Nominal value ThUS\$	Amortization	Effective rate %	Nominal rate %
Loans to exporters													
97.032.000-8	BBVA	Chile	US\$	75,863	-	-	-	-	75,863	75,000	At Expiration	2.30	2.30
97.032.000-8	BBVA	Chile	UF	-	57,363	-	-	-	57,363	55,801	At Expiration	3.57	2.77
97.036.000-K	SANTANDER	Chile	US\$	30,131	-	-	-	-	30,131	30,000	At Expiration	2.49	2.49
97.030.000-7	ESTADO	Chile	US\$	40,257	-	-	-	-	40,257	40,000	At Expiration	2.57	2.57
97.003.000-K	BANCO DO BRASIL	Chile	US\$	100,935	-	-	-	-	100,935	100,000	At Expiration	2.40	2.40
97.951.000-4	HSBC	Chile	US\$	12,061	-	-	-	-	12,061	12,000	At Expiration	2.03	2.03
Bank loans													
97.023.000-9	CORPBANCA	Chile	UF	22,082	22,782	43,430	-	-	88,294	84,664	Quarterly	3.68	3.68
0-E	BLADEX	U.S.A.	US\$	-	16,465	15,628	-	-	32,093	30,000	Semiannual	5.51	5.51
97.036.000-K	SANTANDER	Chile	US\$	2,040	3,368	202,284	-	-	207,692	202,284	Quarterly	4.41	4.41
Obligations with the public													
0-E	BANK OF NEW YORK	U.S.A.	US\$	-	84,375	650,625	96,250	772,188	1,603,438	1,200,000	At Expiration	7.44	7.03
97.030.000-7	ESTADO	Chile	UF	-	20,860	41,720	226,379	245,067	534,026	379,274	At Expiration	5.50	5.50
Guaranteed obligations													
0-E	CREDIT AGRICOLE	France	US\$	8,368	25,415	56,305	12,751	-	102,839	98,091	Quarterly	2.66	2.22
0-E	BNP PARIBAS	U.S.A.	US\$	14,498	59,863	148,469	145,315	313,452	681,597	575,221	Quarterly	3.41	3.40
0-E	WELLS FARGO	U.S.A.	US\$	30,764	92,309	246,285	246,479	245,564	861,401	808,987	Quarterly	2.46	1.75
WILMINGTON													
0-E	TRUST COMPANY	U.S.A.	US\$	32,026	95,042	253,469	244,836	676,474	1,301,847	1,034,853	Quarterly	4.48	4.48
0-E	CITIBANK	U.S.A.	US\$	14,166	42,815	114,612	112,435	102,045	386,073	351,217	Quarterly	3.31	2.47
0-E	BTMU	U.S.A.	US\$	3,292	9,997	26,677	26,704	14,133	80,803	74,734	Quarterly	2.87	2.27
0-E	APPLE BANK	U.S.A.	US\$	1,611	4,928	13,163	13,196	7,369	40,267	37,223	Quarterly	2.78	2.18
0-E	US BANK	U.S.A.	US\$	18,485	55,354	146,709	145,364	158,236	524,148	472,833	Quarterly	4.00	2.82
0-E	DEUTSCHE BANK	U.S.A.	US\$	4,043	12,340	32,775	32,613	32,440	114,211	96,906	Quarterly	4.39	4.39
0-E	NATIXIS	France	US\$	18,192	54,952	129,026	105,990	166,011	474,171	413,011	Quarterly	3.42	3.40
0-E	PK AirFinance	U.S.A.	US\$	2,375	7,308	20,812	18,104	-	48,599	46,500	Monthly	3.18	3.18
0-E	KFW IPEX-BANK	Germany	US\$	2,570	7,111	16,709	1,669	-	28,059	26,888	Quarterly	3.31	3.31
AIRBUS													
0-E	FINANCIAL	U.S.A.	US\$	2,033	6,107	15,931	-	-	24,071	22,925	Monthly	3.19	3.19
0-E	INVESTEC	England	US\$	1,930	11,092	26,103	26,045	11,055	76,225	63,378	Semiannual	6.04	6.04
Other guaranteed obligations													
0-E	CREDIT AGRICOLE	France	US\$	1,757	5,843	246,926	-	-	254,526	241,287	At Expiration	3.38	3.38
Financial leases													
0-E	ING	U.S.A.	US\$	5,890	12,076	28,234	-	-	46,200	42,957	Quarterly	5.67	5.00
0-E	CITIBANK	U.S.A.	US\$	12,699	38,248	91,821	51,222	2,880	196,870	184,274	Quarterly	3.78	3.17
0-E	PEFCO	U.S.A.	US\$	13,354	34,430	23,211	-	-	70,995	67,783	Quarterly	5.46	4.85
0-E	BNP PARIBAS	U.S.A.	US\$	13,955	35,567	50,433	2,312	-	102,267	98,105	Quarterly	3.66	3.25
0-E	WELLS FARGO	U.S.A.	US\$	12,117	38,076	98,424	66,849	21,253	236,719	221,113	Quarterly	3.17	2.67
97.036.000-K	SANTANDER	Chile	US\$	6,049	18,344	48,829	47,785	3,156	124,163	117,023	Quarterly	2.51	1.96
0-E	RRPF ENGINE	England	US\$	370	3,325	8,798	8,692	9,499	30,684	25,983	Monthly	4.01	4.01
Other loans													
0-E	CITIBANK (*)	U.S.A.	US\$	25,783	77,810	206,749	-	-	310,342	285,891	Quarterly	6.00	6.00
Derivatives of coverage													
-	Others	-	US\$	5,656	6,719	6,228	-	-	18,603	17,407	-	0.00	0.00
Total				535,352	960,284	3,010,385	1,630,990	2,780,822	8,917,833	7,633,613			

(\*) Bonus securitized with the future flows of credit card sales in the United States and Canada.



Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2017  
Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Up to 90 days ThUS\$	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Nominal value ThUS\$	Amortization	Effective rate %	Nominal rate %
<b>Bank loans</b>													
0-E	NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ	Holland	US\$	176	497	1,332	722	-	2,727	2,382	Monthly	6.01	6.01
<b>Financial leases</b>													
0-E	NATIXIS WACAPOU LEASING S.A.	France	US\$	4,248	7,903	23,141	71,323	-	106,615	99,036	Quarterly / Semiannual	5.59	5.59
0-E	SOCIÉTÉ GÉNÉRALE MILAN	Luxembourg	US\$	837	2,411	6,509	3,277	-	13,034	12,047	Quarterly	3.69	3.69
0-E	BRANCH	Italy	US\$	11,735	32,230	204,836	-	-	248,801	244,513	Quarterly	4.87	4.81
0-E	BANCO IBM S.A	Brazil	BRL	34	-	-	-	-	34	21	Monthly	6.89	6.89
0-E	SOCIÉTÉ GÉNÉRALE	France	BRL	161	12	-	-	-	173	109	Monthly	6.89	6.89
	Total			<u>17,191</u>	<u>43,053</u>	<u>235,818</u>	<u>75,322</u>	<u>-</u>	<u>371,384</u>	<u>358,108</u>			

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2017  
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Up to 90 days ThUS\$	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Nominal value ThUS\$	Amortization	Effective rate %	Nominal rate %
Trade and other accounts payables													
-	OTHERS	OTHERS	ThUS\$	566,838	-	-	-	-	566,838	566,838	-	-	-
			CLP	165,299	-	-	-	-	165,299	165,299	-	-	-
			BRL	315,605	-	-	-	-	315,605	315,605	-	-	-
		Other currencies		290,244	11,215	-	-	-	301,459	301,459	-	-	-
Accounts payable to related parties currents													
78.997.060-2	Viajes Falabella Ltda.	Chile	CLP	534	-	-	-	-	534	534	-	-	-
0-E	Inversora Aeronáutica Argentina	Argentina	ThUS\$	4	-	-	-	-	4	4	-	-	-
0-E	Consultoría Administrativa Profesional S.A. de C.V.	Mexico	MXN	210	-	-	-	-	210	210	-	-	-
78.591.370-1	Bethia S.A. y Filiales	Chile	CLP	12	-	-	-	-	12	12	-	-	-
	Total			1,338,746	11,215	-	-	-	1,349,961	1,349,961			
Total consolidated				1,891,289	1,014,552	3,246,203	1,706,312	2,780,822	10,639,178	9,341,682			

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2016  
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2 Chile.

Tax No.	Creditor	Creditor country	Currency	Up to 90 days ThUS\$	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Nominal value ThUS\$	Amortization	Effective rate %	Nominal rate %
Loans to exporters													
97.032.000-8	BBVA	Chile	ThUS\$	75,212	-	-	-	-	75,212	75,000	At Expiration	1.85	1.85
97.032.000-8	BBVA	Chile	ThUS\$	-	52,675	-	-	-	52,675	50,381	At Expiration	5.23	4.43
97.036.000-K	SANTANDER	Chile	ThUS\$	30,193	-	-	-	-	30,193	30,000	At Expiration	2.39	2.39
97.030.000-7	ESTADO	Chile	ThUS\$	40,191	-	-	-	-	40,191	40,000	At Expiration	1.91	1.91
97.003.000-K	BANCO DO BRASIL	Chile	ThUS\$	72,151	-	-	-	-	72,151	70,000	At Expiration	3.08	3.08
97.951.000-4	HSBC	Chile	ThUS\$	12,054	-	-	-	-	12,054	12,000	At Expiration	1.79	1.79
Bank loans													
97.023.000-9	CORPBANCA	Chile	UF	20,808	61,112	63,188	16,529	-	161,637	153,355	Quarterly	4.06	4.06
0-E	BLADDEX	U.S.A.	ThUS\$	-	14,579	31,949	-	-	46,528	42,500	Semiannual	5.14	5.14
0-E	DVB BANK SE	U.S.A.	ThUS\$	145	199	28,911	-	-	29,255	28,911	Quarterly	1.86	1.86
97.036.000-K	SANTANDER	Chile	ThUS\$	1,497	4,308	160,556	-	-	166,361	158,194	Quarterly	3.55	3.55
Obligations with the public													
0-E	BANK OF NEW YORK	U.S.A.	ThUS\$	-	36,250	72,500	518,125	-	626,875	500,000	At Expiration	7.77	7.25
Guaranteed obligations													
0-E	CREDIT AGRICOLE	France	ThUS\$	11,728	30,916	65,008	33,062	3,760	144,474	138,417	Quarterly	2.21	1.81
0-E	BNP PARIBAS	U.S.A.	ThUS\$	13,805	56,324	142,178	141,965	376,894	731,166	628,118	Quarterly	2.97	2.96
0-E	WELLS FARGO	U.S.A.	ThUS\$	35,896	107,830	287,878	288,338	411,076	1,131,018	1,056,345	Quarterly	2.37	1.68
0-E	WILMINGTON TRUST COMPANY	U.S.A.	ThUS\$	25,833	79,043	206,952	200,674	733,080	1,245,582	967,336	Quarterly	4.25	4.25
0-E	CITIBANK	U.S.A.	ThUS\$	20,224	61,020	164,077	166,165	184,053	595,539	548,168	Quarterly	2.72	1.96
97.036.000-K	SANTANDER	Chile	ThUS\$	5,857	17,697	47,519	48,024	26,448	145,545	138,574	Quarterly	1.98	1.44
0-E	BTMU	U.S.A.	ThUS\$	3,163	9,568	25,752	26,117	27,270	91,870	85,990	Quarterly	2.31	1.72
0-E	APPLE BANK	U.S.A.	ThUS\$	1,551	4,712	12,693	12,891	13,857	45,704	42,754	Quarterly	2.29	1.69
0-E	US BANK	U.S.A.	ThUS\$	18,563	55,592	147,357	146,045	230,747	598,304	532,608	Quarterly	3.99	2.81
0-E	DEUTSCHE BANK	U.S.A.	ThUS\$	6,147	18,599	31,640	31,833	48,197	136,416	117,263	Quarterly	3.86	3.86
0-E	NATIXIS	France	ThUS\$	14,779	44,826	116,809	96,087	206,036	478,537	422,851	Quarterly	2.60	2.57
0-E	PK AirFinance	U.S.A.	ThUS\$	2,265	6,980	19,836	25,610	3,153	57,844	54,787	Monthly	2.40	2.40
0-E	KFW IPEX-BANK	Germany	ThUS\$	2,503	7,587	18,772	9,178	-	38,040	36,191	Quarterly	2.55	2.55
0-E	AIRBUS FINANCIAL	U.S.A.	ThUS\$	1,982	5,972	16,056	7,766	-	31,776	30,199	Monthly	2.49	2.49
0-E	INVESTEC	England	ThUS\$	1,880	10,703	25,369	25,569	23,880	87,401	72,202	Semiannual	5.67	5.67
Other guaranteed obligations													
0-E	CREDIT AGRICOLE	France	ThUS\$	1,501	4,892	268,922	-	-	275,315	256,860	At Expiration	2.85	2.85
Financial leases													
0-E	ING	U.S.A.	ThUS\$	5,889	17,671	34,067	12,134	-	69,761	63,698	Quarterly	5.62	4.96
0-E	CREDIT AGRICOLE	France	ThUS\$	1,788	5,457	-	-	-	7,245	7,157	Quarterly	1.85	1.85
0-E	CITIBANK	U.S.A.	ThUS\$	6,083	18,250	48,667	14,262	-	87,262	78,249	Quarterly	6.40	5.67
0-E	PEFCO	U.S.A.	ThUS\$	17,558	50,593	67,095	3,899	-	139,145	130,811	Quarterly	5.39	4.79
0-E	BNP PARIBAS	U.S.A.	ThUS\$	13,744	41,508	79,165	22,474	-	156,891	149,119	Quarterly	3.69	3.26
0-E	WELLS FARGO	U.S.A.	ThUS\$	5,591	16,751	44,615	44,514	1,880	113,351	103,326	Quarterly	3.98	3.54
0-E	DVB BANK SE	U.S.A.	ThUS\$	4,773	9,541	-	-	-	14,314	14,127	Quarterly	2.57	2.57
0-E	RRPF ENGINE	England	ThUS\$	-	-	8,248	8,248	12,716	29,212	25,274	Monthly	2.35	2.35
Other loans													
0-E	BOEING	U.S.A.	ThUS\$	163	320	26,214	-	-	26,697	26,214	At Expiration	2.35	2.35
0-E	CITIBANK (*)	U.S.A.	ThUS\$	25,802	77,795	207,001	103,341	-	413,939	370,389	Quarterly	6.00	6.00
Hedging derivatives													
-	OTROS	-	ThUS\$	7,364	15,479	7,846	-	-	30,689	-	-	0.00	0.00
-	Total			508,683	944,749	2,476,840	2,002,850	2,303,047	8,236,169	7,257,368			

(\*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

Clases de pasivo para el análisis del riesgo de liquidez agrupado por vencimiento al 31 de diciembre de 2016  
Nombre empresa deudora: TAM S.A. y Filiales, Rut 02.012.862/0001-60, Brasil.

Rut empresa acreedora	Nombre empresa acreedora	País de empresa acreedora	Descripción de la moneda	Hasta 90 días MUS\$	Más de 90 días a un año MUS\$	Más de uno a tres años MUS\$	Más de tres a cinco años MUS\$	Más de cinco años MUS\$	Total Valor MUS\$	Total Valor nominal MUS\$	Tipo de amortización	Tasa efectiva %	Tasa nominal %
Préstamos bancarios													
0-E	NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ	Holanda	US\$	179	493	1,315	1,314	54	3,355	2,882	Mensual	6.01	6.01
0-E	CITIBANK	E.E.U.U.	US\$	1,528	203,150	-	-	-	204,678	200,000	Al Vencimiento	3.39	3.14
Obligaciones con el Público													
0-E	THE BANK OF NEW YORK	E.E.U.U.	US\$	-	352,938	83,750	562,813	-	999,501	800,000	Al Vencimiento	8.17	8.00
Arrendamiento Financiero													
0-E	AFS INVESTMENT IX LLC	E.E.U.U.	US\$	2,733	7,698	20,522	8,548	-	39,501	35,448	Mensual	1.25	1.25
0-E	DVB BANK SE	E.E.U.U.	US\$	120	165	-	-	-	285	282	Mensual	2.50	2.50
0-E	GENERAL ELECTRIC CAPITAL CORPORATION	E.E.U.U.	US\$	3,852	5,098	-	-	-	8,950	8,846	Mensual	2.30	2.30
0-E	KFW IPEX-BANK	Alemania	US\$	592	1,552	-	-	-	2,144	2,123	Mensual/Trimestral	2.80	2.80
0-E	NATIXIS	Francia	US\$	4,290	7,837	22,834	40,968	41,834	117,763	107,443	Trimestral/Semestral	4.90	4.90
0-E	WACAPOU LEASING S.A.	Luxemburgo	US\$	833	2,385	6,457	6,542	-	16,217	14,754	Trimestral	3.00	3.00
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italia	US\$	11,875	32,116	85,995	171,553	-	301,539	279,335	Trimestral	4.18	4.11
0-E	BANCO IBM S.A	Brasil	BRL	380	1,161	35	-	-	1,576	1,031	Mensual	13.63	13.63
0-E	HP FINANCIAL SERVICE	Brasil	BRL	225	-	-	-	-	225	222	Mensual	10.02	10.02
0-E	SOCIÉTÉ GÉNÉRALE	Francia	BRL	146	465	176	-	-	787	519	Mensual	13.63	13.63
Total				26,753	615,058	221,084	791,738	41,888	1,696,521	1,452,885			

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2016  
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Up to 90 days ThUS\$	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Nominal value ThUS\$	Amortization	Effective rate %	Nominal rate %
Trade and other accounts payables													
-	OTHERS	OTHERS	ThUS\$	549,897	21,215	-	-	-	571,112	571,112	-	-	-
			CLP	48,842	(30)	-	-	-	48,812	48,812	-	-	-
			BRL	346,037	27	-	-	-	346,064	346,064	-	-	-
			Others currencies	140,471	11,467	-	-	-	151,938	151,938	-	-	-
Accounts payable to related parties currents													
0-E	Consultoría Administrativa Profesional S.A. de C.V.	Mexico	MXN	170	-	-	-	-	170	170	-	-	-
78.997.060-2	Viajes Falabella Ltda.	Chile	CLP	46	-	-	-	-	46	46	-	-	-
0-E	TAM Aviação Executiva e Taxi Aéreo S.A.	Brazil	BRL	28	-	-	-	-	28	28	-	-	-
65.216.000-K	Comunidad Mujer	Chile	CLP	13	-	-	-	-	13	13	-	-	-
78.591.370-1	Bethia S.A. y Filiales	Chile	CLP	6	-	-	-	-	6	6	-	-	-
79.773.440-3	Transportes San Felipe S.A.	Chile	CLP	4	-	-	-	-	4	4	-	-	-
0-E	Inversora Aeronáutica Argentina	Argentina	ThUS\$	2	-	-	-	-	2	2	-	-	-
	Total			1,085,516	32,679	-	-	-	1,118,195	1,118,195	-	-	-
	Total consolidated			1,620,952	1,592,486	2,697,924	2,794,588	2,344,935	11,050,885	9,828,448	-	-	-

The Company has fuel, interest rate and exchange 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.

At the end of 2016, the Company provided US\$ 30.2 million in derivative margin guarantees, for cash and stand-by letters of credit. At December 31, 2017, the Company had provided US\$ 16.4 million in guarantees for Cash and cash equivalent and stand-by letters of credit. The decrease was due at: i) maturity of hedge contracts, ii) acquire of new fuel purchase contracts, and iii) changes in fuel prices, exchange rate and interest rates.

### 3.2. Capital risk management

The Company's objectives, with respect to the management of capital, are (i) to comply with the restrictions of minimum equity and (ii) to maintain an optimal capital structure.

The Company monitors its contractual obligations and the regulatory limitations in the different countries where the entities of the group are domiciled to assure they meet the limit of minimum net equity, where the most restrictive limitation is to maintain a positive net equity.

Additionally, the Company periodically monitors the short and long term cash flow projections to assure the Company has adequate sources of funding to generate the cash requirement to face its investment and funding future commitments.

The Company international credit rating is the consequence of the Company capacity to face its long terms financing commitments. As of December 31, 2017 the Company has an international long term credit rating of BB- with stable outlook by Standard & Poor's, a B+ rating with stable outlook by Fitch Ratings and a B1 rating with stable outlook by Moody's.

### 3.3. Estimates of fair value.

At December 31, 2017, the Company maintained financial instruments that should be recorded at fair value. These are grouped into two categories:

#### 1. Hedge Instruments:

This category includes the following instruments:

- Interest rate derivative contracts,
- Fuel derivative contracts,
- Currency derivative contracts.

## 2. Financial Investments:

This category includes the following instruments:

- Investments in short-term Mutual Funds (cash equivalent),
- Private 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 calculated through valuation methods 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) and (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 using the current price of the 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 the market at period end.

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

	As of December 31, 2017				As of December 31, 2016			
		Fair value measurements using values considered as				Fair value measurements using values considered as		
	Fair value ThUS\$	Level I ThUS\$	Level II ThUS\$	Level III ThUS\$	Fair value ThUS\$	Level I ThUS\$	Level II ThUS\$	Level III ThUS\$
Assets								
Cash and cash equivalents	29,658	29,658	-	-	15,522	15,522	-	-
Short-term mutual funds	29,658	29,658	-	-	15,522	15,522	-	-
Other financial assets, current	536,001	473,653	62,348	-	548,402	536,991	11,411	-
Fair value derived interest rate	3,113	-	3,113	-	-	-	-	-
Fair value of fuel derivatives	10,711	-	10,711	-	10,088	-	10,088	-
Fair value derived from foreign currency	48,322	-	48,322	-	1,259	-	1,259	-
Interest accrued since the last payment date of Cross Currency Swap	202	-	202	-	64	-	64	-
Private investment funds	472,232	472,232	-	-	536,991	536,991	-	-
Domestic and foreign bonds	1,421	1,421	-	-	-	-	-	-
Other financial assets, not current	519	-	519	-	-	-	-	-
Fair value derived from foreign currency	519	-	519	-	-	-	-	-
Liabilities								
Other financial liabilities, current	12,200	-	12,200	-	24,881	-	24,881	-
Fair value of interest rate derivatives	8,919	-	8,919	-	9,579	-	9,579	-
Fair value of foreign currency derivatives	2,092	-	2,092	-	13,155	-	13,155	-
Interest accrued since the last payment date of Currency Swap	1,189	-	1,189	-	2,147	-	2,147	-
Other financial liabilities, non current	2,617	-	2,617	-	6,679	-	6,679	-
Fair value of interest rate derivatives	2,617	-	2,617	-	6,679	-	6,679	-

Additionally, at December 31, 2017, 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, 2017		As of December 31, 2016	
	Book	Fair	Book	Fair
	value	value	value	value
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalents	1,112,346	1,112,346	933,805	933,805
Cash on hand	8,562	8,562	8,630	8,630
Bank balance	330,430	330,430	255,746	255,746
Overnight	239,292	239,292	295,060	295,060
Time deposits	534,062	534,062	374,369	374,369
Other financial assets, current	23,918	23,918	164,426	164,426
Other financial assets	23,918	23,918	164,426	164,426
Trade debtors, other accounts receivable and Current accounts receivable	1,214,050	1,214,050	1,107,889	1,107,889
Accounts receivable from entities related, current	2,582	2,582	554	554
Other financial assets, not current	87,571	87,571	102,125	102,125
Accounts receivable, non-current	6,891	6,891	8,254	8,254
Other current financial liabilities	1,288,749	1,499,495	1,814,647	2,022,290
Accounts payable for trade and other accounts payable, current	1,695,202	1,695,202	1,593,068	1,593,068
Accounts payable to entities related, current	760	760	269	269
Other financial liabilities, not current	6,602,891	6,738,872	6,790,273	6,970,375
Accounts payable, not current	498,832	498,832	359,391	359,391

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, overnight, time deposits and accounts payable, non-current, 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 (Level II). In the case of Other financial assets, the valuation was performed according to market prices at period end.

#### NOTE 4 - ACCOUNTING ESTIMATES AND JUDGMENTS

The Company has used estimates to value and record certain assets, liabilities, revenue, expenditure, and commitments. Basically, these estimates relate to:

- (a) Evaluation of possible losses through impairment of goodwill and intangible assets with an indefinite useful life.



As of December 31, 2017, the goodwill amounts to ThUS \$ 2,672,550 (ThUS \$ 2,710,382 as of December 31, 2016), while the intangible assets comprise the Airport Slots for ThUS \$ 964,513 (ThUS \$ 978,849 as of December 31, 2016) and Loyalty Program for ThUS \$ 321,440 (ThUS \$ 326,262 as of December 31, 2016).

The Company checks at least once a year whether goodwill and intangible assets with an indefinite useful life have suffered an impairment loss. For this evaluation, the Company has identified two cash generating units (CGU), "Air transport" and "Multiplus coalition and loyalty program". The book value of the surplus value assigned to each CGU as of December 31, 2017 amounted to ThUS \$ 2,146,692 and ThUS \$ 525,858 (ThUS \$ 2,176,634 and ThUS \$ 533,748 as of December 31, 2016), which include the following Intangible assets of indefinite useful life:

	Air Transport CGU		Coalition and loyalty Program Multiplus CGU	
	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Airport Slots	964,513	978,849	-	-
Loyalty program	-	-	321,440	326,262

The recoverable value of these cash-generating units (CGUs) has been determined based on calculations of their value in use. The principal assumptions used by the management include: growth rate, exchange rate, discount rate, fuel prices, and other economic assumptions. The estimation of these assumptions requires significant judgment by the management, as these variables feature inherent uncertainty; however, the assumptions used are consistent with Company's internal planning. Therefore, management evaluates and updates the estimates on an annual basis, in light of conditions that affect these variables. The mainly assumptions used as well as, the corresponding sensitivity analyses are showed in Note 16.

(b) Useful life, residual value, and impairment of property, plant, and equipment

The depreciation of assets is calculated based on the linear model, except for certain technical components depreciated on cycles and hours flown. These useful lives are reviewed on an annual basis according with the Company's future economic benefits associated with them.

Changes in circumstances such as: technological advances, business model, planned use of assets or capital strategy may render the useful life different to the lifespan estimated. When it is determined that the useful life of property, plant, and equipment must be reduced, as may occur in line with changes in planned usage of assets, the difference between the net book value and estimated recoverable value is depreciated, in accordance with the revised remaining useful life.

Residual values are estimated in accordance with the market value that these assets will have at the end of their useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, once a year. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.8).

(c) Recoverability of deferred tax assets

Deferred taxes are calculated according to the liability method, on the temporary differences that arise between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets on tax losses are recognized to the extent that it is probable that future tax benefits will be available with which to offset the temporary differences. The Company makes financial and fiscal projections to evaluate the realization in time of this deferred tax asset. Additionally, it ensures that these projections are consistent with those used to measure other long-lived assets. As of December 31, 2017, the Company has recognized deferred tax assets of ThUS \$ 364,021 (ThUS \$ 384,580 as of December 31, 2016) and has ceased to recognize deferred tax assets on tax losses of ThUS \$ 81,155 (ThUS \$ 115,801 as of December 31, 2016) (Note 18).

(d) Air tickets sold that are not actually used.

The Company register advance sales of tickets as deferred revenue. Revenue from ticket sales is recognized in the income statement when the service is provided or when the tickets expires unused, reducing the corresponding deferred revenue. The Company evaluates monthly the probability that tickets expiry unused, based on the history of used tickets. Changes in the exchange probability would have an impact our revenue in the year in which the change occurs and in future years. As of December 31, 2017, deferred revenue associated with air tickets sold amounted to ThUS\$ 1,550,447 (ThUS\$ 1,535,229 as of December 31, 2016). An hypotheticalal change of 1% in passenger behavior regarding to the ticket usage, that is, if during the next six months after sells probability of used were 89% rather than 90%, as we consider, it would lead to a change in the expiry period from six to seven months, which, would have an impact of up to ThUS\$ 20,000 in the results of 2017.

(e) Valuation of loyalty points and kilometers granted to loyalty program members, pending usage.

As of December 31, 2017 and 2016 the Company operated the following loyalty programs: LATAM Pass, LATAM Fidelidade and Multiplus, with the objective of enhancing customer loyalty by offering points or kilometers (see Note 22).

The members of these programs accumulate kilometers when they fly with LATAM Airlines Group or any other airline member of the oneworld® program, as well as use the services of the associated entities.

When kilometers and points are redeemed for products and services other than the services provided by the Company, revenue is recognized immediately; when they are redeemed for air tickets on airlines from LATAM Airlines Group S.A. and subsidiaries, revenue is deferred until the transport service is provided or the corresponding tickets expired.

Deferred revenue from loyalty programs at the closing date corresponds to the valuation of points and kilometers granted to loyalty program members, pending of use, weighted by the probability to be redeemed.

According to IFRIC-13, kilometers and points value that the Company estimate are not likely to be redeemed (“breakage”), they recognize the associated value proportionally during the period in which the remaining kilometers or points are expected to be redeemed. The Company uses statistical models to estimate the breakage, based on historical redemption patterns and projections prepared by external experts.

As of December 31, 2017, the deferred revenue associated with the LATAM Pass loyalty program amounts to ThUS \$ 853,505 (ThUS\$ 896,190 as of December 31, 2016). A hypothetical change of one percentage point in the exchange probability would result in an impact as of December 31, 2017 of ThUS\$ 25,000 (ThUS\$ 30,632 as of December 31, 2016). While the deferred revenues associated with the loyalty programs LATAM Fidelidade and Multiplus amount to ThUS \$ 364,866 (ThUS\$ 392,107 as of December 31, 2016). A hypothetical change of two percentage points in the number of points pending to be exchanged would result in an impact ThUS\$ 16,700 in 2017 (ThUS\$ 14,639 in 2016).

The value of kilometers and other components are determined by the Company based on a fair value analysis. As of December 31, 2017 a hypothetical change of one percentage point in the fair value of the unused kilometers would result in an impact of ThUS\$ 8,000 in 2017 (ThUS\$ 8,400 in 2016).

(f) Provisions needs, and their valuation when required

Known contingencies are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. The Company applies professional judgment, experience, and knowledge to use available information to determine these values, in light of the specific characteristics of known risks. This process facilitates the early assessment and valuation of potential risks in individual cases or in the development of contingent eventualities.

(g) Investment in subsidiary (TAM)

The management has applied its judgment in determining that LATAM Airlines Group S.A. controls TAM S.A. and Subsidiaries, for accounting purposes, and has therefore consolidated the financial statements.

The grounds for this decision are that LATAM issued ordinary shares in exchange for the majority of circulating ordinary and preferential shares in TAM, except for those TAM shareholders who did not accept the exchange, which were subject to a squeeze out, entitling LATAM to substantially all economic benefits generated by the LATAM Group, and thus exposing it to substantially all risks relating to the operations of TAM. This exchange aligns the economic interests of LATAM and all of its shareholders, including the controlling shareholders of TAM, thus insuring that the shareholders and directors of TAM shall have no incentive to exercise their rights in a manner that would be beneficial to TAM but detrimental to LATAM. Furthermore, all significant actions necessary of the operation of the airlines require votes in favor by the controlling shareholders of both LATAM and TAM.

Since the integration of LAN and TAM operations, the most critical airline operations in Brazil have been managed by the CEO of TAM while global activities have been managed by the CEO of LATAM, who is in charge of the operation of the LATAM Group as a whole and reports to the LATAM Board.

The CEO of LATAM also evaluates the performance of LATAM Group executives and, together with the LATAM Board, determines compensation. Although Brazilian law currently imposes restrictions on the percentages of voting rights that may be held by foreign investors, LATAM believes that the economic basis of these agreements meets the requirements of accounting standards in force, and that the consolidation of the operations of LAN and LATAM is appropriate.

These estimates were made based on the best information available relating to the matters analyzed.

In any case, it is possible that events that may take place in the future could lead to their modification in future reporting periods, which would be made in a prospective manner.

NOTE 5 - SEGMENTAL INFORMATION

The Company has determined that it has two operating segments: the air transportation business and the coalition and loyalty program Multiplus.

The Air transport segment corresponds to the route network for air transport and it is based on the way that the business is run and managed, according to the centralized nature of its operations, the ability to open and close routes and reallocate resources (aircraft, crew, staff, etc..) within the network, which is a functional relationship between all of them, making them inseparable. This segment definition is the most common level used by the global airline industry.

The segment of loyalty coalition called Multiplus, unlike LATAM Pass and LATAM Fidelidade, is a frequent flyer programs which operate as a unilateral system of loyalty that offers a flexible coalition system, interrelated among its members, with 19.4 million of members, along with being a regulated entity with a separately business and not directly related to air transport.

For the periods ended

	Air transportation At December 31,			Coalition and loyalty program Multiplus At December 31,			Eliminations At December 31,			Consolidated At December 31,		
	2017 ThUS\$	2016 ThUS\$	2015 ThUS\$	2017 ThUS\$	2016 ThUS\$	2015 ThUS\$	2017 ThUS\$	2016 ThUS\$	2015 ThUS\$	2017 ThUS\$	2016 ThUS\$	2015 ThUS\$
Income from ordinary activities from external customers (*)	9,159,031	8,587,772	9,278,041	454,876	400,568	462,004	-	-	-	9,613,907	8,988,340	9,740,045
LAN passenger	4,313,287	4,104,348	4,241,918	-	-	-	-	-	-	4,313,287	4,104,348	4,241,918
TAM passenger	3,726,314	3,372,799	3,706,692	454,876	400,568	462,004	-	-	-	4,181,190	3,773,367	4,168,696
Freight	1,119,430	1,110,625	1,329,431	-	-	-	-	-	-	1,119,430	1,110,625	1,329,431
Income from ordinary activities from transactions with other operating segments	454,876	400,568	462,004	67,554	65,969	67,826	(522,430)	(466,537)	(529,830)	-	-	-
Other operating income	308,937	364,551	230,823	240,952	174,197	154,958	-	-	-	549,889	538,748	385,781
Interest income	28,184	27,287	21,818	50,511	58,380	63,647	-	(10,718)	(10,385)	78,695	74,949	75,080
Interest expense	(393,286)	(427,054)	(423,742)	-	-	63,647	-	10,718	10,385	(393,286)	(416,336)	(413,357)
Total net interest expense	(365,102)	(399,767)	(401,924)	50,511	58,380	63,647	-	-	-	(314,591)	(341,387)	(338,277)
Depreciation and amortization	(994,416)	(952,285)	(923,311)	(7,209)	(8,043)	(11,095)	-	-	-	(1,001,625)	(960,328)	(934,406)
Material non-cash items other than depreciation and amortization	(75,479)	10,069	(507,921)	(145)	(991)	1,893	-	-	-	(75,624)	9,078	(506,028)
Disposal of fixed assets and inventory losses	(39,238)	(82,734)	(20,932)	-	-	-	-	-	-	(39,238)	(82,734)	(20,932)
Doubtful accounts	(18,272)	(29,674)	(18,292)	(144)	(476)	611	-	-	-	(18,416)	(30,150)	(17,681)
Exchange differences	(18,717)	122,129	(469,178)	(1)	(478)	1,282	-	-	-	(18,718)	121,651	(467,896)
Result of indexation units	748	348	481	-	(37)	-	-	-	-	748	311	481
Income (loss) attributable to owners of the parents	(3,482)	(83,653)	(356,039)	158,783	152,873	136,765	-	-	-	155,301	69,220	(219,274)
Participation of the entity in the income of associates	-	-	37	-	-	-	-	-	-	-	-	37
Expenses for income tax	(104,376)	(92,476)	249,090	(69,128)	(70,728)	(70,707)	-	-	-	(173,504)	(163,204)	178,383
Segment profit / (loss)	41,931	(42,203)	(315,497)	158,783	152,873	136,765	-	-	-	200,714	110,670	(178,732)
Assets of segment	17,430,937	17,805,749	16,924,200	1,373,049	1,400,432	1,182,111	(6,014)	(7,987)	(4,893)	18,797,972	19,198,194	18,101,418
Segment liabilities	14,007,916	14,469,505	14,700,072	563,849	572,065	490,076	(41,029)	(28,680)	(26,278)	14,530,736	15,012,890	15,163,870
Amount of non-current asset additions	412,846	1,481,090	1,492,281	-	-	-	-	-	-	412,846	1,481,090	1,492,281
Property, plant and equipment	325,513	1,390,730	1,439,057	-	-	-	-	-	-	325,513	1,390,730	1,439,057
Intangibles other than goodwill	87,333	90,360	53,224	-	-	-	-	-	-	87,333	90,360	53,224
Purchase of non-monetary assets of segment	490,983	782,957	1,622,198	-	-	-	-	-	-	490,983	782,957	1,622,198

(\*) The Company does not have any interest revenue that should be recognized as income from ordinary activities by interest.

For the periods ended

	Air transportation At December 31,			Coalition and loyalty program Multiplus At December 31,			Eliminations At December 31,			Consolidated At December 31,		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Net cash flows from												
Purchases of property, plant and equipment	403,282	693,581	691,930	384	789	2,440	-	-	-	403,666	694,370	694,370
Additions associated with maintenance	218,537	197,866	230,526	-	-	-	-	-	-	218,537	197,866	230,526
Other additions	184,745	495,715	461,404	384	789	2,440	-	-	-	185,129	496,504	463,844
Purchases of intangible assets	79,102	84,377	41,399	8,216	4,210	11,050	-	-	-	87,318	88,587	52,449
Net cash flows from (used in) operating activities	1,489,797	827,108	1,531,395	186,367	154,411	147,348	(9,424)	(635)	(6,642)	1,666,740	980,884	1,672,101
Net cash flow from (used in) investing activities	(278,790)	(426,989)	(1,679,272)	(8,632)	(4,800)	(16,423)	-	-	-	(287,422)	(431,789)	(1,695,695)
Net cash flows from (used in) financing activities	(1,010,705)	(246,907)	(4,708)	(168,383)	(149,372)	(123,652)	-	-	-	(1,179,088)	(396,279)	(128,360)

(\*\*) The company does not have the cash flows of intangible asset acquisitions associated with maintenance.

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

		For the period ended At December 31,	
	2017	2016	2015
	ThUS\$	ThUS\$	ThUS\$
Peru	626,316	627,215	681,340
Argentina	1,113,467	1,030,973	979,324
U.S.A.	900,413	933,130	1,025,475
Europe	676,282	714,436	723,062
Colombia	359,276	343,001	353,007
Brazil	3,436,402	2,974,234	3,464,297
Ecuador	190,268	198,171	238,500
Chile	1,527,158	1,512,570	1,575,519
Asia Pacific and rest of Latin America	784,325	654,610	699,521
Income from ordinary activities	9,613,907	8,988,340	9,740,045
Other operating income	549,889	538,748	385,781

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

The Company has no customers that individually represent more than 10% of sales.

#### NOTE 6 - CASH AND CASH EQUIVALENTS

	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$
Cash on hand	8,562	8,630
Bank balances	330,430	255,746
Overnight	239,292	295,060
Total Cash	578,284	559,436
Cash equivalents		
Time deposits	534,062	374,369
Mutual funds	29,658	15,522
Total cash equivalents	563,720	389,891
Total cash and cash equivalents	1,142,004	949,327

Cash and cash equivalents are denominated in the following currencies:

<u>Currency</u>	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Argentine peso	12,135	7,871
Brazilian real	106,499	97,401
Chilean peso	81,845	30,758
Colombian peso	7,264	4,336
Euro	11,746	1,695
US Dollar	882,114	780,124
Other currencies	40,401	27,142
Total	<u>1,142,004</u>	<u>949,327</u>

## NOTE 7 - FINANCIAL INSTRUMENTS

### 7.1. Financial instruments by category

As of December 31, 2017

<u>Assets</u>	Loans and receivables ThUS\$	Hedge derivatives ThUS\$	Held for trading ThUS\$	Initial designation as fair value through profit and loss ThUS\$	Total ThUS\$
Cash and cash equivalents	1,112,346	-	-	29,658	1,142,004
Other financial assets, current (*)	23,918	62,348	1,421	472,232	559,919
Trade and others accounts receivable, current	1,214,050	-	-	-	1,214,050
Accounts receivable from related entities, current	2,582	-	-	-	2,582
Other financial assets, non current (*)	87,077	519	494	-	88,090
Accounts receivable, non current	6,891	-	-	-	6,891
Total	<u>2,446,864</u>	<u>62,867</u>	<u>1,915</u>	<u>501,890</u>	<u>3,013,536</u>

<u>Liabilities</u>	Other financial liabilities ThUS\$	Held Hedge derivatives ThUS\$	Total ThUS\$
Other liabilities, current	1,288,749	12,200	1,300,949
Trade and others accounts payable, current	1,695,202	-	1,695,202
Accounts payable to related entities, current	760	-	760
Other financial liabilities, non-current	6,602,891	2,617	6,605,508
Accounts payable, non-current	498,832	-	498,832
Total	<u>10,086,434</u>	<u>14,817</u>	<u>10,101,251</u>

(\*) The value presented as initial designation as fair value through profit and loss, corresponds mainly to private investment funds; and loans and receivables corresponds to guarantees given.



As of December 31, 2016

<u>Assets</u>	Loans and receivables ThUS\$	Hedge derivatives ThUS\$	Held for trading ThUS\$	Initial designation as fair value through profit and loss ThUS\$	Total ThUS\$
Cash and cash equivalents	933,805	-	-	15,522	949,327
Other financial assets, current (*)	164,426	11,411	-	536,991	712,828
Trade and others accounts receivable, current	1,107,889	-	-	-	1,107,889
Accounts receivable from related entities, current	554	-	-	-	554
Other financial assets, non current (*)	101,603	-	522	-	102,125
Accounts receivable, non current	8,254	-	-	-	8,254
<b>Total</b>	<b>2,316,531</b>	<b>11,411</b>	<b>522</b>	<b>552,513</b>	<b>2,880,977</b>
<u>Liabilities</u>	Other financial liabilities ThUS\$	Held Hedge derivatives ThUS\$	Total ThUS\$		
Other liabilities, current	1,814,647	24,881	1,839,528		
Trade and others accounts payable, current	1,593,068	-	1,593,068		
Accounts payable to related entities, current	269	-	269		
Other financial liabilities, non-current	6,790,273	6,679	6,796,952		
Accounts payable, non-current	359,391	-	359,391		
<b>Total</b>	<b>10,557,648</b>	<b>31,560</b>	<b>10,589,208</b>		

(\*) The value presented as initial designation as fair value through profit and loss, corresponds mainly to private investment funds; and loans and receivables corresponds to guarantees given.

## 7.2. Financial instruments by currency

### a) Assets

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Cash and cash equivalents	1,142,004	949,327
Argentine peso	12,135	7,871
Brazilian real	106,499	97,401
Chilean peso	81,845	30,758
Colombian peso	7,264	4,336
Euro	11,746	1,695
US Dollar	882,114	780,124
Other currencies	40,401	27,142
Other financial assets (current and non-current)	648,009	814,953
Argentine peso	297	337
Brazilian real	475,810	686,501
Chilean peso	26,679	668
Colombian peso	1,928	1,023
Euro	7,853	6,966
US Dollar	133,431	117,346
Other currencies	2,011	2,112
Trade and other accounts receivable, current	1,214,050	1,107,889
Argentine peso	49,958	82,770
Brazilian real	635,890	551,260
Chilean peso	83,415	92,791
Colombian peso	3,249	16,454
Euro	48,286	21,923
US Dollar	257,324	312,394
Other currencies (*)	135,928	30,297
Accounts receivable, non-current	6,891	8,254
Brazilian real	4	4
Chilean peso	6,887	8,250
Accounts receivable from related entities, current	2,582	554
Brazilian real	2	-
Chilean peso	735	554
US Dollar	1,845	-
Total assets	3,013,536	2,880,977
Argentine peso	62,390	90,978
Brazilian real	1,218,205	1,335,166
Chilean peso	199,561	133,021
Colombian peso	12,441	21,813
Euro	67,885	30,584
US Dollar	1,274,714	1,209,864
Other currencies	178,340	59,551

(\*) See the composition of the others currencies in Note 8 Trade, other accounts receivable and non-current accounts receivable.

### b) Liabilities

Liabilities information is detailed in the table within Note 3 Financial risk management.

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

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Trade accounts receivable	1,175,796	1,022,933
Other accounts receivable	133,054	170,264
Total trade and other accounts receivable	1,308,850	1,193,197
Less: Allowance for impairment loss	(87,909)	(77,054)
Total net trade and accounts receivable	1,220,941	1,116,143
Less: non-current portion – accounts receivable	(6,891)	(8,254)
Trade and other accounts receivable, current	1,214,050	1,107,889

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

The maturity of these accounts at the end of each period is as follows:

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Fully performing	1,040,671	907,358
Matured accounts receivable, but not impaired		
Expired from 1 to 90 days	34,153	27,651
Expired from 91 to 180 days	10,141	9,303
More than 180 days overdue (*)	2,922	1,567
Total matured accounts receivable, but not impaired	47,216	38,521
Matured accounts receivable and impaired Judicial, pre-judicial collection and protested documents	43,175	34,909
Debtor under pre-judicial collection process and portfolio sensitization	44,734	42,145
Total matured accounts receivable and impaired	87,909	77,054
Total	1,175,796	1,022,933

(\*) Value of this segment corresponds primarily to accounts receivable that were evaluated in their ability to recover, therefore not requiring a provision.

Currency balances that make up the Trade and other accounts receivable and non-current accounts receivable are the following:

<u>Currency.</u>	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Argentine Peso	49,958	82,770
Brazilian Real	635,894	551,264
Chilean Peso	90,302	101,041
Colombian peso	3,249	16,454
Euro	48,286	21,923
US Dollar	257,324	312,394
Other currency (*)	135,928	30,297
Total	1,220,941	1,116,143
(*) Other currencies		
Australian Dollar	40,303	5,487
Chinese Yuan	37	271
Danish Krone	197	151
Pound Sterling	5,068	3,904
Indian Rupee	3,277	303
Japanese Yen	18,756	2,601
Norwegian Kroner	133	184
Swiss Franc	2,430	1,512
Korean Won	18,225	4,241
New Taiwanese Dollar	2,983	662
Other currencies	44,519	10,938
Total	135,928	30,254

The Company records 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.

<u>Maturity</u>	<u>Impairment</u>
Judicial and pre-judicial collection assets	100%
Over 1 year	100%
Between 6 and 12 months	50%

Movement in the allowance for impairment loss of Trade and other accounts receivables are the following:

Periods	Opening balance ThUS\$	Write-offs ThUS\$	(Increase) Decrease ThUS\$	Closing balance ThUS\$
From January 1 to December 31, 2015	(71,042)	10,120	850	(60,072)
From January 1 to December 31, 2016	(60,072)	20,910	(37,892)	(77,054)
From January 1 to December 31, 2017	(77,054)	8,249	(19,104)	(87,909)

Once pre-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 to 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, 2017			As of December 31, 2016		
	Gross exposure according to balance ThUS\$	Gross impaired exposure ThUS\$	Exposure net of risk concentrations ThUS\$	Gross exposure according to balance ThUS\$	Gross Impaired exposure ThUS\$	Exposure net of risk concentrations ThUS\$
Trade accounts receivable	1,175,796	(87,909)	1,087,887	1,022,933	(77,054)	945,879
Other accounts receivable	133,054	-	133,054	170,264	-	170,264

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

NOTE 9 - ACCOUNTS RECEIVABLE FROM/PAYABLE TO RELATED ENTITIES

(a) Accounts Receivable

Tax No.	Related party	Relationship	Country of origin	Currency	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Foreign	Qatar Airways	Indirect shareholder	Qatar	ThUS\$	1,845	-
78.591.370-1	Bethia S.A. and Subsidiaries	Related director	Chile	CLP	728	538
Foreign	TAM Aviação Executiva e Taxi Aéreo S.A.	Related director	Brazil	BRL	2	-
87.752.000-5	Granja Marina Tornagaleones S.A.	Common shareholder	Chile	CLP	5	14
96.810.370-9	Inversiones Costa Verde Ltda. y CPA.	Related director	Chile	CLP	2	2
Total current assets					<u>2,582</u>	<u>554</u>

(b) Accounts payable

Tax No.	Related party	Relationship	Country of origin	Currency	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
78.997.060-2	Viajes Falabella Ltda.	Related director	Chile	CLP	534	46
78.591.370-1	Bethia S.A. and Subsidiaries	Related director	Chile	CLP	12	6
Foreign	Inversora Aeronáutica Argentina S.A.	Related director	Argentina	ThUS\$	4	2
65.216.000-K	Comunidad Mujer	Related director	Chile	CLP	-	13
Foreign	Consultoría Administrativa Profesional S.A. de C.V.	Related company	México	MXN	210	170
Foreign	TAM Aviação Executiva e Taxi Aéreo S.A.	Related director	Brazil	BRL	-	28
79.773.440-3	Transportes San Felipe S.A	Common property	Chile	CLP	-	4
Total current liabilities					<u>760</u>	<u>269</u>

Transactions between related parties have been carried out on free-trade conditions between interested and duly-informed parties. The transaction times are between 30 and 45 days, and the nature of settlement of the transactions is monetary.

## NOTE 10 -INVENTORIES

The composition of Inventories is as follows:

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Technical stock	195,530	191,864
Non-technical stock	41,136	49,499
Total	<u>236,666</u>	<u>241,363</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 provided to the Company and third parties, which are valued at average cost, net of provision for obsolescence, as per the following detail:

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Provision for obsolescence Technical stock	21,839	31,647
Provision for obsolescence Non-technical stock	6,488	3,429
Total	<u>28,327</u>	<u>35,076</u>

The resulting amounts do not exceed the respective net realization values.

As of December 31, 2017, the Company recorded ThUS\$ 155,421 (ThUS\$ 167,365 at December 31, 2016) 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:

	Current Assets		Non-current assets		Total Assets	
	As of	As of	As of	As of	As of	As of
	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,
	2017	2016	2017	2016	2017	2016
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
<b>(a) Other financial assets</b>						
Private investment funds	472,232	536,991	-	-	472,232	536,991
Deposits in guarantee (aircraft)	15,690	16,819	41,058	56,846	56,748	73,665
Guarantees for margins of derivatives	2,197	939	-	-	2,197	939
Other investments	-	-	494	522	494	522
Domestic and foreign bonds	1,421	-	-	-	1,421	-
Other guarantees given	6,031	140,733	46,019	44,757	52,050	185,490
Other	-	5,935	-	-	-	5,935
Subtotal of other financial assets	497,571	701,417	87,571	102,125	585,142	803,542
<b>(b) Hedging assets</b>						
Interest accrued since the last payment date						
of Cross currency swap	202	64	-	-	202	64
Fair value of interest rate derivatives	3,113	-	-	-	3,113	-
Fair value of foreign currency derivatives	48,322	1,259	519	-	48,841	1,259
Fair value of fuel price derivatives	10,711	10,088	-	-	10,711	10,088
Subtotal of hedging assets	62,348	11,411	519	-	62,867	11,411
Total Other Financial Assets	559,919	712,828	88,090	102,125	648,009	814,953

The types of derivative hedging contracts maintained by the Company at the end of each period are described in Note 19.



# NOTE 12 - OTHER NON-FINANCIAL ASSETS

The composition of other non-financial assets is as follows:

	Current assets		Non-current assets		Total Assets	
	As of	As of	As of	As of	As of	As of
	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,
	2017	2016	2017	2016	2017	2016
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
(a) Advance payments						
Aircraft leases	31,322	37,560	4,718	14,065	36,040	51,625
Aircraft insurance and other	17,681	14,717	-	-	17,681	14,717
Others	10,012	4,521	1,186	1,573	11,198	6,094
Subtotal advance payments	59,015	56,798	5,904	15,638	64,919	72,436
(b) Other assets						
Aircraft maintenance reserve (*)	21,505	51,576	51,836	90,175	73,341	141,751
Sales tax	137,866	102,351	37,959	40,232	175,825	142,583
Other taxes	2,475	500	-	-	2,475	500
Contributions to Société Internationale de Télécommunications Aéronautiques ("SITA")	327	406	670	591	997	997
Judicial deposits	-	-	124,438	90,604	124,438	90,604
Others	-	611	-	104	-	715
Subtotal other assets	162,173	155,444	214,903	221,706	377,076	377,150
Total Other Non - Financial Assets	221,188	212,242	220,807	237,344	441,995	449,586

(\*) Aircraft maintenance reserves reflect prepayment deposits made by the group to lessors of certain aircraft under operating lease agreements in order to ensure that funds are available to support the scheduled heavy maintenance of the aircraft.

These amounts are calculated based on performance measures, such as flight hours or cycles, are paid periodically (usually monthly) and are contractually required to be repaid to the lessee upon the completion of the required maintenance of the leased aircraft. At the end of the lease term, any unused maintenance reserves are either returned to the Company in cash or used to offset amounts that we may owe the lessor as a maintenance adjustment.

In some cases (five lease agreements), if the maintenance cost incurred by LATAM is less than the corresponding maintenance reserves, the lessor is entitled to retain those excess amounts at the time the heavy maintenance is performed. The Company periodically reviews its maintenance reserves for each of its leased aircraft to ensure that they will be recovered, and recognizes an expense if any such amounts are less than probable of being returned. The cost of aircraft maintenance in the last years has been higher than the related maintenance reserves for all aircraft.

As of December 31, 2017, maintenance reserves total ThUS \$ 73,341 (ThUS \$ 141,751 as of December 31, 2016), corresponding to 14 aircraft that maintain remaining balances, which will be settled in the next maintenance or return.

Aircraft maintenance reserves are classified as current or non-current depending on the dates when the related maintenance is expected to be performed (Note 2.23)

# NOTE 13 - NON-CURRENT ASSETS AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Non-current assets and in disposal groups held for sale at December 31, 2017 and December 31, 2016 are detailed below:

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Current assets		
Aircraft	236,022	281,158
Engines and rotables	9,197	29,083
Other assets	45,884	26,954
Total	<u>291,103</u>	<u>337,195</u>
Current liabilities		
Other liabilities	15,546	10,152
Total	<u>15,546</u>	<u>10,152</u>

The balances are presented at the lower of book value and fair value less cost to sell. The fair value of these assets was determined based on quoted prices in active markets for similar assets or liabilities. This is a level II measurement as per the fair value hierarchy set out in note 3.3 (2). There were no transfers between levels for recurring fair value measurements during the year.

(a) Assets reclassified from Property, plant and equipment to Non-current assets or groups of assets for disposal classified as held for sale

During 2016, two Airbus A319 aircraft, two Airbus A320 aircraft, six Airbus A330 aircraft, two Boeing 777 aircraft, eight A330 spare engines, A330 rotables and two buildings under the heading Non-current assets were transferred from the Property, plant and equipment heading, or groups of assets for disposal, classified as held for sale.

As a result, as of December 31, 2016, an adjustment of US \$ 55 million was recorded to write down these assets to their net.

During 2016, two Airbus A319 aircraft, one Airbus A320 aircraft, two Airbus A330 aircraft, one A330 spare engine and D200 rotables were sold.

During 2017, an adjustment of US \$ 17.4 million was recognized to record these assets at their net realizable value.

In addition, during 2017 seven Airbus A330 Spare engines and two Airbus A330 aircraft were sold.

The detail of fleet classified as non-current assets or groups of assets for disposal classified as held for sale is the following:

Aircraft	As of December 31, 2017	As of December 31, 2016
Boeing 777 Freighter	2(*)	2(*)
Airbus A330-200	1	3
Airbus A320-200	1	1
ATR42-300	1	1
Total	<u>5</u>	<u>7</u>

(\*) One aircraft leased to DHL.

(b) Assets reclassified from Inventories to Non-current assets or groups of assets for disposal classified as held for sale

During in the first quarter of 2017, stocks of the fleet Airbus A330, were reclassified from Inventories to Non-current assets or groups of assets for disposal classified as held for sale.

During 2017 an adjustment of US \$ 1.3 million was recognized to record these assets at their net realizable value.

In addition, during 2017 part of the A330 inventory was sold.

#### NOTE 14 - INVESTMENTS IN SUBSIDIARIES

(a) 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 LATAM Airlines Group S.A. and Subsidiaries. The consolidation also includes special-purpose entities.

Detail of significant subsidiaries and summarized financial information:

Name of significant subsidiary	Country of incorporation	Functional currency	Ownership	
			As of December 31, 2017	As of December 31, 2016
			%	%
Lan Perú S.A.	Peru	US\$	70.00000	70.00000
Lan Cargo S.A.	Chile	US\$	99.89803	99.89803
Lan Argentina S.A.	Argentina	ARS	99.86560	99.86560
Transporte Aéreo S.A.	Chile	US\$	100.00000	100.00000
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	Ecuador	US\$	100.00000	100.00000
Aerovías de Integración Regional, AIRES S.A.	Colombia	COP	99.19061	99.19061
TAM S.A.	Brazil	BRL	99.99938	99.99938

The consolidated subsidiaries do not have significant restrictions for transferring funds to controller.

Summary financial information of significant subsidiaries

Name of significant subsidiary	Statement of financial position as of December 31, 2017						Results for the period ended December 31, 2017	
	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.	315,607	294,308	21,299	303,204	301,476	1,728	1,046,423	1,205
Lan Cargo S.A.	584,169	266,836	317,333	371,934	292,529	79,405	264,544	(30,220)
Lan Argentina S.A.	198,951	166,445	32,506	143,731	139,914	3,817	387,557	(41,636)
Transporte Aéreo S.A.	324,498	30,909	293,589	104,357	36,901	67,456	317,436	2,172
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	96,407	66,166	30,241	84,123	78,817	5,306	219,039	3,722
Aerovías de Integración Regional, AIRES S.A.	138,138	64,160	73,978	91,431	80,081	11,350	279,414	526
TAM S.A. (*)	4,490,714	1,843,822	2,646,892	3,555,423	2,052,633	1,502,790	4,621,338	160,582

Name of significant subsidiary	Statement of financial position as of December 31, 2016						Results for the period ended December 31, 2016	
	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.	306,111	283,691	22,420	294,912	293,602	1,310	967,787	(2,164)
Lan Cargo S.A.	480,908	144,309	336,599	239,728	211,395	28,333	266,296	(24,813)
Lan Argentina S.A.	216,331	194,306	22,025	200,172	197,330	2,842	371,896	(29,572)
Transporte Aéreo S.A.	340,940	36,986	303,954	124,805	59,668	65,137	297,247	8,206
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	89,667	56,064	33,603	81,101	75,985	5,116	219,676	(1,281)
Aerovías de Integración Regional, AIRES S.A.	129,734	55,132	74,602	85,288	74,160	11,128	277,503	(13,675)
TAM S.A. (*)	5,287,286	1,794,189	3,493,097	4,710,308	2,837,620	1,872,688	4,145,951	2,107

Name of significant subsidiary	Statement of financial position as of December 31, 2015						Results for the period ended December 31, 2015	
	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.	255,691	232,547	23,144	240,938	239,521	1,417	1,078,992	5,068
Lan Cargo S.A.	483,033	159,294	323,739	217,037	147,423	69,614	278,117	(74,408)
Lan Argentina S.A.	195,756	180,558	15,198	170,384	168,126	2,258	443,317	9,432
Transporte Aéreo S.A.	331,117	41,756	289,361	122,666	44,495	78,171	324,464	5,878
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	126,001	80,641	45,360	116,153	111,245	4,908	246,402	(1,278)
Aerovías de Integración Regional, AIRES S.A.	130,039	62,937	67,102	75,003	64,829	10,174	291,354	(34,079)
TAM S.A. (*)	4,711,316	1,350,377	3,360,939	4,199,223	1,963,400	2,235,823	4,597,611	(183,812)

(\*) Correspond to consolidated information of TAM S.A. and Subsidiaries.

(b) Non-controlling interest

Equity	Tax No.	Country of origin	As of	As of	As of	As of
			December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
			%	%	ThUS\$	ThUS\$
Lan Perú S.A.	0-E	Peru	30.00000	30.00000	3,722	3,360
Lan Cargo S.A. and Subsidiaries	93.383.000-4	Chile	0.10196	0.10196	849	957
Promotora Aérea Latinoamericana S.A. and Subsidiaries	0-E	Mexico	51.00000	51.00000	4,578	3,162
Inversora Cordillera S.A. and Subsidiaries	0-E	Argentina	0.13940	0.70422	3,502	515
Lan Argentina S.A.	0-E	Argentina	0.02842	0.13440	79	(311)
Americonsult de Guatemala S.A.	0-E	Guatemala	1.00000	1.00000	1	1
Americonsult Costa Rica S.A.	0-E	Costa Rica	1.00000	1.00000	12	12
Línea Aérea Carguera de Colombiana S.A.	0-E	Colombia	10.00000	10.00000	(520)	(905)
Aerolíneas Regionales de Integración Aires S.A.	0-E	Colombia	0.80944	0.80944	461	436
Transportes Aereos del Mercosur S.A.	0-E	Paraguay	5.02000	5.02000	1,324	1,104
Multiplus S.A.	0-E	Brazil	27.26000	27.26000	77,139	80,313
Total					91,147	88,644

Incomes	Tax No.	Country of origin	As of	As of	As of	For the period ended		
			December 31, 2017	December 31, 2016	December 31, 2015	2017	2016	2015
			%	%	%	ThUS\$	ThUS\$	ThUS\$
Lan Perú S.A.	0-E	Peru	30.00000	30.00000	30.00000	360	(649)	1,521
Lan Cargo S.A. and Subsidiaries	93.383.000-4	Chile	0.10196	0.10196	0.10605	(4)	(7)	(69)
Promotora Aerea Latinoamericana S.A. and Subsidiaries	0-E	Mexico	51.00000	51.00000	51.00000	1,416	96	1,349
Inversora Cordillera S.A. and Subsidiaries	0-E	Argentina	0.13940	0.70422	0.70422	117	364	281
Lan Argentina S.A.	0-E	Argentina	0.02842	0.13440	1.00000	24	77	61
Americonsult de Guatemala S.A.	0-E	Guatemala	1.00000	1.00000	1.00000	-	(4)	1
Americonsult Costa Rica S.A.	0-E	Costa Rica	1.00000	1.00000	1.00000	-	-	5
Línea Aérea Carguera de Colombiana S.A.	0-E	Colombia	10.00000	10.00000	10.00000	398	(106)	14
Aerolíneas Regionales de Integración Aires S.A.	0-E	Colombia	0.80944	0.80944	0.98307	4	(140)	(335)
Transportes Aereos del Mercosur S.A.	0-E	Paraguay	5.02000	5.02000	5.02000	299	146	431
Multiplus S.A.	0-E	Brazil	27.26000	27.26000	27.26000	42,796	41,673	37,283
Total						45,410	41,450	40,542

# NOTE 15 - INTANGIBLE ASSETS OTHER THAN GOODWILL

The details of intangible assets are as follows:

	Classes of intangible assets (net)		Classes of intangible assets (gross)	
	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Airport slots	964,513	978,849	964,513	978,849
Loyalty program	321,440	326,262	321,440	326,262
Computer software	160,970	157,016	509,377	419,652
Developing software	123,415	91,053	123,415	91,053
Trademarks (1)	46,909	57,133	62,539	63,730
Other assets	-	-	-	808
<b>Total</b>	<b>1,617,247</b>	<b>1,610,313</b>	<b>1,981,284</b>	<b>1,880,354</b>

Movement in Intangible assets other than goodwill:

	Computer software Net ThUS\$	Developing software ThUS\$	Airport slots (2) ThUS\$	Trademarks and loyalty program (1) (2) ThUS\$	Total ThUS\$
Opening balance as of January 1, 2015	126,797	74,050	1,201,028	478,204	1,880,079
Additions	4,954	48,270	-	-	53,224
Withdrawals	(4,612)	(162)	-	(1)	(4,775)
Transfer software	28,726	(30,426)	-	-	(1,700)
Foreing exchange	(14,871)	(16,845)	(384,041)	(152,910)	(568,667)
Amortization	(36,736)	-	-	-	(36,736)
<b>Closing balance as of December 31, 2015</b>	<b>104,258</b>	<b>74,887</b>	<b>816,987</b>	<b>325,293</b>	<b>1,321,425</b>
Opening balance as of January 1, 2016	104,258	74,887	816,987	325,293	1,321,425
Additions	6,688	83,672	-	-	90,360
Withdrawals	(736)	(191)	-	-	(927)
Transfer software	85,029	(74,376)	-	-	10,653
Foreing exchange	5,689	7,061	161,862	64,447	239,059
Amortization	(43,912)	-	-	(6,345)	(50,257)
<b>Closing balance as of December 31, 2016</b>	<b>157,016</b>	<b>91,053</b>	<b>978,849</b>	<b>383,395</b>	<b>1,610,313</b>
Opening balance as of January 1, 2017	157,016	91,053	978,849	383,395	1,610,313
Additions	8,453	78,880	-	-	87,333
Withdrawals	(244)	(684)	-	-	(928)
Transfer software	45,783	(45,580)	-	-	203
Foreing exchange	(1,215)	(254)	(14,336)	(5,459)	(21,264)
Amortization	(48,823)	-	-	(9,587)	(58,410)
<b>Closing balance as of December 31, 2017</b>	<b>160,970</b>	<b>123,415</b>	<b>964,513</b>	<b>368,349</b>	<b>1,617,247</b>

(1) In 2016, after the extensive work of integration after the association between LAN and TAM, during which there has been solid progress in the homologation of the optimization processes of its air connections, in addition to the restructuring and modernization of the fleet of aircraft, the Company has resolved adopt a unique name and identity, and announce that the brand of the group will be LATAM ", which would unite all companies under a single image.

Given the above, we have proceeded to review the brands useful life, concluding that these should go from an indefinite to defined useful life. The estimated new useful life is 5 years, equivalent to the period for finishing all the image changes necessary.

(2) See Note 2.5

The amortization of the period is shown in the consolidated statement of income in administrative expenses. The accumulated amortization of computer programs and brands as of December 31, 2017, amounts to ThUS\$ 373,463 (ThUS\$ 270,041 at December 31, 2016).

#### NOTE 16 – GOODWILL

The Goodwill amount at December 31, 2017 is ThUS\$ 2,672,550 (ThUS\$ 2,710,382 at December 31, 2016 and ThUS\$ 2,280,575 at December 31, 2015). Movement of Goodwill separated by CGU it includes the following:

Movement of Goodwill, separated by CGU:

	Air Transport ThUS\$	Coalition and loyalty program Multiplus ThUS\$	Total ThUS\$
Opening balance as of January 1, 2015	2,658,503	654,898	3,313,401
Increase (decrease) due to exchange rate differences	(823,415)	(209,411)	(1,032,826)
Closing balance as of December 31, 2015	<u>1,835,088</u>	<u>445,487</u>	<u>2,280,575</u>
Opening balance as of January 1, 2016	1,835,088	445,487	2,280,575
Increase (decrease) due to exchange rate differences	341,813	88,261	430,074
Others	(267)	-	(267)
Closing balance as of December 31, 2016	<u>2,176,634</u>	<u>533,748</u>	<u>2,710,382</u>
Opening balance as of January 1, 2017	2,176,634	533,748	2,710,382
Increase (decrease) due to exchange rate differences	(29,942)	(7,890)	(37,832)
Others	-	-	-
Closing balance as of December 31, 2017	<u>2,146,692</u>	<u>525,858</u>	<u>2,672,550</u>

The Company has two cash- generating units (CGUs), “Air transportation” and, “Coalition and loyalty program Multiplus”. The CGU “Air transport” considers the transport of passengers and cargo, both in the domestic markets of Chile, Peru, Argentina, Colombia, Ecuador and Brazil, and in a developed series of regional and international routes in America, Europe and Oceania, while the CGU “Coalition and loyalty program Multiplus” works with an integrated network associated companies in Brazil.

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of expected cash flows, 5 years after tax, which are based on the budget approved by the Board. Cash flows beyond the budget period are extrapolated using the estimated growth rates, which do not exceed the average rates of long-term growth.



Management establish rates for annual growth, discount, inflation and exchange for each cash generating, as well as fuel prices, based on their key assumptions. The annual growth rate is based on past performance and management's expectations over market developments in each country where it operates. The discount rates used are in American Dollars for the CGU "Air transportation" and Brazilian Reals for CGU "Program coalition loyalty Multiplus", both after taxes and reflect specific risks related to each country where the Company operates. Inflation and exchange rates are based on available data for each country and the information provided by the Central Bank of each country, and the fuel price is determined based on estimated production levels, competitive environment market in which they operate and its business strategy.

As of December 31, 2017 the recoverable values were determined using the following assumptions presented below:

		Air transportation CGU	Coalition and loyalty program Multiplus CGU (2)
Annual growth rate (Terminal)	%	1.0 - 2.0	4.0 - 5.0
Exchange rate (1)	R\$/US\$	3.3 - 3.9	3.3 - 3.9
Discount rate based on the weighted average cost of capital (WACC)	%	7.55 - 8.55	-
Discount rate based on cost of equity (Ke)	%	-	12.4 - 13.4
Fuel Price from futures price curves commodities markets	US\$/barrel	73-78	-

(1) In line with the expectations of the Central Bank of Brazil

(2) The flow, as well as annual growth rate and discount, are denominated in real.

The result of the impairment test, which includes a sensitivity analysis of the main variables, showed that the estimated recoverable amount is higher than carrying value of the book value of net assets allocated to the cash generating unit, and therefore impairment was not detected.

CGU's are sensitive to rates for annual growth, discount and exchanges rates. The sensitivity analysis included the individual impact of changes in estimates critical in determining the recoverable amounts, namely:

	Increase Maximum WACC %	Increase Maximum CoE %	Decrease Minimum terminal growth rate %
Air transportation CGU	8.55	-	1.0
Coalition and loyalty program Multiplus CGU	-	13.4	4.0

In none of the previous cases impairment in the cash- generating unit was presented.

# NOTE 17 - 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,	December 31,	December 31,	December 31,	December 31,	December 31,
	2017	2016	2017	2016	2017	2016
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Construction in progress (*)	556,822	470,065	-	-	556,822	470,065
Land	49,780	50,148	-	-	49,780	50,148
Buildings	190,552	190,771	(66,004)	(60,552)	124,548	130,219
Plant and equipment	9,222,540	10,099,587	(2,390,142)	(2,350,045)	6,832,398	7,749,542
Own aircraft	8,544,185	9,436,684	(2,138,612)	(2,123,025)	6,405,573	7,313,659
Other (**)	678,355	662,903	(251,530)	(227,020)	426,825	435,883
Machinery	39,084	39,246	(29,296)	(26,821)	9,788	12,425
Information technology equipment	166,713	163,695	(136,557)	(123,981)	30,156	39,714
Fixed installations and accessories	186,989	178,363	(106,212)	(94,451)	80,777	83,912
Motor vehicles	70,290	96,808	(58,812)	(67,855)	11,478	28,953
Leasehold improvements	186,679	192,100	(102,454)	(87,559)	84,225	104,541
Other property, plants and equipment	3,640,838	3,005,981	(1,355,475)	(1,177,351)	2,285,363	1,828,630
Financial leasing aircraft	3,551,041	2,905,556	(1,328,421)	(1,152,190)	2,222,620	1,753,366
Other	89,797	100,425	(27,054)	(25,161)	62,743	75,264
Total	14,310,287	14,486,764	(4,244,952)	(3,988,615)	10,065,335	10,498,149

(\*) As of December 31, 2017, includes pre-delivery payments to aircraft manufacturers for ThUS\$ 543,720 (ThUS\$ 434,250 as of December 31, 2016)

(\*\*) Mainly considers rotatable and tools.

(a) Movement in the different categories of Property, plant and equipment:

	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 1, 2015	937,279	57,988	167,006	6,954,089	51,009	43,783	1,965	56,523	2,503,434	10,773,076
Additions	39,711	-	439	1,304,199	15,322	1,692	280	13,188	64,226	1,439,057
Disposals	-	-	(500)	(76,675)	(1)	(27)	(8)	-	(11)	(77,221)
Retirements	(1,262)	-	(956)	(38,240)	(104)	(476)	(4)	-	(8,902)	(49,944)
Depreciation expenses	-	-	(7,161)	(521,688)	(16,196)	(11,649)	(378)	(13,973)	(174,474)	(745,519)
Foreing exchange	(932)	(11,786)	(18,248)	(129,933)	(6,126)	(13,269)	(638)	(1,659)	(252,709)	(435,300)
Other increases (decreases)	168,016	(889)	(49,089)	(150,677)	11	68,877	308	9	(2,058)	34,508
Changes, total	205,533	(12,675)	(75,515)	386,986	(7,120)	45,175	(440)	(2,435)	(373,928)	165,581
Closing balance as of December 31, 2015	1,142,812	45,313	91,491	7,341,075	43,889	88,958	1,525	54,088	2,129,506	10,938,657
Opening balance as of January 1, 2016	1,142,812	45,313	91,491	7,341,075	43,889	88,958	1,525	54,088	2,129,506	10,938,657
Additions	14,481	-	272	1,301,093	7,392	292	6	54,181	13,013	1,390,730
Disposals	-	-	-	(16,918)	(2)	(59)	(32)	-	(2,972)	(19,981)
Retirements	(284)	-	(68)	(39,816)	(55)	(1,258)	-	-	(2,604)	(44,085)
Depreciation expenses	-	-	(6,234)	(562,131)	(14,909)	(13,664)	(293)	(23,283)	(124,038)	(744,552)
Foreing exchange	5,081	4,835	2,538	51,770	2,924	9,384	223	2,849	93,383	172,987
Other increases (decreases)	(692,025)	-	42,220	(285,198)	(3)	532	200	16,706	(277,658)	(1,195,607)
Changes, total	(672,747)	4,835	38,728	448,800	(4,175)	(5,046)	(480)	50,453	(300,876)	(440,508)
Closing balance as of December 31, 2016	470,065	50,148	130,219	7,789,875	39,714	83,912	1,045	104,541	1,828,630	10,498,149
Opening balance as of January 1, 2017	470,065	50,148	130,219	7,789,875	39,714	83,912	1,045	104,541	1,828,630	10,498,149
Additions	11,145	-	-	258,615	5,708	329	77	8,156	41,483	325,513
Disposals	-	-	-	(16,004)	(6)	(10)	(43)	-	(27)	(16,090)
Retirements	(127)	-	(6)	(24,341)	(473)	(497)	-	-	(1,610)	(27,054)
Depreciation expenses	-	-	(7,946)	(496,857)	(14,587)	(14,124)	(187)	(27,266)	(204,237)	(765,204)
Foreing exchange	107	(368)	(275)	(4,603)	(183)	(820)	(8)	(243)	(5,113)	(11,506)
Other increases (decreases)	75,632	-	2,556	(653,457)	(17)	11,987	(448)	(963)	626,237	61,527
Changes, total	86,757	(368)	(5,671)	(936,647)	(9,558)	(3,135)	(609)	(20,316)	456,733	(432,814)
Closing balance as of December 31, 2017	556,822	49,780	124,548	6,853,228	30,156	80,777	436	84,225	2,285,363	10,065,335

(1) During the first half of 2015 three Airbus A340 aircraft were sold.

During the second half of 2015 seven Dash-200 aircraft were sold.

During the second half of 2015 two Airbus A319 aircraft were sold.

(2) During 2016 the sale of two Airbus A330 aircraft was materialized.

(3) During 2016 the reclassification to non-current assets or groups of assets for disposal classified as held for sale (see Note 13) of two Airbus A319 aircraft, two Airbus A320 aircraft, six Airbus A330 aircraft and two Boeing 777 aircraft was materialized.

(b) Composition of the fleet:

Aircraft	Model	Aircraft included in Property, plant and equipment		Operating leases		Total fleet	
		As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016
Boeing 767	300ER	34	34	2	3	36	37
Boeing 767	300F	8(1)	8(1)	2	3	10(1)	11(1)
Boeing 777	300ER	4	4	6	6	10	10
Boeing 777	Freighter	-	-	-	2	-	2
Boeing 787	800	6	6	4	4	10	10
Boeing 787	900	4	4	10	8	14	12
Airbus A319	100	37	36	9	12	46	48
Airbus A320	200	93(2)	93	38	53	131(2)	146
Airbus A320	NEO	1	1	3	1	4	2
Airbus A321	200	30	30	17	17	47	47
Airbus A350	900	5(3)	5	2(3)	2	7(3)	7
Total		222	221	93	111	315	332

(1) Two aircraft leased to FEDEX as of December 2017; three aircraft as of December 2016.

(2) Three aircraft leased to Salam Air and one to Sundair

(3) Four aircraft leased to Qatar Air. Two in operating leases and two in Properties, plant and equipment.

(c) Method used for the depreciation of Property, plant and equipment:

	Method	Useful life minimum	(years) 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	23
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, plant and equipment	Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet. (*)	10	23

(\*) Except for the Boeing 767 300ER and Boeing 767 300F fleets which consider a lower residual value due to the extension of their useful life to 22 and 23 years respectively. Additionally certain technical components, which are depreciated based on the basis of cycles and flight hours.

The aircraft with remarketing clause (\*\*) under modality of financial leasing, which are depreciated according to the duration of their contracts, between 12 and 18 years. Its residual values are estimated according to market value at the end of such contracts.

(\*\*) Aircraft with remarketing clause are those that are required to sell at the end of the contract.

As of December 31, 2017, the deferred charge for the period, which is included in the consolidated statement of income, amounts to ThUS \$ 765,204 (ThUS \$ 744,552 as of December 31, 2016). This charge is recognized in the items of cost of sales and administrative expenses of the consolidated statement of income.

(d) Additional information regarding Property, plant and equipment:

(i) Property, plant and equipment pledged as guarantee:

Description of Property, plant and equipment pledged as guarantee:

Guarantee agent (*)	Assets committed	Fleet	As of December 31, 2017		As of December 31, 2016	
			Existing Debt	Book Value	Existing Debt	Book Value
			ThUS\$	ThUS\$	ThUS\$	ThUS\$
Wilmington Trust Company	Aircraft and engines	Airbus A321 / A350	637,934	721,602	596,224	722,979
		Boeing 767	593,655	888,948	811,723	1,164,364
		Boeing 787	720,267	842,127	739,031	899,445
			-	-	-	-
Banco Santander S.A.	Aircraft and engines	Airbus A319	-	-	50,671	91,889
		Airbus A320	199,165	291,649	462,950	709,788
		Airbus A321	29,296	40,584	32,853	44,227
			-	-	-	-
BNP Paribas	Aircraft and engines	Airbus A319	84,767	136,407	134,346	228,384
		Airbus A320	110,267	175,650	128,173	181,838
			-	-	-	-
Credit Agricole	Aircraft and engines	Airbus A319	20,874	38,826	26,014	37,389
		Airbus A320	46,895	98,098	71,794	144,157
		Airbus A321	30,322	85,463	40,609	93,110
			-	-	-	-
Wells Fargo	Aircraft and engines	Airbus A320	224,786	306,660	252,428	333,419
			-	-	-	-
Bank of Utah	Aircraft and engines	Airbus A320 / A350	614,632	666,665	670,826	709,280
			-	-	-	-
Natixis	Aircraft and engines	Airbus A320	34,592	72,388	45,748	66,738
		Airbus A321	378,418	481,397	377,104	514,625
			-	-	-	-
Citibank N. A.	Aircraft and engines	Airbus A320	94,882	141,817	111,243	166,370
		Airbus A321	36,026	72,741	42,867	70,166
			-	-	-	-
KfW IPEX-Bank	Aircraft and engines	Airbus A319	5,592	5,505	7,494	6,360
		Airbus A320	21,296	30,513	28,696	36,066
Airbus Financial Services	Aircraft and engines	Airbus A319	22,927	26,973	30,199	33,823
PK AirFinance US, Inc.	Aircraft and engines	Airbus A320	46,500	56,539	54,786	46,341
JP Morgan	Aircraft and engines	Boeing 777 (1)	169,674	216,000	192,671	236,400
Banco BBVA	Land and buildings (2)		55,801	66,876	50,381	69,498
			-	-	-	-
Total direct guarantee			4,178,568	5,463,428	4,958,831	6,606,656

(\*) Due to the characteristics of a syndicated loan, the guarantee agent is the representative of the creditors.

(1) These assets are classified under Non-current assets and disposal group classified as held for sale

(2) Corresponds to a debt classified in item loans to exporters (see Note 19).

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, 2017 amounted to ThUS\$ 1,087,052 (ThUS\$ 913,494 at December 31, 2016). The book value of assets with indirect guarantees as of December 31, 2017 amounts to ThUS\$ 2,222,620 (ThUS\$ 1,740,815 as of December 31, 2016).

(ii) Commitments and others

Fully depreciated assets and commitments for future purchases are as follows:

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Gross book value of fully depreciated property, plant and equipment still in use	136,811	116,386
Commitments for the acquisition of aircraft (*)	15,400,000	15,100,000

(\*) According to the manufacturer's price list.

Purchase commitment of aircraft

Manufacturer	Year of delivery					Total
	2018	2019	2020	2021	2022	
Airbus S.A.S.	13	11	16	21	11	72
A320-NEO	7	3	9	8	5	32
A321	-	1	-	-	-	1
A321-NEO	2	3	5	5	4	19
A350-1000	-	-	2	8	2	12
A350-900	4	4	-	-	-	8
The Boeing Company	-	6	2	2	-	10
Boeing 777	-	2	-	-	-	2
Boeing 787-9	-	4	2	2	-	8
Total	13	17	18	23	11	82

As of December 31, 2017, as a result of the different aircraft purchase agreements signed with Airbus SAS, there remain 52 Airbus aircraft of the A320 family, with deliveries between 2018 and 2022, and 20 Airbus aircraft of the A350 family with dates of delivery between 2018 and 2022.

The approximate amount is ThUS\$ 12,600,000, according to the manufacturer's price list.

As of December 31, 2017, as a result of the different aircraft purchase agreements signed with The Boeing Company, there are 8 Boeing 787 Dreamliner aircraft remaining, with delivery dates between 2019 and 2021, and 2 Boeing 777 aircraft, with delivery scheduled for the year 2019.

The approximate amount, according to the manufacturer's list prices, is ThUS \$ 2,800,000.

(iii) Capitalized interest costs with respect to Property, plant and equipment.

		For the periods ended December 31,		
		2017	2016	2015
Average rate of capitalization of capitalized interest costs	%	4.21	3.54	2.79
Costs of capitalized interest	ThUS\$	11,053	(696)	22,551

(iv) Financial leases

The detail of the main financial leases is as follows:

Lessor	Aircraft	Model	As of December 31, 2017	As of December 31, 2016
Bandurria Leasing Limitd	Airbus A319	100	3	-
Bandurria Leasing Limitd	Airbus A320	200	4	-
Becacina Leasing LLC	Boeing 767	300ER	1	1
Caiquen Leasing LLC	Boeing 767	300F	1	1
Cernicalo Leasing LLC	Boeing 767	300F	-	2
Cisne Leasing LLC	Boeing 767	300ER	2	2
Codorniz Leasing Limited	Airbus A319	100	-	2
Conure Leasing Limited	Airbus A320	200	2	2
Flamenco Leasing LLC	Boeing 767	300ER	1	1
FLYAFI 1 S.R.L.	Boeing 777	300ER	1	1
FLYAFI 2 S.R.L.	Boeing 777	300ER	1	1
FLYAFI 3 S.R.L.	Boeing 777	300ER	1	1
Garza Leasing LLC	Boeing 767	300ER	1	1
General Electric Capital Corporation	Airbus A330	200	-	3
Intraelo BETA Corpotation (KFW)	Airbus A320	200	-	1
Jilguero Leasing LLC	Boing B767	300ER	3	-
Loica Leasing Limited	Airbus A319	100	2	2
Loica Leasing Limited	Airbus A320	200	2	2
Mirlo Leasing LLC	Boeing 767	300ER	1	1
NBB Rio de Janeiro Lease CO and Brasilia Lease LLC (BBAM)	Airbus A320	200	1	1
NBB São Paulo Lease CO. Limited (BBAM)	Airbus A321	200	1	1
Osprey Leasing Limited	Airbus A319	100	8	8
Patagon Leasing Limited	Airbus A319	100	3	-
Petrel Leasing LLC	Boeing 767	300ER	1	1
Pilpilen Leasing Limited	Airbus A320	200	-	4
Pochard Leasing LLC	Boeing 767	300ER	2	2
Quetro Leasing LLC	Boeing 767	300ER	3	3
SG Infrastructure Italia S.R.L.	Boeing 777	300ER	1	1
SL Alcyone LTD (Showa)	Airbus A320	200	1	1
Torcaza Leasing Limited	Airbus A320	200	8	-
Tricahue Leasing LLC	Boeing 767	300ER	3	3
Wacapou Leasing S.A	Airbus A320	200	1	1
Wells Fargo Bank North National Association	Airbus A319	100	1	-
Total			60	50

Financial leasing contracts where the Company acts as the lessee of aircrafts establish duration between 12 and 18 year terms and semi-annual, quarterly and monthly payments of obligations.

Additionally, the lessee will have the obligation to contract and maintain active the insurance coverage for the aircrafts, perform maintenance on the aircrafts and update the airworthiness certificates at their own cost.

The assets acquired under the financial leasing modality are classified under Other property, plant and equipment. As of December 31, 2017, the Company registered sixty aircraft under this modality (fifty aircraft as of December 31, 2016).

The book value of assets under financial leases as of December 31, 2017 amounts to ThUS\$ 2,107,526 (ThUS\$ 1,753,366 at December 31, 2016).

The minimum payments under financial leases are as follows:

	As of December 31, 2017			As of December 31, 2016			As of December 31, 2015		
	Gross Value	Interest	Present Value	Gross Value	Interest	Present Value	Gross Value	Interest	Present Value
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
No later than one year	303,863	(32,447)	271,416	285,168	(32,365)	252,803	360,862	(47,492)	313,370
Between one and five years	835,696	(30,050)	805,646	704,822	(43,146)	661,676	1,003,237	(75,363)	927,874
Over five years	36,788	(816)	35,972	43,713	(120)	43,593	95,050	(1,406)	93,644
Total	<u>1,176,347</u>	<u>(63,313)</u>	<u>1,113,034</u>	<u>1,033,703</u>	<u>(75,631)</u>	<u>958,072</u>	<u>1,459,149</u>	<u>(124,261)</u>	<u>1,334,888</u>

#### NOTE 18 - CURRENT AND DEFERRED TAXES

In the period ended December 31, 2017, the income tax provision was calculated for such period, applying the rate of 25.5% for the business year 2017, in accordance with the Law No. 20,780 published in the Official Journal of the Republic of Chile on September 29, 2014.

Among the main changes is the progressive increase of the First Category Tax which will reach 27% in 2018 if the "Partially Integrated Taxation System" is chosen. Alternatively, if the Company chooses the "Attributed Income Taxation System" the top rate would reach 25% in 2017.

As LATAM Airlines Group S.A. is a public company, by default it must choose the "Partially Integrated Taxation System", unless a future Extraordinary Meeting of Shareholders of the Company agrees, by a minimum of 2/3 of the votes, to choose the "Attributed Income Taxation System". This decision was taken in the last quarter of 2016.

On February 8, 2016, an amendment to the abovementioned Law was issued (as Law 20,899) stating, as its main amendments, that Companies such Latam Airlines Group S.A. had to mandatorily choose the "Partially Integrated Taxation System" and could not elect to use the other system.

The Partially Integrated Taxation System is based on the taxation by the perception of profits and the Attributed Income Taxation System is based on the taxation by the accrual of profits.



Assets and deferred tax liabilities are offset if there is a legal right to offset the assets and liabilities always correspond to the same entity and tax authority.

(a) Current taxes

(a.1) The composition of the current tax assets is the following:

	Current assets		Non-current assets		Total assets	
	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Provisional monthly payments (advances)	65,257	43,821	-	-	65,257	43,821
Other recoverable credits	12,730	21,556	17,532	20,272	30,262	41,828
<b>Total assets by current tax</b>	<b>77,987</b>	<b>65,377</b>	<b>17,532</b>	<b>20,272</b>	<b>95,519</b>	<b>85,649</b>

(a.2) The composition of the current tax liabilities are as follows:

	Current liabilities		Non-current liabilities		Total liabilities	
	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Income tax provision	3,511	9,632	-	-	3,511	9,632
Additional tax provision	-	4,654	-	-	-	4,654
<b>Total liabilities by current tax</b>	<b>3,511</b>	<b>14,286</b>	<b>-</b>	<b>-</b>	<b>3,511</b>	<b>14,286</b>

(b) Deferred taxes

The balances of deferred tax are the following:

Concept	Assets		Liabilities	
	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Depreciation	210,855	11,735	1,401,277	1,387,760
Leased assets	(103,201)	(35,922)	275,142	203,836
Amortization	(484)	(15,820)	54,335	61,660
Provisions	(9,771)	222,253	690	(59,096)
Revaluation of financial instruments	(734)	-	(4,484)	(3,223)
Tax losses	290,973	202,536	(1,188,586)	(1,126,200)
Intangibles	-	-	406,536	430,705
Others	(23,617)	(202)	4,787	20,317
<b>Total</b>	<b>364,021</b>	<b>384,580</b>	<b>949,697</b>	<b>915,759</b>

The balance of deferred tax assets and liabilities are composed primarily of temporary differences to be reversed in the long term.

# Movements of Deferred tax assets and liabilities

(a) From January 1 to December 31, 2015

	Opening balance Assets/(liabilities) ThUS\$	Recognized in consolidated income ThUS\$	Recognized in comprehensive income ThUS\$	Exchange rate variation ThUS\$	Others ThUS\$	Ending balance Asset (liability) ThUS\$
Depreciation	(871,640)	(267,891)	-	8,540	-	(1,130,991)
Leased assets	(185,775)	(73,330)	-	7,803	-	(251,302)
Amortization	(160,100)	84,330	-	4,606	-	(71,164)
Provisions	351,077	150,362	3,911	(126,813)	-	378,537
Revaluation of financial instruments	12,806	19,760	(21,103)	(3,179)	-	8,284
Tax losses (*)	722,749	320,397	-	(33,364)	-	1,009,782
Intangibles	(523,275)	(8,362)	-	167,323	-	(364,314)
Others	9,587	45,638	-	(62,182)	(6,845)	(13,802)
Total	(644,571)	270,904	(17,192)	(37,266)	(6,845)	(434,970)

(b) From January 1 to December 31, 2016

	Opening balance Assets/(liabilities) ThUS\$	Recognized in consolidated income ThUS\$	Recognized in comprehensive income ThUS\$	Exchange rate variation ThUS\$	Others ThUS\$	Ending balance Asset (liability) ThUS\$
Depreciation	(1,130,991)	(241,435)	-	(3,599)	-	(1,376,025)
Leased assets	(251,302)	14,833	-	(3,289)	-	(239,758)
Amortization	(71,164)	(4,375)	-	(1,941)	-	(77,480)
Provisions	378,537	(149,969)	921	53,448	(1,568)	281,369
Revaluation of financial instruments	8,284	28,294	(34,695)	1,340	-	3,223
Tax losses (*)	1,009,782	304,892	-	14,062	-	1,328,736
Intangibles	(364,314)	4,131	-	(70,522)	-	(430,705)
Others	(13,802)	(30,185)	-	22,234	1,214	(20,539)
Total	(434,970)	(73,814)	(33,774)	11,733	(354)	(531,179)

(c) From January 1 to December 31, 2017

	Opening balance Assets/(liabilities) ThUS\$	Recognized in consolidated income ThUS\$	Recognized in comprehensive income ThUS\$	Exchange rate variation ThUS\$	Ending balance Asset (liability) ThUS\$
Depreciation	(1,376,025)	185,282	-	322	(1,190,421)
Leased assets	(239,758)	(138,879)	-	294	(378,343)
Amortization	(77,480)	22,486	-	174	(54,820)
Provisions	281,369	(286,267)	(785)	(4,778)	(10,461)
Revaluation of financial instruments	3,223	2,417	(1,770)	(120)	3,750
Tax losses (*)	1,328,736	152,081	-	(1,257)	1,479,560
Intangibles	(430,705)	24,436	-	(267)	(406,536)
Others	(20,539)	(7,547)	-	(319)	(28,405)
Total	(531,179)	(45,991)	(2,555)	(5,951)	(585,676)

Deferred tax assets not recognized:

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Tax losses	81,155	115,801
Total Deferred tax assets not recognized	<u>81,155</u>	<u>115,801</u>

Deferred tax assets on tax loss, are recognized to the extent that it is likely probable the realization of future tax benefit By the above at December 31, 2017, the Company has not recognized deferred tax assets of ThUS\$ 81,155 (ThUS\$ 115,801 at December 31, 2016) according with a loss of ThUS\$ 247,920 (ThUS\$ 340,591 at December 31, 2016).

Deferred tax expense and current income taxes:

	For the period ended December 31,		
	2017 ThUS\$	2016 ThUS\$	2015 ThUS\$
Current tax expense			
Current tax expense	127,024	87,307	92,916
Adjustment to previous period's current tax	489	2,083	(395)
Total current tax expense, net	<u>127,513</u>	<u>89,390</u>	<u>92,521</u>
Deferred tax expense			
Deferred expense for taxes related to the creation and reversal of temporary differences	45,991	73,814	(270,904)
Reduction (increase) in value of deferred tax assets during the evaluation of its usefulness	-	-	-
Total deferred tax expense, net	<u>45,991</u>	<u>73,814</u>	<u>(270,904)</u>
Income tax expense	<u>173,504</u>	<u>163,204</u>	<u>(178,383)</u>

Composition of income tax expense (income):

	2017	For the period ended December 31, 2016	2015
	ThUS\$	ThUS\$	ThUS\$
Current tax expense, net, foreign	100,657	80,600	89,460
Current tax expense, net, Chile	26,856	8,790	3,061
Total current tax expense, net	127,513	89,390	92,521
Deferred tax expense, net, foreign	21,846	119,175	(280,445)
Deferred tax expense, net, Chile	24,145	(45,361)	9,541
Deferred tax expense, net, total	45,991	73,814	(270,904)
Income tax expense	173,504	163,204	(178,383)

Profit before tax by the legal tax rate in Chile (25.5% and 24.0% at December 31, 2017 and 2016, respectively)

	2017	For the period ended December 31, 2016	2015	2017	For the period ended December 31, 2016	2015
	ThUS\$	ThUS\$	ThUS\$	%	%	%
Tax expense using the legal rate (*)	95,425	65,449	(89,472)	25.50	24.00	22.50
Tax effect by change in tax rate (*)	897	-	-	0.24	-	-
Tax effect of rates in other jurisdictions	42,326	16,333	(21,803)	11.31	5.99	5.48
Tax effect of non-taxable operating revenues	(44,593)	(62,419)	(106,381)	(11.92)	(22.89)	26.75
Tax effect of disallowable expenses	35,481	132,469	38,677	9.48	48.58	(9.73)
Tax effect of the use of tax losses not previously recognized	211	-	-	0.06	-	-
Other increases (decreases) in legal tax charge	43,757	11,372	596	11.69	4.17	(0.15)
Total adjustments to tax expense using the legal rate	78,079	97,755	(88,911)	20.86	35.85	22.35
Tax expense using the effective rate	173,504	163,204	(178,383)	46.36	59.85	44.85

(\*) On September 29, 2014, Law No. 20,780 "Amendment to the system of income taxation and introduces various adjustments in the tax system." was published in the Official Journal of the Republic of Chile. Within major tax reforms that this law contains, the First- Category Tax rate is gradually modified from 2014 to 2018 and should be declared and paid in tax year 2015.

Thus, at December 31, 2017 the Company presents the reconciliation of income tax expense and legal tax rate considering the rate increase.

Deferred taxes related to items charged to net equity:

	For the period ended	
	December 31,	
	2017	2016
	ThUS\$	ThUS\$
Aggregate deferred taxation of components of other comprehensive income	(2,555)	(33,774)
Aggregate deferred taxation related to items charged to net equity	-	(807)

#### NOTE 19 - OTHER FINANCIAL LIABILITIES

The composition of other financial liabilities is as follows:

	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$
<b>Current</b>		
(a) Interest bearing loans	1,288,749	1,814,647
(b) Hedge derivatives	12,200	24,881
Total current	1,300,949	1,839,528
<b>Non-current</b>		
(a) Interest bearing loans	6,602,891	6,790,273
(b) Hedge derivatives	2,617	6,679
Total non-current	6,605,508	6,796,952

(a) Interest bearing loans

Obligations with credit institutions and debt instruments:

	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$
<b>Current</b>		
Loans to exporters	314,618	278,164
Bank loans (1)	59,017	290,810
Guaranteed obligations	531,173	578,014
Other guaranteed obligations	2,170	1,908
Subtotal bank loans	906,978	1,148,896
Obligation with the public (2)	14,785	312,043
Financial leases	276,541	268,040
Other loans	90,445	85,668
Total current	1,288,749	1,814,647

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
<b>Non-current</b>		
Bank loans	260,433	294,477
Guaranteed obligations (3)	3,505,669	4,180,538
Other guaranteed obligations	240,007	254,512
Subtotal bank loans	4,006,109	4,729,527
Obligation with the public (4) (5) (6)	1,569,281	997,302
Financial leases	832,964	754,321
Other loans	194,537	309,123
Total non-current	6,602,891	6,790,273
Total obligations with financial institutions	7,891,640	8,604,920

(1) On September 29, 2016 TAM Linhas Aéreas S.A. obtained financing for US\$ 200 million, guaranteed with 18% of the shares of Multiplus S.A., percentage adjustable depending on the shares price. Additionally, TAM obtained a hedging economic (Cross Currency Swap) for the same amount and period, in order to convert the commitment currency from US\$ to BRL.

On March 30, 2017, TAM Linhas Aéreas S.A. restructured the financing mentioned in the previous paragraph, modifying the nominal amount of the transaction to US \$ 137 million.

On September 27, 2017, TAM Linhas Aéreas S.A. made the payment of capital plus interest corresponding to the last installment of the financing described above. Simultaneously, all the garments were lifted on the shares of Multiplus S.A. delivered as collateral.

(2) On April 25, 2017, the payment of the principal plus interest on the long-term bonds issued by the company TAM Capital Inc. for an amount of US\$ 300,000,000 at an interest rate of 7.375% annual. The payment consisted of 100% of the capital, US\$ 300,000,000, and interest accrued as of the date of payment for ThUS \$ 11,063.

(3) On April 10, 2017, the issuance and private placement of debt securities in the amount of US\$ 140,000,000 was made under the current structure of the Enhanced Equipment Trust Certificates ("EETC") issued and placed the year 2015 to finance the acquisition of eleven Airbus A321-200, two Airbus A350-900 and four Boeing 787-9 with arrivals between July 2015 and April 2016. The offer is made up of Class C Certificates, which are subordinate to the Current Class A Certificates and Class B Certificates held by the Company. The term of the Class C Certificates is six years and expires in 2023.

(4) On April 11, 2017, LATAM Finance Limited, a company incorporated in the Cayman Islands with limited liability and exclusively owned by LATAM Airlines Group SA, has issued and placed on the international market, pursuant to Rule 144 -A and Regulation S of the securities laws of the United States of America, long-term unsecured bonds in the amount of US\$ 700,000,000, maturing in 2024 at an annual interest rate of 6.875%.

As reported in the essential fact of April 6, 2017, the Issue and placement of the 144-A Bonds was intended to finance general corporate purposes of LATAM.

(5) On August 17, 2017, LATAM made the placement in the local market (Santiago Stock Exchange) of the Series A Bonds (BLATM-A), Series B (BLATM-B), Series C (BLATM-) C) and Series D (BLATM-D), which correspond to the first issue of bonds charged to the line inscribed in the Securities Registry of the Commission for the Financial Market (“CMF”), under number 862 for a total of UF 9,000,000.

The total amount placed of the Series A Bond was UF 2,500,000; The total amount placed of the Series B Bond was UF 2,500,000. The total amount placed of the Series C Bond was UF 1,850,000. The total amount placed of the Series D Bond was UF 1,850,000, thus totaling UF 8,700,000.

The Series A Bonds have an expiration date on June 1, 2022 and an annual interest rate of 5.25%. The Series B Bonds have an expiration date on January 1, 2028 and an annual interest rate of 5.75%. The Series C Bonds have an expiration date on June 1, 2022 and an annual interest rate of 5.25%. The Series D Bonds have an expiration date on January 1, 2028 and an annual interest rate of 5.75%.

The proceeds of the placement of the Series A, Series B, Series C and Series D Bonds were allocated in full to the partial financing of the early redemption of the total bonds of TAM Capital 3 inc.

(6) On September 1, 2017, TAM Capital 3 Inc., a company controlled indirectly by TAM S.A. through its subsidiary TAM Linhas Aéreas SA, which consolidates its financial statements with LATAM, made the full advance redemption of the bonds it placed abroad on June 3, 2011, for an amount of US \$ 500 million at a 8.375% rate and with an expiration date on June 3, 2021. The total redemption was partially financed with the placement of bonds in the local market described in number (5) above, and the balance, with other funds available from the Company.

All interest-bearing liabilities are recorded according to the effective rate method. Under IFRS, in the case of fixed rate loans, the effective rate determined does not vary over the duration of the loan, whereas in variable rate loans, the effective rate changes to the date of each payment of interest.

Currency balances that make the interest bearing loans:

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Currency		
Brazilian real	130	1,253
Chilean peso (U.F.)	521,122	203,194
US Dollar	7,370,388	8,400,473
Total	7,891,640	8,604,920

Interest-bearing loans due in installments to December 31, 2017  
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective rate %	Nominal rate %
				Up to 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 nominal value	Up to 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 accounting value			
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			
Loans to exporters																		
97.032.000-8	BBVA	Chile	ThUS\$	75,000	-	-	-	-	75,000	75,781	-	-	-	-	75,781	At Expiration	2.30	2.30
97.032.000-8	BBVA	Chile	UF	-	55,801	-	-	-	55,801	-	55,934	-	-	-	55,934	At Expiration	3.57	2.77
97.036.000-K	SANTANDER	Chile	ThUS\$	30,000	-	-	-	-	30,000	30,129	-	-	-	-	30,129	At Expiration	2.49	2.49
97.030.000-7	ESTADO	Chile	ThUS\$	40,000	-	-	-	-	40,000	40,071	-	-	-	-	40,071	At Expiration	2.57	2.57
97.003.000-K	BANCO DO BRASIL	Chile	ThUS\$	100,000	-	-	-	-	100,000	100,696	-	-	-	-	100,696	At Expiration	2.40	2.40
97.951.000-4	HSBC	Chile	ThUS\$	12,000	-	-	-	-	12,000	12,007	-	-	-	-	12,007	At Expiration	2.03	2.03
Bank loans																		
97.023.000-9	CORPBANCA	Chile	UF	21,298	21,360	42,006	-	-	84,664	21,542	21,360	41,548	-	-	84,450	Quarterly	3.68	3.68
0-E	BLADDEX	U.S.A.	ThUS\$	-	15,000	15,000	-	-	30,000	-	15,133	14,750	-	-	29,883	Semiannual	5.51	5.51
97.036.000-K	SANTANDER	Chile	ThUS\$	-	-	202,284	-	-	202,284	439	-	202,284	-	-	202,723	Quarterly	4.41	4.41
Obligations with the public																		
0-E	BANK OF NEW YORK	U.S.A.	ThUS\$	-	-	500,000	-	700,000	1,200,000	-	13,047	492,745	-	697,536	1,203,328	At Expiration	7.44	7.03
97.030.000-7	ESTADO	Chile	UF	-	-	-	189,637	189,637	379,274	-	1,738	-	189,500	189,500	380,738	At Expiration	5.50	5.50
Guaranteed obligations																		
0-E	CREDIT AGRICOLE	France	ThUS\$	7,767	23,840	54,074	12,410	-	98,091	8,101	23,840	52,924	12,026	-	96,891	Quarterly	2.66	2.22
0-E	BNP PARIBAS	U.S.A.	ThUS\$	10,929	44,145	114,800	119,948	285,399	575,221	13,328	44,781	111,319	117,987	282,714	570,129	Quarterly	3.41	3.40
0-E	WELLS FARGO	U.S.A.	ThUS\$	27,223	82,402	225,221	233,425	240,716	808,987	30,143	82,402	203,371	224,295	236,179	776,390	Quarterly	2.46	1.75
0-E	WILMINGTON TRUST	U.S.A.	ThUS\$	20,427	61,669	175,334	183,332	594,091	1,034,853	26,614	61,669	169,506	180,520	590,723	1,029,032	Quarterly	4.48	4.48
0-E	CITIBANK	U.S.A.	ThUS\$	11,994	36,501	101,230	104,308	97,184	351,217	13,231	36,501	95,208	101,558	94,807	341,305	Quarterly	3.31	2.47
0-E	BTMU	U.S.A.	ThUS\$	2,856	8,689	24,007	25,278	13,904	74,734	3,082	8,689	22,955	24,941	13,849	73,516	Quarterly	2.87	2.27
0-E	APPLE BANK	U.S.A.	ThUS\$	1,401	4,278	11,828	12,474	7,242	37,223	1,583	4,278	11,303	12,303	7,212	36,679	Quarterly	2.78	2.18
0-E	US BANK	U.S.A.	ThUS\$	15,157	45,992	126,550	132,441	152,693	472,833	17,364	45,992	109,705	125,006	148,318	446,385	Quarterly	4.00	2.82
0-E	DEUTSCHE BANK	U.S.A.	ThUS\$	2,965	9,127	25,826	28,202	30,786	96,906	3,534	9,127	25,130	27,739	30,323	95,853	Quarterly	4.39	4.39
0-E	NATIXIS	France	ThUS\$	14,645	44,627	107,068	91,823	154,848	413,011	15,642	44,627	105,056	90,823	153,124	409,272	Quarterly	3.42	3.40
0-E	PK AIRFINANCE	U.S.A.	ThUS\$	2,163	6,722	19,744	17,871	-	46,500	2,225	6,722	19,744	17,871	-	46,562	Monthly	3.18	3.18
0-E	KFW IPEX-BANK	Germany	ThUS\$	2,397	6,678	16,173	1,640	-	26,888	2,428	6,677	16,174	1,640	-	26,919	Quarterly	3.31	3.31
0-E	AIRBUS	U.S.A.	ThUS\$	1,855	5,654	15,416	-	-	22,925	1,900	5,654	15,416	-	-	22,970	Monthly	3.19	3.19
0-E	FINANCIAL INVESTEC	England	ThUS\$	1,374	7,990	20,440	22,977	10,597	63,378	1,808	8,181	19,801	22,769	10,565	63,124	Semiannual	6.04	6.04
-	SWAP Aviones llegados	-	ThUS\$	301	749	765	-	-	1,815	301	749	765	-	-	1,815	Quarterly	-	-
Other guaranteed obligations																		
0-E	CREDIT AGRICOLE	France	ThUS\$	-	-	241,287	-	-	241,287	2,170	-	240,007	-	-	242,177	At Expiration	3.38	3.38
Financial leases																		
0-E	ING	U.S.A.	ThUS\$	5,347	10,779	26,831	-	-	42,957	5,717	10,779	26,500	-	-	42,996	Quarterly	5.67	5.00
0-E	CITIBANK	U.S.A.	ThUS\$	11,206	34,267	86,085	49,853	2,863	184,274	12,013	34,267	84,104	49,516	2,859	182,759	Quarterly	3.78	3.17
0-E	PEFCO	U.S.A.	ThUS\$	12,526	32,850	22,407	-	-	67,783	12,956	32,850	22,088	-	-	67,894	Quarterly	5.46	4.85
0-E	BNP PARIBAS	U.S.A.	ThUS\$	13,146	33,840	48,823	2,296	-	98,105	13,548	33,840	48,253	2,293	-	97,934	Quarterly	3.66	3.25
0-E	WELLS FARGO	U.S.A.	ThUS\$	10,630	33,866	91,162	64,471	20,984	221,113	11,460	33,866	88,674	63,860	20,903	218,763	Quarterly	3.17	2.67
97.036.000-K	SANTANDER	Chile	ThUS\$	5,459	16,542	45,416	46,472	3,134	117,023	5,813	16,542	44,010	46,153	3,128	115,646	Quarterly	2.51	1.96
0-E	RRPF ENGINE	England	ThUS\$	265	2,430	6,856	7,441	8,991	25,983	265	2,430	6,856	7,441	8,991	25,983	Monthly	4.01	4.01
Other loans																		
0-E	CITIBANK (*)	U.S.A.	ThUS\$	21,822	67,859	196,210	-	-	285,891	22,586	67,859	194,537	-	-	284,982	Quarterly	6.00	6.00
Total				482,153	713,657	2,562,843	1,346,299	2,513,069	7,618,021	508,477	729,534	2,484,733	1,318,241	2,490,731	7,531,716			

(\*) Bonus securitized with the future flows of credit card sales in the United States and Canada.



Interest-bearing loans due in installments to December 31, 2017  
Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective rate %	Nominal rate %
				Up to 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 nominal value	Up to 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 accounting value			
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			
Bank loans																		
0-E	NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ	Holland	ThUS\$	130	401	1,161	690	-	2,382	142	401	1,161	690	-	2,394	Monthly	6.01	6.01
Financial leases																		
0-E	NATIXIS	France	ThUS\$	2,853	6,099	19,682	70,402	-	99,036	3,592	6,099	19,682	70,402	-	99,775	Quarterly/Semiannual	5.59	5.59
0-E	WACAPOU LEASING S.A.	Luxemburg	ThUS\$	696	2,125	6,020	3,206	-	12,047	732	2,125	6,020	3,207	-	12,084	Quarterly	3.69	3.69
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	ThUS\$	8,964	27,525	208,024	-	-	244,513	9,992	27,525	208,024	-	-	245,541	Quarterly	4.87	4.81
0-E	BANCO IBM S.A	Brazil	BRL	21	-	-	-	-	21	21	-	-	-	-	21	Monthly	6.89	6.89
0-E	SOCIETE GENERALE	France	BRL	101	8	-	-	-	109	101	8	-	-	-	109	Monthly	6.89	6.89
Total				12,765	36,158	234,887	74,298	-	358,108	14,580	36,158	234,887	74,299	-	359,924			
Total consolidated				494,918	749,815	2,797,730	1,420,597	2,513,069	7,976,129	523,057	765,692	2,719,620	1,392,540	2,490,731	7,891,640			

Interest-bearing loans due in installments to December 31, 2016  
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective rate %	Nominal rate %
				Up to 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 nominal value	Up to 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 accounting value			
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			
Loans to exporters																		
97.032.000-8	BBVA	Chile	ThUS\$	75,000	-	-	-	-	75,000	75,234	-	-	-	-	75,234	At Expiration	1.85	1.85
97.032.000-8	BBVA	Chile	UF	-	50,381	-	-	-	50,381	-	50,324	-	-	-	50,324	At Expiration	5.23	4.43
97.036.000-K	SANTANDER	Chile	ThUS\$	30,000	-	-	-	-	30,000	30,183	-	-	-	-	30,183	At Expiration	2.39	2.39
97.030.000-7	ESTADO	Chile	ThUS\$	40,000	-	-	-	-	40,000	40,098	-	-	-	-	40,098	At Expiration	1.91	1.91
97.003.000-K	BANCO DO BRASIL	Chile	ThUS\$	70,000	-	-	-	-	70,000	70,323	-	-	-	-	70,323	At Expiration	3.08	3.08
97.951.000-4	HSBC	Chile	ThUS\$	12,000	-	-	-	-	12,000	12,002	-	-	-	-	12,002	At Expiration	1.79	1.79
Bank loans																		
97.023.000-9	CORPBANCA	Chile	UF	19,229	57,686	60,186	16,254	-	153,355	19,819	57,686	59,176	16,189	-	152,870	Quarterly	4.06	4.06
0-E	BLADEX	U.S.A.	ThUS\$	-	12,500	30,000	-	-	42,500	-	12,667	29,625	-	-	42,292	Semiannual	5.14	5.14
0-E	DVB BANK SE	U.S.A.	ThUS\$	-	-	28,911	-	-	28,911	3	-	28,911	-	-	28,914	Quarterly	1.86	1.86
97.036.000-K	SANTANDER	Chile	ThUS\$	-	-	158,194	-	-	158,194	542	-	158,194	-	-	158,736	Quarterly	3.55	3.55
0-E	Obligations with the public BANK OF NEW YORK	U.S.A.	ThUS\$	-	-	-	500,000	-	500,000	2,291	-	-	489,885	-	492,176	At Expiration	7.77	7.25
Guaranteed obligations																		
0-E	CREDIT AGRICOLE	France	ThUS\$	11,073	29,252	62,209	32,172	3,711	138,417	11,454	29,252	60,781	31,221	3,631	136,339	Quarterly	2.21	1.81
0-E	BNP PARIBAS	U.S.A.	ThUS\$	10,496	42,401	111,962	118,181	345,078	628,118	12,792	43,023	108,271	116,067	341,481	621,634	Quarterly	2.97	2.96
0-E	WELLS FARGO WILMINGTON TRUST	U.S.A.	ThUS\$	31,448	95,186	260,112	269,512	400,087	1,056,345	35,211	95,186	233,012	257,387	391,253	1,012,049	Quarterly	2.37	1.68
0-E	CITIBANK	U.S.A.	ThUS\$	15,554	49,236	135,254	140,848	626,444	967,336	20,997	49,236	130,792	138,455	622,153	961,633	Quarterly	4.25	4.25
0-E	CITIBANK	U.S.A.	ThUS\$	17,495	53,162	146,932	154,774	175,805	548,168	19,059	53,162	138,257	150,891	172,087	533,456	Quarterly	2.72	1.96
97.036.000-K	SANTANDER	Chile	ThUS\$	5,347	16,204	44,472	46,386	26,165	138,574	5,680	16,204	42,707	45,815	26,063	136,469	Quarterly	1.98	1.44
0-E	BTMU	U.S.A.	ThUS\$	2,787	8,470	23,393	24,635	26,705	85,990	3,001	8,470	22,132	24,149	26,519	84,271	Quarterly	2.31	1.72
0-E	APPLE BANK	U.S.A.	ThUS\$	1,364	4,167	11,516	12,146	13,561	42,754	1,538	4,166	10,889	11,902	13,464	41,959	Quarterly	2.29	1.69
0-E	US BANK	U.S.A.	ThUS\$	14,817	44,958	123,705	129,462	219,666	532,608	17,298	44,958	104,709	120,509	211,895	499,369	Quarterly	3.99	2.81
0-E	DEUTSCHE BANK	U.S.A.	ThUS\$	4,992	15,365	24,725	26,984	45,197	117,263	5,570	15,365	24,023	26,515	44,522	115,995	Quarterly	3.86	3.86
0-E	NATIXIS	France	ThUS\$	12,289	37,388	98,873	82,066	192,235	422,851	13,038	37,388	97,469	81,130	190,048	419,073	Quarterly	2.60	2.57
0-E	PK AIRFINANCE	U.S.A.	ThUS\$	2,018	6,268	18,413	24,944	3,144	54,787	2,071	6,269	18,412	24,944	3,144	54,840	Monthly	2.40	2.40
0-E	KFW IPEX-BANK	Germany	ThUS\$	2,288	7,015	17,869	9,019	-	36,191	2,319	7,015	17,869	9,019	-	36,222	Quarterly	2.55	2.55
0-E	AIRBUS FINANCIAL	U.S.A.	ThUS\$	1,797	5,476	15,262	7,664	-	30,199	1,841	5,477	15,261	7,664	-	30,243	Monthly	2.49	2.49
0-E	INVESTECH	England	ThUS\$	1,298	7,526	19,290	21,667	22,421	72,202	1,771	7,733	18,533	21,368	22,309	71,714	Semiannual	5.67	5.67
-	SWAP Aviones Illegados	-	ThUS\$	403	1,067	1,658	158	-	3,286	403	1,067	1,658	158	-	3,286	Quarterly	-	-
Other guaranteed obligations																		
0-E	CREDIT AGRICOLE	France	ThUS\$	-	-	256,860	-	-	256,860	1,908	-	254,512	-	-	256,420	Quarterly	2.85	2.85
Financial leases																		
0-E	ING	U.S.A.	ThUS\$	5,089	15,653	31,151	11,805	-	63,698	5,641	15,652	30,577	11,771	-	63,641	Quarterly	5.62	4.96
0-E	CREDIT AGRICOLE	France	ThUS\$	1,754	5,403	-	-	-	7,157	1,780	5,403	-	-	-	7,183	Quarterly	1.85	1.85
0-E	CITIBANK	U.S.A.	ThUS\$	4,956	15,312	44,177	13,804	-	78,249	5,622	15,312	43,413	13,762	-	78,109	Quarterly	6.40	5.67
0-E	PEFCO	U.S.A.	ThUS\$	15,979	47,048	63,957	3,827	-	130,811	16,852	47,048	63,072	3,819	-	130,791	Quarterly	5.39	4.79
0-E	BNP PARIBAS	U.S.A.	ThUS\$	12,520	38,494	75,958	22,147	-	149,119	13,122	38,494	74,776	22,079	-	148,471	Quarterly	3.69	3.26
0-E	WELLS FARGO	U.S.A.	ThUS\$	4,678	14,261	39,862	42,663	1,862	103,326	5,018	14,260	38,834	42,430	1,861	102,403	Quarterly	3.98	3.54
0-E	DVB BANK SE	U.S.A.	ThUS\$	4,680	9,447	-	-	-	14,127	4,713	9,448	-	-	-	14,161	Quarterly	2.57	2.57
0-E	RRPF ENGINE	England	ThUS\$	-	-	6,402	6,955	11,917	25,274	-	-	6,402	6,955	11,917	25,274	Monthly	2.35	2.35
Other loans																		
0-E	BOEING	U.S.A.	ThUS\$	-	-	26,214	-	-	26,214	185	-	26,214	-	-	26,399	At Expiration	2.35	2.35
0-E	CITIBANK (*)	U.S.A.	ThUS\$	20,555	63,942	184,866	101,026	-	370,389	21,541	63,942	182,043	100,866	-	368,392	Quarterly	6.00	6.00
Total				451,906	753,268	2,122,383	1,819,099	2,113,998	7,260,654	480,920	754,207	2,040,524	1,774,950	2,082,347	7,132,948			

(\*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

Interest-bearing loans due in installments to December 31, 2016  
Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective rate %	Nominal rate %
				Up to 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 nominal value	Up to 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 accounting value			
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			
Bank loans																		
0-E	NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ	Holland	ThUS\$	122	378	1,094	1,234	54	2,882	137	378	1,094	1,233	55	2,897	Monthly	6.01	6.01
0-E	CITIBANK	U.S.A	ThUS\$	-	200,000	-	-	-	200,000	(151)	199,729	-	-	-	199,578	At Expiration	3.39	3.14
Obligation with the public																		
0-E	THE BANK OF NEW YORK	U.S.A	ThUS\$	-	300,000	-	500,000	-	800,000	8,173	301,579	4,119	503,298	-	817,169	At Expiration	8.17	8.00
Financial leases																		
0-E	AFS INVESTMENT IX LLC	U.S.A	ThUS\$	2,086	6,437	18,556	8,369	-	35,448	2,253	6,437	18,556	8,369	-	35,615	Monthly	1.25	1.25
0-E	DVB BANK SE	U.S.A	ThUS\$	118	164	-	-	-	282	119	164	-	-	-	283	Monthly	2.50	2.50
0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A	ThUS\$	3,771	5,075	-	-	-	8,846	3,794	5,075	-	-	-	8,869	Monthly/Quarterly Quarterly/Semiannual	2.30	2.30
0-E	KFW IPEX-BANK	Germany	ThUS\$	579	1,544	-	-	-	2,123	583	1,544	-	-	-	2,127		2.80	
0-E	NATIXIS	France	ThUS\$	2,675	5,732	18,485	38,820	41,731	107,443	3,533	5,732	18,485	38,820	41,731	108,301		4.90	
0-E	WACAPOU LEASING S.A.	Luxemburg	ThUS\$	668	2,038	5,768	6,280	-	14,754	709	2,038	5,768	6,280	-	14,795	Quarterly	3.00	3.00
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	ThUS\$	8,547	26,275	74,783	169,730	-	279,335	9,779	26,275	74,783	169,730	-	280,567	Quarterly	4.18	4.11
0-E	BANCO IBM S.A	Brazil	BRL	260	749	22	-	-	1,031	260	749	21	-	-	1,030	Monthly	13.63	13.63
0-E	HP FINANCIAL SERVICE	Brazil	BRL	222	-	-	-	-	222	222	-	-	-	-	222	Monthly	10.02	10.02
0-E	SOCIETE GENERALE	France	BRL	102	307	110	-	-	519	102	307	110	-	-	519	Monthly	13.63	13.63
Total				19,150	548,699	118,818	724,433	41,785	1,452,885	29,513	550,007	122,936	727,730	41,786	1,471,972			
Total consolidated				471,056	1,301,967	2,241,201	2,543,532	2,155,783	8,713,539	510,433	1,304,214	2,163,460	2,502,680	2,124,133	8,604,920			

(b) Hedge derivatives

	Current liabilities		Non-current liabilities		Total hedge derivatives	
	As of	As of	As of	As of	As of	As of
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Accrued interest from the last date of interest rate swap	1,189	2,148	-	-	1,189	2,148
Fair value of interest rate derivatives	8,919	9,578	2,617	6,679	11,536	16,257
Fair value of foreign currency derivatives	2,092	13,155	-	-	2,092	13,155
Total hedge derivatives	12,200	24,881	2,617	6,679	14,817	31,560

The foreign currency derivatives correspond to options, forwards and swaps.

Hedging operation

The fair values of net assets/ (liabilities), by type of derivative, of the contracts held as hedging instruments are presented below:

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Cross currency swaps (CCS) (1)	38,875	(12,286)
Interest rate swaps (2)	(6,542)	(16,926)
Fuel options (3)	10,711	10,088
Currency forward - options US\$/GBP\$ (4)	-	618
Currency forward - options US\$/EUR\$ (4)	-	109
Currency options R\$/US\$ (4)	4,370	(1,752)
Currency options CLP/US\$ (4)	636	-

- (1) Covers the significant variations in cash flows associated with market risk implicit in the changes in the 3-month LIBOR interest rate and the exchange rate US\$/UF of bank loans. These contracts are recorded as cash flow hedges and fair value.
- (2) Covers the significant variations in cash flows associated with market risk implicit in the increases in the 3 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.
- (3) Covers significant variations in cash flows associated with market risk implicit in the changes in the price of future fuel purchases. These contracts are recorded as cash flow hedges.
- (4) Covers the foreign exchange risk exposure of operating cash flows caused mainly by fluctuations in the exchange rate R\$/US\$, US\$/EUR and US\$/GBP. These contracts are recorded as cash flow hedges.

During the periods presented, the Company only has cash flow and fair value hedges (in the case of CCS). In the case of fuel hedges, the cash flows subject to such hedges will occur and will impact results in the next 3 months from the date of the consolidated statement of financial position, while in the case of hedges of interest rates, these they will occur and will impact results throughout the life of the associated loans, up to their maturity. In the case of currency hedges through a CCS, there is a group of hedging relationships, in which two types of hedge accounting are generated, one of cash flow for the US \$ / UF component; and another of fair value, for the floating rate component US \$. The other group of hedging relationships only generates cash flow hedge accounting for the US \$ / UF component.

During the periods presented, no hedging operations of future highly probable transaction that have not been realized have occurred.

Since none of the coverage resulted in the recognition of a non-financial 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 during the period and transferred from net equity to income are as follows:

	For the period ended December 31,		
	2017	2016	2015
	ThUS\$	ThUS\$	ThUS\$
Debit (credit) recognized in comprehensive income during the period	18,344	127,390	80,387
Debit (credit) transferred from net equity to income during the period	(15,000)	(113,403)	(151,244)

#### NOTE 20 - TRADE AND OTHER ACCOUNTS PAYABLES

The composition of Trade and other accounts payables is as follows:

	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$
Current		
(a) Trade and other accounts payables	1,349,201	1,117,926
(b) Accrued liabilities at the reporting date	346,001	475,142
Total trade and other accounts payables	1,695,202	1,593,068

(a) Trade and other accounts payable:

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Trade creditors	1,096,540	876,163
Leasing obligation	4,448	10,446
Other accounts payable	248,213	231,317
Total	<u>1,349,201</u>	<u>1,117,926</u>

The details of Trade and other accounts payables are as follows:

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Boarding Fee	249,898	170,053
Aircraft Fuel	219,601	188,276
Suppliers technical purchases	114,690	40,305
Airport charges and overflight	106,534	77,484
Handling and ground handling	103,784	87,406
Other personnel expenses	89,621	81,632
Professional services and advisory	81,679	79,270
Marketing	75,220	61,053
Leases, maintenance and IT services	69,873	44,287
Services on board	68,605	44,589
Air companies	31,381	21,197
Land services	31,151	74,260
Maintenance	26,244	25,962
Crew	24,163	29,074
Achievement of goals	5,732	17,801
Communications	5,273	7,500
Aviation insurance	5,108	7,694
Aircraft and engines leasing	4,285	10,446
SEC agreement (*)	-	4,719
Others	36,359	44,918
Total trade and other accounts payables	<u>1,349,201</u>	<u>1,117,926</u>

(\*) Provision made for payments of fines, on July 25, 2016 LATAM reached agreements with the U.S. Department of Justice ("DOJ") U.S. and the Securities and Exchange Commission ("SEC") both authorities of the United States of America, in force as of this date, regarding the investigation on payments by LAN Airlines S.A. made in 2006-2007 to a consultant who advised on the resolution of labor matters in Argentina. The amount to the SEC agreement is ThUS\$ 6,744 plus interests of ThUS\$ 2,694.

As of December 31, 2017, the debt was paid in full.

(b) Liabilities accrued:

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Accrued personnel expenses	125,246	113,785
Aircraft and engine maintenance	92,711	244,949
Accounts payable to personnel (*)	99,862	89,523
Others accrued liabilities	28,182	26,885
Total accrued liabilities	<u>346,001</u>	<u>475,142</u>

(\*) Profits and bonds participation (Note 23 letter b)

#### NOTE 21 - OTHER PROVISIONS

Other provisions:

	Current liabilities		Non-current liabilities		Total Liabilities	
	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Provision for contingencies (1)						
Tax contingencies	1,913	1,425	258,305	313,064	260,218	314,489
Civil contingencies	497	993	62,858	56,413	63,355	57,406
Labor contingencies	373	225	28,360	29,307	28,733	29,532
Other	-	-	15,187	15,046	15,187	15,046
Provision for European Commision investigation (2)	-	-	9,883	8,664	9,883	8,664
Total other provisions (3)	<u>2,783</u>	<u>2,643</u>	<u>374,593</u>	<u>422,494</u>	<u>377,376</u>	<u>425,137</u>

(1) Provisions for contingencies:

The tax contingencies correspond to litigation and tax criteria related to the tax treatment applicable to direct and indirect taxes, which are found in both administrative and judicial stage.

The civil contingencies correspond to different demands of civil order filed against the Company.

The labor contingencies correspond to different demands of labor order filed against the Company.

The Provisions are recognized in the consolidated income statement in administrative expenses or tax expenses, as appropriate.

(2) Provision made for proceedings brought by the European Commission for possible breaches of free competition in the freight market.

(3) Total other provision at December 31, 2017, and 2016, include the fair value correspond to those contingencies from the business combination with TAM S.A and subsidiaries, with a probability of loss under 50%, which are not provided for the normal application of IFRS enforcement and that only must be recognized in the context of a business combination in accordance with IFRS 3.

Movement of provisions:

	Legal claims (1) ThUS\$	European Commission Investigation (2) ThUS\$	Total ThUS\$
Opening balance as of January 1, 2015	705,552	9,999	715,551
Increase in provisions	54,675	-	54,675
Provision used	(19,522)	-	(19,522)
Difference by subsidiaries conversion	(220,266)	-	(220,266)
Reversal of provision	(100,740)	-	(100,740)
Exchange difference	(1,246)	(1,033)	(2,279)
Closing balance as of December 31, 2015	<u>418,453</u>	<u>8,966</u>	<u>427,419</u>
Opening balance as of January 1, 2016	418,453	8,966	427,419
Increase in provisions	141,797	-	141,797
Provision used	(21,997)	-	(21,997)
Difference by subsidiaries conversion	79,396	-	79,396
Reversal of provision	(201,425)	-	(201,425)
Exchange difference	249	(302)	(53)
Closing balance as of December 31, 2016	<u>416,473</u>	<u>8,664</u>	<u>425,137</u>
Opening balance as of January 1, 2017	416,473	8,664	425,137
Increase in provisions	106,943	-	106,943
Provision used	(14,860)	-	(14,860)
Difference by subsidiaries conversion	(5,830)	-	(5,830)
Reversal of provision	(135,109)	-	(135,109)
Exchange difference	(124)	1,219	1,095
Closing balance as of December 31, 2017	<u>367,493</u>	<u>9,883</u>	<u>377,376</u>



(1) Cumulative balances include judicial deposit delivered as security, with respect to the "Aerovia Fundo" (FA), for US \$ 100 million, made in order to suspend the application of the tax credit. The Company is discussing in the Court the constitutionality of the requirement made by FA in a lawsuit. Initially it was covered by the effects of a precautionary measure, this means that the Company would not be obliged to collect the tax, as long as there is no judicial decision in this regard. However, the decision taken by the judge in the first instance was published unfavorably, revoking the injunction. As the lawsuit is still underway (TAM appealed this first decision), the Company needed to make the judicial deposit, for the suspension of the enforceability of the tax credit; deposit that was classified in this item, discounting the existing provision for this purpose. Finally, if the final decision is favorable to the Company, the deposit made will return to TAM. On the other hand, if the court confirms the first decision, said deposit will become a final payment in favor of the Government of Brazil. The procedural stage as of December 31, 2017 is described in Note 31 in the Role of the case 2001.51.01.012530-0.

(2) European Commission Provision:

Provision constituted on the occasion of the process initiated in December 2007 by the General Competition Directorate of the European Commission against more than 25 cargo airlines, among which is Lan Cargo SA, which forms part of the global investigation initiated in 2006 for possible infractions of free competition in the air cargo market, which was carried out jointly by the European and United States authorities.

With respect to Europe, the General Directorate of Competition imposed fines totaling € 799,445,000 (seven hundred and ninety-nine million four hundred and forty-five thousand Euros) for infractions of European Union regulations on free competition against eleven (11) airlines, among which are LATAM Airlines Group SA and its subsidiary Lan Cargo S.A. For its part, LATAM Airlines Group S.A. and Lan Cargo S.A., jointly and severally, have been fined for the amount of € 8,220,000 (eight million two hundred and twenty thousand Euros), for these infractions, an amount that was provisioned in the financial statements of LATAM. On January 24, 2011, LATAM Airlines Group S.A. and Lan Cargo S.A. They appealed the decision before the Court of Justice of the European Union. On December 16, 2015, the European Court resolved the appeal and annulled the Commission's Decision. The European Commission did not appeal the judgment, but on March 17, 2017, the European Commission again adopted its original decision to impose on the eleven lines original areas, the same fine previously imposed, amounting to a total of 776,465,000 Euros. In the case of LAN Cargo and its parent, LATAM Airlines Group S.A. imposed the same fine of 8.2 million Euros. The procedural stage as of December 31, 2017 is described in Note 31 in section (ii) judgments received by LATAM Airlines Group S.A. and Subsidiaries.

NOTE 22 - OTHER NON-FINANCIAL LIABILITIES

	Current liabilities		Non-current liabilities		Total Liabilities	
	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Deferred revenues (*)	2,690,961	2,655,086	158,305	213,781	2,849,266	2,868,867
Sales tax	22,902	19,402	-	-	22,902	19,402
Retentions	38,197	45,542	-	-	38,197	45,542
Others taxes	8,695	7,465	-	-	8,695	7,465
Dividends payable	46,590	20,766	-	-	46,590	20,766
Other sundry liabilities	16,618	13,984	-	-	16,618	13,984
Total other non-financial liabilities	<u>2,823,963</u>	<u>2,762,245</u>	<u>158,305</u>	<u>213,781</u>	<u>2,982,268</u>	<u>2,976,026</u>

(\*) Note 2.20.

The balance comprises, mainly, deferred income by services not yet rendered at December 31, 2017 and 2016; and programs such as: LATAM Pass, LATAM Fidelidade y Multiplus:

LATAM Pass is the frequent passenger program created by LAN to reward the preference and loyalty of its customers with multiple benefits and privileges, through the accumulation of kilometers that can be exchanged for free flight tickets or for a varied range of products and services. Customers accumulate LATAM Pass kilometers every time they fly on LAN, TAM, oneworld® member companies and other airlines associated with the program, as well as buying at stores or using the services of a vast network of companies that have an agreement with the program around the world.

For its part, TAM, thinking of people who travel constantly, created the LATAM Fidelidade program, in order to improve the service and give recognition to those who choose the company. Through the program, customers accumulate points in a wide variety of loyalty programs in a single account and can redeem them in all TAM destinations and associated airline companies, and even more, participate in the Multiplus Fidelidade Network.

Multiplus is a coalition of loyalty programs, with the objective of operating accumulation and exchange of points. This program has a network integrated by associated companies, including hotels, financial institutions, retail companies, supermarkets, vehicle leases and magazines, among many other partners from different segments.

NOTE 23 - EMPLOYEE BENEFITS

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Retirements payments	55,119	49,680
Resignation payments	10,124	10,097
Other obligations	35,844	22,545
Total liability for employee benefits	<u>101,087</u>	<u>82,322</u>

(a) The movement in retirements and resignation payments and other obligations:

	Opening balance ThUS\$	Increase (decrease) current service provision ThUS\$	Benefits paid ThUS\$	Actuarial (gains) losses ThUS\$	Currency translation ThUS\$	Closing balance ThUS\$
From January 1 to December 31, 2015	74,102	(13,609)	(3,824)	14,631	(6,029)	65,271
From January 1 to December 31, 2016	65,271	17,487	(4,536)	3,105	995	82,322
From January 1 to December 31, 2017	82,322	21,635	(5,399)	(2,763)	5,292	101,087

The principal assumptions used in the calculation to the provision in Chile are presented below:

Assumptions	As of December 31, 2017	2016
Discount rate	4.55%	4.54%
Expected rate of salary increase	4.50%	4.50%
Rate of turnover	6.98%	6.16%
Mortality rate	RV-2014	RV-2009
Inflation rate	2.72%	2.86%
Retirement age of women	60	60
Retirement age of men	65	65

The discount rate corresponds to the 20-year term rate of the BCP Central Bank of Chile Bonds. The RV-2014 mortality tables correspond to those established by the Commission for the Financial Market of Chile and for the determination of the inflation rates; the market performance curves of Central Bank of Chile papers of the BCUs have been used. BCP long term at the date of scope.

The calculation of the present value of the defined benefit obligation is sensitive to the variation of some actuarial assumptions such as discount rate, salary increase, rotation and inflation.

The sensitivity analysis for these variables is presented below:

	Effect on the liability	
	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$
<b>Discount rate</b>		
Change in the accrued liability an closing for increase in 100 p.b.	(5,795)	(5,665)
Change in the accrued liability an closing for decrease of 100 p.b.	6,617	5,952
<b>Rate of wage growth</b>		
Change in the accrued liability an closing for increase in 100 p.b.	6,412	6,334
Change in the accrued liability an closing for decrease of 100 p.b.	(5,750)	(5,644)

(b) The liability for short-term:

	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$
Profit-sharing and bonuses (*)	99,862	89,523

(\*) Accounts payables to employees (Note 20 letter b)

The participation in profits and bonuses correspond to an annual incentives plan for achievement of objectives.

(c) Employment expenses are detailed below:

	For the periods ended		
	2017	December 31, 2016	2015
	ThUS\$	ThUS\$	ThUS\$
Salaries and wages	1,604,552	1,549,402	1,631,320
Short-term employee benefits	145,245	132,436	171,366
Termination benefits	85,070	79,062	51,684
Other personnel expenses	188,767	190,233	218,435
Total	2,023,634	1,951,133	2,072,805

NOTE 24 - ACCOUNTS PAYABLE, NON-CURRENT

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Aircraft and engine maintenance	483,795	347,085
Provision for vacations and bonuses	14,725	12,080
Other sundry liabilities	312	226
Total accounts payable, non-current	<u>498,832</u>	<u>359,391</u>

NOTE 25 - EQUITY

(a) Capital

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 paid capital of the Company at December 31, 2017 amounts to ThUS\$ 3,146,265 (\*) divided into 606,407,693 common stock of a same series (ThUS\$ 3,149,564 (\*\*)) divided into 606,407,693 shares as of December 31, 2016), a single series nominative, ordinary character with no par value. There are no special series of shares and no privileges. The form of its stock certificates and their issuance, exchange, disablement, loss, replacement and other similar circumstances, as well as the transfer of the shares, is governed by the provisions of Corporations Law and its regulations.

(\*) Includes deduction of issuance costs for ThUS \$ 3,299 and adjustment for placement of 10,282 shares for ThUS \$ 156, approved at the Extraordinary Shareholders Meeting of the Company on April 27, 2017.

(\*\*) Includes adjustment for placement of the aforementioned 10,282 shares for ThUS \$ 156.

(b) Subscribed and paid shares

On August 18, 2016, the Company held an extraordinary meeting of shareholders in which it was approved to increase the capital by issuing 61,316,424 shares of payment, all ordinary shares, without par value. As of December 31, 2017, 60,849,592 shares had been placed against this increase, according to the following breakdown: (a) 30,499,685 shares subscribed and paid at the end of the preferred subscription period, which expired on, December 2016, raising the equivalent of US\$ 304,996,850; and (b) 30,349,907 additional shares subscribed on December 28, 2016, earning the equivalent of US\$ 303,499,070.

As a result of the last placement, as of December 31, 2017, the number Company shares subscribed and paid amounts to 606,407,693.

At December 31, 2017, the Company's capital stock is represented by 608,374,525 shares, all of the same and unique series, nominative, ordinary, with no par value, which is divided into: (a) the 606,407,693 subscribed and paid shares mentioned above; and (b) 1,966,832 shares pending subscription and payment, of which: (i) 1,500,000 shares are allocated to compensation stock option plans; and (ii) 466,832 correspond to the balance of shares pending placement of the last capital increase.

During 2016, the Company's capital stock was expressed in 613,164,243 shares, all of the same and unique series, nominative, ordinary, with no par value, that is, 551,847,819 shares already authorized at the beginning of the year and 61,316,424 shares authorized in the last Capital increase dated August 18, 2016. However, on December 21, 2016, the deadline for the subscription and payment of 4,789,718 shares that were destined to compensation plans for workers expired, so that the Company's capital stock was reduced to 608,374,525 shares.

The following table shows the movement of the authorized and fully paid shares described above:

#### Movement of authorized shares

	Nro. Of shares
Authorized shares as of January 1, 2016	551,847,819
Increase capital approved at Extraordinary Shareholders meeting dated August 18, 2016	61,316,424
Full capital decrease due to maturity of the subscription and payment period of the compensation plan 2011, December 21, 2016 (*)	(4,789,718)
Authorized shares as of December 31, 2016	<u>608,374,525</u>
Authorized shares as of January 1, 2017	608,374,525
There is no movement of authorized shares during the period 2017	-
Authorized shares as of December 31, 2017	<u>608,374,525</u>

(\*) See Note 34 (a.1)

#### Movement fully paid shares

	N° of shares	Movement value of shares (1) ThUS\$	Cost of issuance and placement of shares (2) ThUS\$	Paid- in Capital ThUS\$
Paid shares as of January 1, 2016	545,547,819	2,552,066	(6,361)	2,545,705
Approved at Extraordinary Shareholders meeting dated August 18, 2016	60,849,592	608,496	-	608,496
Capital reserve	-	-	(4,793)	(4,793)
Increase (decrease) by transfers and other changes (4)	10,282	156	-	156
Paid shares as of December 31, 2016	<u>606,407,693</u>	<u>3,160,718</u>	<u>(11,154)</u>	<u>3,149,564</u>
Paid shares as of January 1, 2017	606,407,693	3,160,718	(11,154)	3,149,564
Capital reserve	-	-	(3,299)	(3,299)
Paid shares as of December 31, 2017	<u>606,407,693<sup>(3)</sup></u>	<u>3,160,718</u>	<u>(14,453)</u>	<u>3,146,265</u>

(1) Amounts reported represent only those arising from the payment of the shares subscribed.

(2) Decrease of capital by capitalization of reserves for cost of issuance and placement of shares established according to Extraordinary Shareholder's Meetings, where such decreases were authorized.

(3) At December 31, 2017, the difference between authorized shares and fully paid shares are 1,966,832 shares, of which 1,500,000 correspond to compensation plans for executives of LATAM Airlines Group S.A. and subsidiaries (see Note 34(a.2)) and 466,832 correspond to the shares issued and unsubscribed from the capital increase approved at the Extraordinary Shareholders Meeting held on August 18, 2016.

(4) These 10,282 shares were placed in January 2014 and charged to the Compensation plan 2011 (See Note 34 (a.1))

(c) Treasury stock

At December 31, 2017, the Company held no treasury stock, the remaining of ThUS\$ (178) corresponds to the difference between the amount paid for the shares and their book value, at the time of the full right decrease of the shares which held in its portfolio.

(d) Reserve of share- based payments

Movement of Reserves of share- based payments:

Periods	Opening balance ThUS\$	Stock option plan ThUS\$	Deferred tax ThUS\$	Net movement of the period ThUS\$	Closing balance ThUS\$
From January 1 to December 31, 2015	29,642	8,924	(2,919)	6,005	35,647
From January 1 to December 31, 2016	35,647	3,698	(807)	2,891	38,538
From January 1 to December 31, 2017	38,538	943	-	943	39,481

These reserves are related to the "Share-based payments" explained in Note 34.

(e) Other sundry reserves

Movement of Other sundry reserves:

Periods	Opening balance ThUS\$	Legal reserves ThUS\$	Closing balance ThUS\$
From January 1 to December 31, 2015	2,635,748	(1,069)	2,634,679
From January 1 to December 31, 2016	2,634,679	5,602	2,640,281
From January 1 to December 31, 2017	2,640,281	(501)	2,639,780

Balance of Other sundry reserves comprises the following:

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Higher value for TAM S.A. share exchange (1)	2,665,692	2,665,692	2,665,692
Reserve for the adjustment to the value of fixed assets (2)	2,620	2,620	2,620
Transactions with non-controlling interest (3)	(25,911)	(25,911)	(25,891)
Cost of issuance and placement of shares	0	(9)	(4,793)
Others	(2,621)	(2,111)	(2,949)
Total	<u>2,639,780</u>	<u>2,640,281</u>	<u>2,634,679</u>

- (1) Corresponds to the difference in the shares value of TAM S.A. acquired (under subscriptions) by Sister Holdco S.A. and Holdco II S.A. (under the Exchange Offer), as stipulated in the Declaration of Posting of Merger by Absorption and the fair value of these exchange shares of LATAM Airlines Group S.A. at June 22, 2012.
- (2) Corresponds to the technical revaluation of fixed assets authorized by the Commission for the Financial Market in 1979, in Circular N° 1529. The revaluation was optional and could be taken only once, the reserve is not distributable and can only be capitalized.
- (3) The balance at December 31, 2017, correspond to the loss generated by the participation of Lan Pax Group S.A. and Inversiones Lan S.A. in the acquisition of shares of Aerovías de Integración Regional Aires of ThUS\$ (3,480) and ThUS\$ (20), respectively; the acquisition of TAM S.A. of the minority holding of Aerolinhas Brasileiras S.A. of ThUS\$ (885) and the acquisition of minority interest of Aerolane S.A. by Lan Pax group S.A. through Holdco Ecuador S.A. for US\$ (21,526).



(f) Reserves with effect in other comprehensive income.

Movement of Reserves with effect in other comprehensive income:

	Currency translation reserve ThUS\$	Cash flow hedging reserve ThUS\$	Actuarial gain or loss on defined benefit plans reserve ThUS\$	Total ThUS\$
Opening balance as of January 1, 2015	(1,193,871)	(151,340)	-	(1,345,211)
Derivatives valuation gains (losses)	-	82,730	-	82,730
Deferred tax	-	(21,900)	-	(21,900)
Actuarial reserves by employee benefit plans	-	-	(14,627)	(14,627)
Deferred tax actuarial IAS by employee benefit plans	-	-	3,910	3,910
Difference by subsidiaries conversion	(1,382,170)	-	-	(1,382,170)
Closing balance as of December 31, 2015	<u>(2,576,041)</u>	<u>(90,510)</u>	<u>(10,717)</u>	<u>(2,677,268)</u>
Opening balance as of January 1, 2016	(2,576,041)	(90,510)	(10,717)	(2,677,268)
Derivatives valuation gains (losses)	-	126,360	-	126,360
Deferred tax	-	(34,344)	-	(34,344)
Actuarial reserves by employee benefit plans	-	-	(3,104)	(3,104)
Deferred tax actuarial IAS by employee benefit plans	-	-	921	921
Difference by subsidiaries conversion	489,486	-	-	489,486
Closing balance as of December 31, 2016	<u>(2,086,555)</u>	<u>1,506</u>	<u>(12,900)</u>	<u>(2,097,949)</u>
Opening balance as of January 1, 2017	(2,086,555)	1,506	(12,900)	(2,097,949)
Derivatives valuation gains (losses)	-	18,436	-	18,436
Deferred tax	-	(1,802)	-	(1,802)
Actuarial reserves by employee benefit plans	-	-	2,758	2,758
Deferred tax actuarial IAS by employee benefit plans	-	-	(784)	(784)
Difference by subsidiaries conversion	(45,036)	-	-	(45,036)
Closing balance as of December 31, 2017	<u>(2,131,591)</u>	<u>18,140</u>	<u>(10,926)</u>	<u>(2,124,377)</u>

(f.1) Currency translation reserve

These originate from exchange differences arising from the translation of any investment in foreign entities (or Chilean investment 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.

(f.2) Cash flow hedging reserve

These originate from the fair value valuation at 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.

(f.3) Reserves of actuarial gains or losses on defined benefit plans

Correspond to the increase or decrease in the obligation present value for defined benefit plan due to changes in actuarial assumptions, and experience adjustments, which is the effects of differences between the previous actuarial assumptions and what has actually occurred.

(g) Retained earnings

Movement of Retained earnings:

Periods	Opening balance ThUS\$	Result for the period ThUS\$	Dividends ThUS\$	Other increase (decreases) ThUS\$	Closing balance ThUS\$
From January 1 to December 31, 2015	536,190	(219,274)	-	1,034	317,950
From January 1 to December 31, 2016	317,950	69,220	(20,766)	-	366,404
From January 1 to December 31, 2017	366,404	155,304	(46,590)	-	475,118

(h) Dividends per share

Description of dividend	Minimum mandatory dividend 2017	Final dividend dividend 2016
Date of dividend	12/31/2017	12-31-2016
Amount of the dividend (ThUS\$)	46,590	20,766(*)
Number of shares among which the dividend is distributed	606,407,693	606,407,693
Dividend per share (US\$)	0.0768	0.0342

(\*) In accordance with the Material Fact issued on April 27, 2017, LATAM Airlines Group S.A. shareholders approved the distribution of the final dividend proposed by the board of directors in the Ordinary Session of April 4, 2017, amounting to ThUS \$ 20,766, which corresponds to 30% of the profits for the year corresponding to the year 2016.

The payment was made on May 18, 2017.

## NOTE 26 - REVENUE

The detail of revenues is as follows:

		For the periods ended December 31,	
	2017	2016	2015
	ThUS\$	ThUS\$	ThUS\$
Passengers LAN	4,313,287	4,104,348	4,241,918
Passengers TAM	4,181,190	3,773,367	4,168,696
Cargo	1,119,430	1,110,625	1,329,431
Total	<u>9,613,907</u>	<u>8,988,340</u>	<u>9,740,045</u>

## NOTE 27 - COSTS AND EXPENSES BY NATURE

(a) Costs and operating expenses

The main operating costs and administrative expenses are detailed below:

		For the periods ended December 31,	
	2017	2016	2015
	ThUS\$	ThUS\$	ThUS\$
Aircraft fuel	2,318,816	2,056,643	2,651,067
Other rentals and landing fees	1,172,129	1,077,407	1,109,826
Aircraft rentals	579,551	568,979	525,134
Aircraft maintenance	430,825	366,153	437,235
Comissions	252,474	269,296	302,774
Passenger services	288,662	286,621	295,439
Other operating expenses	1,381,546	1,424,595	1,293,320
Total	<u>6,424,003</u>	<u>6,049,694</u>	<u>6,614,795</u>

(b) Depreciation and amortization

Depreciation and amortization are detailed below:

	2017	For the period ended December 31, 2016	2015
	ThUS\$	ThUS\$	ThUS\$
Depreciation (*)	943,215	910,071	897,670
Amortization	58,410	50,257	36,736
Total	<u>1,001,625</u>	<u>960,328</u>	<u>934,406</u>

(\*) Include the depreciation of Property, plant and equipment and the maintenance cost of aircraft held under operating leases. The amount of maintenance cost included within the depreciation line item at December 31, 2017 is ThUS\$ 359,940 and ThUS\$ 345,651 for the same period of 2016.

(c) Personnel expenses

The costs for personnel expenses are disclosed in Note 23 liability for employee benefits.

(d) Financial costs

The detail of financial costs is as follows:

	2017	For the period ended December 31, 2016	2015
	ThUS\$	ThUS\$	ThUS\$
Bank loan interest	347,551	352,405	331,511
Financial leases	37,522	32,573	42,855
Other financial instruments	8,213	31,358	38,991
Total	<u>393,286</u>	<u>416,336</u>	<u>413,357</u>

Costs and expenses by nature presented in this note plus the Employee expenses disclosed in Note 23, are equivalent to the sum of cost of sales, distribution costs, administrative expenses, other expenses and financing costs presented in the consolidated statement of income by function.

## NOTE 28 - OTHER INCOME, BY FUNCTION

Other income by function is as follows:

		For the period ended December 31,	
	2017	2016	2015
	ThUS\$	ThUS\$	ThUS\$
Coalition and loyalty program Multiplus	240,952	174,197	154,958
Tours	109,463	133,575	113,225
Aircraft leasing	103,741	65,011	46,547
Customs and warehousing	26,793	24,548	25,457
Maintenance	6,585	17,090	11,669
Duty free	8,038	11,141	16,408
Other miscellaneous income	54,317	113,186	17,517
Total	<u>549,889</u>	<u>538,748</u>	<u>385,781</u>

## NOTE 29 - FOREIGN CURRENCY AND EXCHANGE RATE DIFFERENCES

The functional currency of LATAM Airlines Group S.A. is the US dollar, also it has subsidiaries whose functional currency is different to the US dollar, such as the chilean peso, argentine peso, colombian peso, brazilian real and guaraní.

The functional currency is defined as the currency of the primary economic environment in which an entity operates and in each entity and all other currencies are defined as foreign currency.

Considering the above, the balances by currency mentioned in this note correspond to the sum of foreign currency of each of the entities that make LATAM Airlines Group S.A. and Subsidiaries.

(a) Foreign currency

The foreign currency detail of balances of monetary items in current and non-current assets is as follows:

Current assets	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$
Cash and cash equivalents	260,092	201,416
Argentine peso	7,309	4,438
Brazilian real	14,242	9,705
Chilean peso	81,693	30,221
Colombian peso	1,105	1,137
Euro	11,746	1,695
U.S. dollar	108,327	128,694
Other currency	35,670	25,526
Other financial assets, current	36,484	14,573
Argentine peso	21	12
Brazilian real	17	734
Chilean peso	26,605	585
Colombian peso	150	-
U.S. dollar	9,343	12,879
Other currency	348	363

Current assets	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$
Other non - financial assets, current	107,170	107,789
Argentine peso	16,507	16,086
Brazilian real	19,686	20,158
Chilean peso	34,258	1,619
Colombian peso	340	713
Euro	2,722	1,563
U.S. dollar	21,907	50,157
Other currency	11,750	17,493
Trade and other accounts receivable, current	373,447	251,204
Argentine peso	49,680	54,356
Brazilian real	22,006	30,675
Chilean peso	82,369	90,482
Colombian peso	1,169	9,720
Euro	48,286	21,923
U.S. dollar	34,268	14,086
Other currency	135,669	29,962
Accounts receivable from related entities, current	958	554
Chilean peso	735	554
U.S. dollar	223	-
Tax current assets	33,575	28,198
Argentine peso	1,679	1,798
Brazilian real	3,934	2,462
Chilean peso	3,317	6,333
Colombian peso	660	1,418
Euro	179	273
U.S. dollar	327	177
Peruvian sol	21,948	14,387
Other currency	1,531	1,350
Total current assets	811,726	603,734
Argentine peso	75,196	76,690
Brazilian real	59,885	63,734
Chilean peso	228,977	129,794
Colombian peso	3,424	12,988
Euro	62,933	25,454
U.S. Dollar	174,395	205,993
Other currency	206,916	89,081

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
Non-current assets		
Other financial assets, non-current	20,975	26,772
Brazilian real	3,831	2,769
Chilean peso	74	83
Colombian peso	281	285
Euro	7,853	6,966
U.S. dollar	7,273	14,920
Other currency	1,663	1,749
Other non - financial assets, non-current	9,108	19,069
Argentine peso	172	142
Brazilian real	6,368	6,029
U.S. dollar	38	8,309
Other currency	2,530	4,589
Accounts receivable, non-current	6,887	7,356
Chilean peso	6,887	7,356
Deferred tax assets	2,081	2,110
Colombian peso	86	117
Other currency	1,995	1,993
Total non-current assets	39,051	55,307
Argentine peso	172	142
Brazilian real	10,199	8,798
Chilean peso	6,961	7,439
Colombian peso	367	402
Euro	7,853	6,966
U.S. dollar	7,311	23,229
Other currency	6,188	8,331



The foreign currency detail of balances of monetary items in current liabilities and non-current is as follows:

Current liabilities	Up to 90 days		91 days to 1 year	
	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other financial liabilities, current	36,000	287,175	115,182	455,086
Chilean peso	21,542	55,962	79,032	108,010
U.S. dollar	14,458	231,213	36,150	347,076
Trade and other accounts payables, current	919,373	585,149	33,707	16,097
Argentine peso	122,452	20,838	8,636	907
Brazilian real	28,810	40,740	669	27
Chilean peso	233,202	60,701	11,311	12,255
Colombian peso	2,964	9,049	855	578
Euro	58,081	23,445	9,165	5
U.S. dollar	409,380	374,431	1,154	962
Peruvian sol	39,064	33,701	825	1,093
Mexican peso	2,732	1,535	115	-
Pound sterling	5,839	1,769	199	246
Uruguayan peso	1,890	6,899	-	-
Other currency	14,959	12,041	778	24
Accounts payable to related entities, current	760	220	-	-
Chilean peso	546	23	-	-
U.S. dollar	4	8	-	-
Other currency	210	189	-	-
Other provisions, current	959	511	-	-
Chilean peso	30	28	-	-
Other currency	929	483	-	-
Tax liabilities, current	-	(204)	174	2,501
Argentine peso	-	-	174	2,501
Brazilian real	-	(3)	-	-
Chilean peso	-	(25)	-	-
Other currency	-	(176)	-	-

	Up to 90 days		91 days to 1 year	
	As of	As of	As of	As of
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Current liabilities	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other non-financial liabilities, current	25,190	33,439	-	-
Argentine peso	393	13,463	-	-
Brazilian real	542	430	-	-
Chilean peso	11,283	14,999	-	-
Colombian peso	837	578	-	-
Euro	5,954	168	-	-
U.S. dollar	3,160	684	-	-
Other currency	3,021	3,117	-	-
Total current liabilities	982,282	906,290	149,063	473,684
Argentine peso	122,845	34,301	8,810	3,408
Brazilian real	29,352	41,167	669	27
Chilean peso	266,603	131,688	90,343	120,265
Colombian peso	3,801	9,627	855	578
Euro	64,035	23,613	9,165	5
U.S. dollar	427,002	606,336	37,304	348,038
Other currency	68,644	59,558	1,917	1,363

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, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other financial liabilities, non-current	276,436	178,793	263,798	747,218	189,500	41,785
Chilean peso	41,548	59,177	189,500	16,189	189,500	-
U.S. dollar	234,888	119,616	74,298	731,029	-	41,785
Accounts payable, non-current	362,964	195,629	-	-	-	-
Chilean peso	13,251	10,474	-	-	-	-
U.S. dollar	348,329	183,904	-	-	-	-
Other currency	1,384	1,251	-	-	-	-
Other provisions, non-current	41,514	39,513	-	-	-	-
Argentine peso	940	635	-	-	-	-
Brazilian real	24,074	23,541	-	-	-	-
Chilean peso	-	38	-	-	-	-
Colombian peso	551	569	-	-	-	-
Euro	9,883	8,664	-	-	-	-
U.S. dollar	6,066	6,066	-	-	-	-
Provisions for employees benefits, non-current	77,579	68,774	-	-	-	-
Brazilian real	-	28	-	-	-	-
Chilean peso	73,399	68,380	-	-	-	-
U.S. dollar	4,180	366	-	-	-	-
Other non-financial liabilities, non-current	-	3	-	-	-	-
Colombian peso	-	3	-	-	-	-
Total non-current liabilities	758,493	482,712	263,798	747,218	189,500	41,785
Argentine peso	940	635	-	-	-	-
Brazilian real	24,074	23,569	-	-	-	-
Chilean peso	128,198	138,069	189,500	16,189	189,500	-
Colombian peso	551	572	-	-	-	-
Euro	9,883	8,664	-	-	-	-
U.S. dollar	593,463	309,952	74,298	731,029	-	41,785
Other currency	1,384	1,251	-	-	-	-

General summary of foreign currency:	As of December 31, 2017	As of December 31, 2016
	ThUS\$	ThUS\$
Total assets	850,777	659,041
Argentine peso	75,368	76,832
Brazilian real	70,084	72,532
Chilean peso	235,938	137,233
Colombian peso	3,791	13,390
Euro	70,786	32,420
U.S. dollar	181,706	229,222
Other currency	213,104	97,412
Total liabilities	2,343,136	2,651,689
Argentine peso	132,595	38,344
Brazilian real	54,095	64,763
Chilean peso	864,144	406,211
Colombian peso	5,207	10,777
Euro	83,083	32,282
U.S. dollar	1,132,067	2,037,140
Other currency	71,945	62,172
Net position		
Argentine peso	(57,227)	38,488
Brazilian real	15,989	7,769
Chilean peso	(628,206)	(268,978)
Colombian peso	(1,416)	2,613
Euro	(12,297)	138
U.S. dollar	(950,361)	(1,807,918)
Other currency	141,159	35,240

(b) Exchange differences

Exchange differences recognized in income, except for financial instruments measured at fair value through profit or loss, for the period ended December 31, 2017, 2016 and 2015, generated a charge of ThUS \$ 18,718, a credit of ThUS \$ 121,651 and a charge of ThUS \$ 467,896, respectively.

Exchange differences recognized in equity as reserves for exchange differences for conversion, for the period ended December 31, 2017, 2016 and 2015, generated a charge of ThUS \$ 47,495, a credit of ThUS \$ 494,362 and a charge of ThUS \$1, 409,439, respectively.

The following shows the current exchange rates for the U.S. dollar, on the dates indicated:

	2017	As of December 31,		2014
		2016	2015	
Argentine peso	18.57	15.84	12.97	8.55
Brazilian real	3.31	3.25	3.98	2.66
Chilean peso	614.75	669.47	710.16	606.75
Colombian peso	2,984.77	3,000.25	3,183.00	2,389.50
Euro	0.83	0.95	0.92	0.82
Strong bolivar	3,345.00	673.76	198.70	12.00
Australian dollar	1.28	1.38	1.37	1.22
Boliviano	6.86	6.86	6.85	6.86
Mexican peso	19.66	20.63	17.34	14.74
New Zealand dollar	1.41	1.44	1.46	1.28
Peruvian Sol	3.24	3.35	3.41	2.99
Uruguayan peso	28.74	29.28	29.88	24.25

## NOTE 30 - EARNINGS / (LOSS) PER SHARE

Basic earnings / (loss) per share	For the period ended December 31,		
	2017	2016	2015
Earnings / (loss) attributable to owners of the parent (ThUS\$)	155,304	69,220	(219,274)
Weighted average number of shares, basic	606,407,693	546,559,599	545,547,819
Basic earnings / (loss) per share (US\$)	0.25610	0.12665	(0.40193)
Diluted earnings / (loss) per share	For the period ended December 31,		
	2017	2016	2015
Earnings / (loss) attributable to owners of the parent (ThUS\$)	155,304	69,220	(219,274)
Weighted average number of shares, basic	606,407,693	546,559,599(*)	545,547,819
Weighted average number of shares, diluted	606,407,693	546,559,599	545,547,819
Diluted earnings / (loss) per share (US\$)	0.25610	0.12665	(0.40193)

(\*) In the calculation of diluted earnings per share have not been considered the compensation plan disclosed in Note 34 (a.1), because the average market price is lower than the price of options.

NOTE 31 – CONTINGENCIES

I. Lawsuits

1) Lawsuits filed by LATAM Airlines Group S.A. and Subsidiaries

Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
Atlantic Aviation Investments LLC (AAI).	Supreme Court of the State of New York County of New York.	07-6022920	Atlantic Aviation Investments LLC. ("AAI"), an indirect subsidiary LATAM Airlines Group S.A., incorporated under the laws of the State of Delaware, sued in August 29 <sup>th</sup> , 2007 Varig Logistics S.A. ("Variglog") for non-payment of four documented loans in credit agreements governed by New York law. These contracts establish the acceleration of the loans in the event of sale of the original debtor, VRG Linhas Aéreas S.A.	The decision ordering Variglog to pay principal, interest and costs to AAI is in the enforcement stage in Switzerland. A settlement for CHF 24,541,781.45 was reached in Brazil for the Swiss funds, and it was agreed that it would be divided as follows: (i) 54.6% of Variglog's assets for the Swiss funds; and (ii) 45.4% to AAI, subject to approval of the Brazilian Bankruptcy Commission. Variglog also filed a petition in Switzerland for recognition of the decision declaring its condition of being in judicial recovery, and subsequently, of being declared in bankruptcy. The Brazilian courts approved the AAI settlement and Variglog's bankruptcy on April 11, 2016, which were confirmed by those courts on September 21, 2016. The final decision approving the agreement was certified September 23, 2016. US\$8.9 million have been recovered thus far to date, leaving a balance of US\$2.08 million pending. Variglog funds remain under embargo by AAI in Switzerland.	10,976 Plus interests and costs

2) Lawsuits received by LATAM Airlines Group S.A. and Subsidiaries

Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
LATAM Airlines Group S.A. y Lan Cargo S.A.	European Commission.	-	Investigation of alleged infringements to free competition of cargo airlines, especially fuel surcharge. On December 26 <sup>th</sup> , 2007, the General Directorate for Competition of the European Commission notified Lan Cargo S.A. and LATAM Airlines Group S.A. the instruction process against twenty five cargo airlines, including Lan Cargo S.A., for alleged breaches of competition in the air cargo market in Europe, especially the alleged fixed fuel surcharge and freight.	<p>On April 14<sup>th</sup>, 2008, the notification of the European Commission was replied. The appeal was filed on January 24, 2011.</p> <p>On May 11, 2015, we attended a hearing at which we petitioned for the vacation of the Decision based on discrepancies in the Decision between the operating section, which mentions four infringements (depending on the routes involved) but refers to Lan in only one of those four routes; and the ruling section (which mentions one single conjoint infraction).</p> <p>On November 9<sup>th</sup>, 2010, the General Directorate for Competition of the European Commission notified Lan Cargo S.A. and LATAM Airlines Group S.A. the imposition of a fine in the amount of THUS\$ 9,823.135 (8.220.000 Euros). This fine is being appealed by Lan Cargo S.A. and LATAM Airlines Group S.A. On December 16, 2015, the European Court of Justice revoked the Commission's decision because of discrepancies. The European Commission did not appeal the decision, but presented a new one on March 17, 2017 reiterating the imposition of the same fine on the eleven original airlines. The fine totals 776,465,000 Euros. It imposed the same fine as before on Lan Cargo and its parent, LATAM Airlines Group S.A., totaling 8.2 million Euros. On May 31, 2017 Lan Cargo S.A. and LATAM Airlines Group S.A. filed a petition with the General Court of the European Union seeking vacation of this decision. We presented our defense in December 2017.</p>	9,823



Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
Lan Cargo S.A. y LATAM Airlines Group S.A.	In the High Court of - Justice Chancery División (England) Ovre Romerike District Court (Norway) y Directie Juridische Zaken Afdeling Ceveil Recht (Netherlands) , Cologne Regional Court (Landgericht Köln Germany).		Lawsuits filed against European airlines by users of freight services in private lawsuits as a result of the investigation into alleged breaches of competition of cargo airlines, especially fuel surcharge. Lan Cargo S.A. and LATAM Airlines Group S.A., have been sued in court proceedings directly and/or in third party, based in England, Norway, the Netherlands and Germany.	Cases are in the uncovering evidence stage.	-0-
Aerolinhas Brasileiras S.A.	Federal Justice.	0008285- 53.2015.403.6105	An action seeking to quash a decision and petitioning for early protection in order to obtain a revocation of the penalty imposed by the Brazilian Competition Authority (CADE) in the investigation of cargo airlines alleged fair trade violations, in particular the fuel surcharge.	This action was filed by presenting a guaranty – policy – in order to suspend the effects of the CADE's decision regarding the payment of the following fines: (i) ABSA: ThUS\$10,438; (ii) Norberto Jochmann: ThUS\$201; (iii) Herman Merino: ThUS\$ 102; (iv) Felipe Meyer :ThUS\$ 102. The action also deals with the affirmative obligation required by the CADE consisting of the duty to publish the condemnation in a widely circulating newspaper. This obligation had also been stayed by the court of federal justice in this process. Awaiting CADE's statement. ABSA began a judicial review in search of an additional reduction in the fine amount. At this time we cannot predict the final amount of the fine as the judicial review by the Federal Court Judge is still pending.	11,828

Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
Aerolinhas Brasileiras S.A.	Federal Justice.	0001872-58.2014.4.03.6105	An annulment action with a motion for preliminary injunction was filed on 28/02/2014, in order to cancel tax debts of PIS, CONFINS, IPI and II, connected with the administrative process 10831.005704/2006.43.	We have been waiting since August 21, 2015 for a statement by Serasa on TAM's letter of indemnity and a statement by the Union. The statement was authenticated on January 29, 2016. A petition on evidence and replications were filed on June 20, 2016. A new insurance policy was submitted on March 3, 2016 with the change to the guarantee requested by PGFN, which was declared on June 3, 2016. A decision is pending.	15,811
Tam Linhas Aéreas S.A.	Department of Federal Revenue of Brazil	19515.720476/2015-83	Alleged irregularities in the SAT payments for the periods 01/2011 to 12/2012	A judgment by CARF is pending since April 12, 2016.	66,258
Tam Linhas Aéreas S.A.	Court of the Second Region.	2001.51.01.012530-0	Ordinary judicial action brought for the purpose of declaring the nonexistence of legal relationship obligating the company to collect the Air Fund.	Unfavorable court decision in first instance. Currently expecting the ruling on the appeal filed by the company. In order to suspend chargeability of Tax Credit a Guaranty Deposit to the Court was delivered for MUS\$106. The court decision requesting that the Expert make all clarifications requested by the parties in a period of 30 days was published on March 29, 2016. The plaintiffs' submitted a petition on June 21, 2016 requesting acceptance of the opinion of their consultant and an urgent ruling on the dispute. No amount additional to the deposit that has already been made is required if this case is lost.	100,240
Tam Linhas Aéreas S.A.	Internal Revenue Service of Brazil.	10880.725950/2011-05	Compensation credits of the Social Integration Program (PIS) and Contribution for Social Security Financing (COFINS) Declared on DCOMPs.	The objection ( <i>manifestação de inconformidade</i> ) filed by the company was rejected, which is why the voluntary appeal was filed. The case was assigned to the 1st Ordinary Group of Brazil's Administrative Council of Tax Appeals (CARF) on June 8, 2015. TAM's appeal was included in the CARF session held August 25, 2016. An agreement that converted the proceedings into a formal case was published on October 7, 2016.	64,383

Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
Aerovías de Integración Regional, AIRE S.A.	United States Court of Appeals for the Eleventh Circuit, Florida, U.S.A.	2013-20319 CA 01	<p>The July 30<sup>th</sup> , 2012 Aerovías de Integración Recional, Aires S.A. ( LATAM AIRLINES COLOMBIA) initiated a legal process in Colombia against Regional One INC and Volvo Aero Services LLC, to declare that these companies are civilly liable for moral and material damages caused to LATAM AIRLINES COLOMBIA arising from breach of contractual obligations of the aircraft HK-4107.</p> <p>The June 20<sup>th</sup> , 2013 AIRE SA And / Or LATAM AIRLINES COLOMBIA was notified of the lawsuit filed in U.S. for Regional One INC and Dash 224 LLC for damages caused by the aircraft HK-4107 arguing failure of LATAM AIRLINES COLOMBIA customs duty to obtain import declaration when the aircraft in April 2010 entered Colombia for maintenance required by Regional One.</p>	<p>This case is being heard by the 45th Civil Court of the Bogotá Circuit in Colombia. The court issued an order on August 16, 2016 setting the hearing date pursuant to Article 101 for February 2, 2017. At that hearing, a reconciliation should have been attempted, the facts in dispute determined, interrogatories made and evidence admitted. At the petition of Regional One's attorneys on January 27, 2017, which was accepted by the respondent, the hearing to be held on February 2, 2017 was postponed. A reconciliation hearing was held on June 14, 2017 that failed. This commenced the evidentiary stage in which the legal representative of LATAM Airlines Colombia was interrogated. The judge must now decree which evidence must be presented and analyzed. The U.S. Federal Court for the State of Florida rendered a decision on March 26, 2014 sustaining the petition of Lan Colombia Airlines to stay the proceedings in the U.S. as long as the lawsuit in Colombia was pending. The U.S. Court also closed the case administratively. The Federal Court of Appeals confirmed the closing of the U.S. case on April 1, 2015. On October 13, 2015, Regional One filed a petition with the U.S. Court seeking a reopening of the case. Lan Colombia Airlines presented its arguments for keeping the case closed, which were sustained by the Court on August 23, 2016. The case in the U.S. continues to be closed.</p>	12,443

Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
Tam Linhas Aéreas S.A.	Internal Revenue Service of Brazil	10880.722.355/2014-52	On August 19th, 2014 the Federal Tax Service issued a notice of violation stating that compensation credits Program (PIS) and the Contribution for the Financing of Social Security COFINS by TAM are not directly related to the activity of air transport.	An administrative objection was filed on September 17th, 2014. A first-instance ruling was rendered on June 1, 2016 that was partially favorable. The separate fine was revoked. A voluntary appeal was filed on June 30, 2016, which is pending a decision by CARF. On January 9, 2016, the case was referred to the Second Division, Fourth Chamber, of the Third Section of the Administrative Council of Tax Appeals (CARF).	73,890
Tam Viagens S.A.	Department of Finance to the municipality of São Paulo.	67.168.795 / 67.168.833 / 67.168.884 / 67.168.906 / 67.168.914 / 67.168.965	A claim was filed alleging infraction and seeking a fine because of a deficient basis for calculation of the service tax (ISS) because the company supposedly made incorrect deductions.	We received notice of the petition on December 22, 2015. The objection was filed on January 19, 2016. The company was notified on November 23, 2016 of the decision that partially sustained the interim infringement ruling. An ordinary appeal was filed on December 19, 2016 before the Municipal Tax Council of Sao Paulo and a judgment is pending.	108,396
Tam Linhas Aéreas S.A.	Labor Court of São Paulo.	0001734-78.2014.5.02.0045	Action filed by the Ministry of Labor, which requires compliance with legislation on breaks, extra hours and others.	This case is in the initial stages. It could possibly impact both operations and employee work shift control. TAM won in the first instance, but the Prosecutor's Office has appealed the trial court's decision. That decision was sustained by the appellate court. A petition by the Prosecutor's Office for clarification is now pending before the courts. The Office of the Public Prosecutor withdrew the petition for clarification and the case was closed in favor of LATAM. Now pending are the measures pertaining to lawsuit management so that transfer to the court is declared.	16,170

Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
TAM S.A.	Conselho Administrativo de Recursos Fiscais.	13855.720077/2014- 02	Notice of an alleged infringement presented by Secretaria da Receita Federal do Brasil requiring the payment of IRPJ and CSLL, taxes related to the income earned by TAM on March, 2011, in relation of the reduction of the statute capital of Multiplus S.A.	On January 12, 2014, it was filed an appeal against the object of the notice of infringement. Currently, the company is waiting for the court judgment regarding the appeal filed in the Conselho Administrativo de Recursos Fiscais (CARF) The case will be put into the system again for re-assignment for hearing and reporting because of the departure of Eduardo de Andrade, a CARF council member. The decision was against TAM. The lawsuit was on August 13, 2017. The administrative court's decision was that TAM Linhas Aereas must pay Corporate Income Tax (IRPJ) and the Social Contribution based on Net Profits (CSLL). The Company was summoned to hear a decision on December 18, 2017. TAM filed an appeal on December 28, 2017 and must now await the appellate decision.	149,031
TAM Linhas Aéreas S.A.	Sao Paulo Labor Court, Sao Paulo	1001531- 73.2016.5.02.0710	The Ministry of Labor filed an action seeking that the company adapt the ergonomics and comfort of seats.	In August 2016, the Ministry of Labor filed a new lawsuit before the competent Labor Court in Sao Paulo, in the same terms as case 0000009-45.2016.5.02.090, as previously reported. The judgment is pending. (16/02/2018).	17,230

Company	Court		Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
LATAM Airlines Group S.A.	22°	Civil Court of Santiago	C-29.945-2016	The Company received notice of a civil liability claim by Inversiones Ranco Tres S.A. on January 18, 2017. It is represented by Mr. Jorge Enrique Said Yarur. It was filed against LATAM Airlines Group S.A. for an alleged contractual default by the Company and against Ramon Eblen Kadiz, Jorge Awad Mehech, Juan Jose Cueto Plaza, Enrique Cueto Plaza and Ignacio Cueto Plaza, directors and officers, for alleged breaches of their duties. In the case of Juan Jose Cueto Plaza, Enrique Cueto Plaza and Ignacio Cueto Plaza, it alleges a breach, as controllers of the Company, of their duties under the incorporation agreement. LATAM has retained legal counsel specializing in this area to defend it.	The claim was answered on March 22, 2017 and the plaintiff filed its replication on April 4, 2017. LATAM filed its rejoinder on April 13, 2017, which concluded the argument stage of the lawsuit. A reconciliation hearing was held on May 2, 2017, but the parties did not reach an agreement. The Court issued the evidentiary decree on May 12, 2017. We filed a petition for reconsideration because we disagreed with certain points of evidence. That petition was partially sustained by the Court on June 27, 2017. The evidentiary stage commenced and then concluded on July 20, 2017. Observations to the evidence must now be presented. That period expires August 1, 2017. We filed our observations to the evidence on August 1, 2017. We were served the decision on December 13, 2017 that dismissed the claim since LATAM was in no way liable. The plaintiff filed an appeal on December 26, 2017. Now pending is the admission of the appeal by the Court of Appeals.	21,547
TAM Linhas Aéreas S.A.	10th	Jurisdiction of Federal Tax Enforcement of Sao Paulo	0020869-47.2017.4.03.6182	Tax Enforcement Lien No. 0061196-68.2016.4.03.6182 on Profit-Based Social Contributions from 2004 to 2007.	This tax enforcement was referred to the 10th Federal Jurisdiction on February 16, 2017. A petition reporting our request to submit collateral was recorded on April 18, 2017. At this time, the period is pending for the plaintiff to respond to our petition.	42,548
TAM Linhas Aéreas S.A.	Federal Bureau	Revenue	10880.900360/2017-55	A claim regarding the negative Company Income Tax (IRPJ) balance. Appraisals of compensation that were not accepted.	The case was referred to the National Claims Management Center of the Federal Revenue Bureau for Sao Paulo on May 11, 2017.	15,910

Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
TAM Linhas Aéreas S.A.	Internal Revenue Service of Brazil	16643.000085/2009-47	Notice of claim to recover income taxes and social contributions paid on the basis of net profits (SCL) according to the royalty expenses and use of the TAM trademark.	Before the Internal Revenue Service of Brazil. A service of process is expected in the lawsuit on admissibility of the special appeal, filed by the General Counsel of the National Treasury, as well as notification of the decision rendered by the Administrative Council of Tax Appeals (CARF). The decision was made to file a lawsuit on December 5, 2017.	17,657
TAM Linhas Aéreas S.A.	Internal Revenue Service of Brazil	10831.012344/2005-55	Notice of an infringement filed by the Company to request the import tax (II), the Social Integration Program (PIS) of the Social Security Funding Contribution (COFINS) as a result of an unidentified international cargo loss.	Before the Internal Revenue Service of Brazil. The administrative decision was against the company. The matter is pending a decision by the CARF.	17,844
TAM Linhas Aéreas S.A.	Treasury Department of the State of Sao Paulo	3.123.785-0	Notice of an infringement to demand payment of the tax on the circulation of merchandise and services (ICMS) assessable on aircraft imports.	Before the Treasury Department of the State of Sao Paulo. A decision is now pending on the appeal that the company has filed with the Federal Supreme Court (STF).	14,647
TAM Linhas Aéreas S.A.	Treasury Department of the State of Sao Paulo	4.037.054	Action brought by the Treasury Department of the State of Sao Paulo because of non-payment of the tax on the circulation of merchandise and services (ICMS) in relation to telecommunications services.	Before the Treasury Department of the State of Sao Paulo. Defensive arguments have been presented. The first-instance decision sustained all parts of the notice. We filed an ordinary appeal on which a decision is pending by the Sao Paulo Tax Court.	10,808
TAM Linhas Aéreas S.A.	DERAT SPO (Delegacia de Receita Federal)	13808.005459/2001-45	Collection of the Social Security Funding Contribution (COFINS) based on gross revenue of the company in the period 1999-2000	The decision on collection was pending through June 2, 2010.	27,226

Company	Court		Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
Pantanal Linhas Aéreas S.A.	Tax Enforcement Court		0253410-30.2012.8.26.0014	A lawsuit seeking enforcement of the fine and ICMS.	A decision is pending on the appeal.	10,877
TAM Linhas Aéreas S.A.	Federal Bureau	Revenue	10880.938.664/2016-12	An administrative lawsuit about compensation not being proportional to the negative corporate income tax balance.	A decision is pending by CARF on the appeal.	27,369
TAM Linhas Aéreas S.A.	Vara das execuções fiscais.		1997.0002503-9	This is a tax collection claim for a customs fine— forfeiture of the temporary customs clearance of goods (new lawsuit).	Collateral insurance was offered in 2016 and accepted by the Ministry of Finance in a petition made November 9, 2016. The defensive arguments were presented (attachments against the tax collection) and the decision was favorable to TAM, which makes the payment of a fine more unlikely for TAM. Now pending in the lawsuit is a decision in the appeal made by the Ministry of Finance.	9,983
TAM Linhas Aéreas S.A.	Delegacia de Receita Federal		10611.720630/2017-16	This is an administrative claim about a fine for the incorrectness of an import declaration (new lawsuit).	The administrative defensive arguments were presented September 28, 2017.	22,253
TAM Linhas Aéreas S.A.	Delegacia de Receita Federal		10611.720852/2016-58	An improper charge of the Contribution for the Financing of Social Security (COFINS) on an import (new lawsuit).	We are currently awaiting a decision. There is no predictable decision date because it depends on the court of the government agency.	16,079
TAM Linhas Aéreas S.A.	Delegacia de Receita Federal		16692.721.933/2017-80	The Internal Revenue Service of Brazil issued a notice of violation because TAM applied for credits offsetting the contributions for the Social Integration Program (PIS) and the Social Security Funding Contribution (COFINS) that do not bear a direct relationship to air transport (new claim).	We are awaiting the presentation of an administrative defense.	34,321



Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
SNEA (Sindicato Nacional das empresas aeroviárias)	União Federal	0012177-54.2016.4.01.3400	A claim against the 72% increase in airport control fees (TAT-ADR) and approach control fees (TAT-APP) charged by the Airspace Control Department (“DECEA”).	A decision is now pending on the appeal presented by SNEA.	23.118
TAM Linhas Aéreas S/A	União Federal	2001.51.01.020420-0	TAM and other airlines filed a recourse claim seeking a finding that there is no legal or tax basis to be released from collecting the Additional Airport Fee (“ATAERO”).	A decision by the superior court is pending. The amount is indeterminate because even though TAM is the plaintiff, if the ruling is against it, it could be ordered by the trial judge to pay certain fees.	-0-

- In order to deal with any financial obligations arising from legal proceedings in effect at December 31, 2017, whether civil, tax, or labor, LATAM Airlines Group S.A. and Subsidiaries, has made provisions, which are included in Other non-current provisions that are disclosed in Note 21.

- The Company has not disclosed the individual probability of success for each contingency in order to not negatively affect its outcome.

(\*) The Company has reported the amounts involved only for the lawsuits for which a reliable estimation can be made of the financial impacts and of the possibility of any recovery, pursuant to Paragraph 86 of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

## II. Governmental Investigations.

- 1) On July 25, 2016, LATAM reached agreements with the U.S. Department of Justice (“DOJ”) and the U.S. Securities and Exchange Commission (“SEC”) regarding the investigation of payments for US\$1,150,000 by Lan Airlines S.A. in 2006-2007 to a consultant advising it in the resolution of labor matters in Argentina.

The purpose of the investigation was to determine whether these payments violated the U.S. Foreign Corrupt Practices Act (“FCPA”) that: (i) forbids bribery of foreign government authorities in order to obtain a commercial advantage; and (ii) requires the companies that must abide by the FCPA to keep appropriate accounting records and implant an adequate internal control system. The FCPA is applicable to LATAM because of its ADR program in effect on the U.S. securities market.

After an exhaustive investigation, the DOJ and SEC concluded that there was no violation of the bribery provisions of the FCPA, which is consistent with the results of LATAM’s internal investigation. However, the DOJ and SEC consider that LAN accounted for these payments incorrectly and, consequently, infringed the part of the FCPA requiring companies to keep accurate accounting records. These authorities also consider that LAN’s internal controls in 2006-2007 were weak, so LAN would have also violated the provisions in the FCPA requiring it to maintain an adequate internal control system.

The agreements signed, included the following:

- a) The agreement with the DOJ involves: (i) entering into a Deferred Prosecution Agreement (“DPA”), which is a public contract under which the DOJ files public charges alleging an infringement of the FCPA accounting regulations. LATAM is not obligated to answer these charges, the DOJ will not pursue them for a period of 3 years, and the DOJ will dismiss the charges after expiration of that 3-year period provided LATAM complies with all terms of the DPA. In exchange, LATAM must admit to the negotiated events described in the DPA and agree to pay the negotiated fine explained below and abide by other terms stipulated in the agreement; (ii) clauses in which LATAM admits that the payments to the consultant in Argentina were incorrectly accounted for and that at the time those payments were made (2006-2007), it did not have adequate internal controls in place; (iii) LATAM’s agreement to have an outside consultant monitor, evaluate and report to the DOJ on the effectiveness of LATAM’s compliance program for a period of 27 months; and LATAM’s agreement to continue evaluating and reporting directly to the DOJ on the effectiveness of its compliance program for a period of 9 months after the consultant’s work concludes; and (iv) LATAM paid a fine of ThUS\$ 12,750.
- b) The agreement with the SEC involves: (i) accepting a Cease and Desist Order, which is an administrative resolution of the SEC closing the investigation, in which LATAM will accept certain obligations and statements of fact that are described in the document; (ii) accepting the same obligations regarding the consultant mentioned above; and (iii) LATAM paid a fine of KUS\$6,744 and interest of ThUS\$ 2,694.

Nothing is owed to the SEC at this time as ThUS\$ 4,719 was paid in July 2017.

LATAM continued to cooperate with the Chilean authorities on this matter. The investigation continues. The 7th Criminal Court set the hearing date for October 24, 2017, at the request of the Office of the Public Prosecutor. The Prosecutor has petitioned that the investigation be closed.

- 2) LATAM received six Requests for Information from the Central-North Metropolitan Region Legal Division, on October 25, 2016, on November 11, 2016, on March 8, 2017, on March 22, 2017, on July 7, 2017 and the last on August 28, 2017. It requested information related to the investigation of payments made by LAN Airlines in 2006 and 2007 to a consultant who advised it on the resolution of labor matters in Argentina. It also requested an explanation of information provided to the market. The five requests have already been answered and the requested information has been provided. The 7th Criminal Court set the hearing date for October 24, 2017 at the request of the Public Prosecutor. A reopening of the investigation was denied at that hearing and that denial was confirmed by the Santiago Court of Appeals on November 20, 2017.
- 3) The ecuatorian airline affiliate, LATAM Airlines Ecuador was given notice on August 26, 2016 of an investigation of LATAM Airlines Ecuador and two other airlines begun, at its own initiative, by one of the Investigative Departments of the Ecuadoran Market Power Control Commission, limited to alleged signs of conscious parallelism in relation to specific fares on one domestic route in Ecuador from August 2012 to February 2013. The Investigative Prefecture has 180 days (through February 21, 2017) to issue a report on whether to quash the investigation or file charges against two or more of the parties involved. That period can be extended for another 180 days. A proceeding would begin only if the decision is made to file charges. The Commission extended the term of the investigation for another 180 days (through August 18, 2017) LATAM Airlines Ecuador is cooperating with the authority and has retained a law firm and economist expert in the subject to advise the company during this process and any additional information requested will be furnished. We received notice on August 23, 2017 that the Market Regulatory Commission decided to quash the investigation against AEROLANE LÍNEAS AÉREAS NACIONALES DEL ECUADOR S.A. and two other airlines because there was insufficient information to charge them. This decision is final.

#### NOTE 32 – COMMITMENTS

##### (a) Loan covenants

With respect to various loans signed by the Company for the financing of Boeing 767, 767F, 777F and 787 aircraft, which carry the guarantee of the United States Export-Import Bank, limits have been set on some of the Company's financial indicators on a consolidated basis, for which, in any case non-compliance does not generate acceleration of the loans.

Moreover, and related to these same contracts, restrictions are also in place on the Company's management in terms of its ownership, in relation to the ownership structure and the controlling group, and disposal of the assets which mainly refers to important transfers of assets.

The Company and its subsidiaries do not maintain financial credit contracts with banks in Chile that indicate some limits on financial indicators of the Company or its subsidiaries.

The Revolving Credit Facility ("Revolving Credit Facility") with guaranteed aircraft, engines, spare parts and supplies for a total amount of US \$ 450 million includes restrictions of minimum liquidity measured at the level of the Consolidated Company and measured at the individual level for the companies LATAM Airlines Group S.A. and TAM Linhas Aéreas S.A. which remain stand by while the credit line is not used. This credit line established with a consortium of eleven banks led by Citibank, is not used as of December 31, 2017.

As of December 31, 2017, the Company is in compliance with all the indicators detailed above.

(b) Commitments under operating leases as lessee

Details of the main operating leases are as follows:

Lessor	Aircraft	As of December 31, 2017	As of December 31, 2016
ACS Aero 1 Alpha limited	Airbus A320	1	-
Aircraft 76B-26329 Inc.	Boeing 767	1	1
Aircraft 76B-27615 Inc.	Boeing 767	-	1
Aircraft 76B-28206 Inc.	Boeing 767	1	1
Aviación Centaurus, A.I.E.	Airbus A319	3	3
Aviación Centaurus, A.I.E.	Airbus A321	1	1
Aviación Real A.I.E.	Airbus A319	1	1
Aviación Real A.I.E.	Airbus A320	1	1
Aviación Tritón A.I.E.	Airbus A319	3	3
Avolon Aerospace AOE 19 Limited	Airbus A320	-	1
Avolon Aerospace AOE 20 Limited	Airbus A320	-	1
Avolon Aerospace AOE 6 Limited	Airbus A320	-	1
Avolon Aerospace AOE 62 Limited	Boeing 777	1	1
Avolon Aerospace AOE 100 Limited	Airbus A320	2	-
AWAS 5234 Trust	Airbus A320	1	1
Baker & Spice Aviation Limited	Airbus A320	1	1
Bank of America	Airbus A321	2	2
Bank of Utah	Boeing 787	2	-
CIT Aerospace International	Airbus A320	1	2
ECAF I 1215 DAC	Airbus A320	-	1
ECAF I 2838 DAC	Airbus A320	1	1
ECAF I 40589 DAC	Boeing 777	1	1
Eden Irish Aircr Leasing MSN 1459	Airbus A320	1	1
GECAS Sverige Aircraft Leasing Worldwide AB	Airbus A320	-	1
GFL Aircraft Leasing Netherlands B.V.	Airbus A320	-	1
IC Airlease One Limited	Airbus A321	1	1
JSA Aircraft 38484, LLC	Boeing 787	1	1
JSA Aircraft 7126, LLC	Airbus A320	1	1
JSA Aircraft 7128, LLC	Airbus A321	1	1
JSA Aircraft 7239, LLC	Airbus A321	1	1
JSA Aircraft 7298, LLC	Airbus A321	1	1
Macquarie Aerospace Finance 5125-2 Trust	Airbus A320	1	1
Macquarie Aerospace Finance 5178 Limited	Airbus A320	1	1

Lessor	Aircraft	As of December 31, 2017	As of December 31, 2016
Magix Airlease Limited	Airbus A320	-	1
MASL Sweden (8) AB	Airbus A320	-	1
Merlin Aviation Leasing (Ireland) 18 Limited	Airbus A320	1	1
Merlin Aviation Leasing (Ireland) 7 Limited	Airbus A320	1	-
NBB Cuckoo Co., Ltd	Airbus A321	1	1
NBB Grosbeak Co., Ltd	Airbus A321	1	1
NBB Redstart Co. Ltd	Airbus A321	1	1
NBB-6658 Lease Partnership	Airbus A321	1	1
NBB-6670 Lease Partnership	Airbus A321	1	1
Orix Aviation Systems Limited	Airbus A320	4	5
PAAL Aquila Company Limited	Airbus A321	2	2
PAAL Gemini Company Limited	Airbus A321	1	1
SASOF II (J) Aviation Ireland Limited	Airbus A319	-	1
Shenton Aircraft Leasing Limited	Airbus A320	1	1
Sky High XXIV Leasing Company Limited	Airbus A320	5	5
Sky High XXV Leasing Company Limited	Airbus A320	2	2
SMBC Aviation Capital Limited	Airbus A320	4	6
SMBC Aviation Capital Limited	Airbus A321	2	2
TC-CIT Aviation Ireland Limited	Airbus A320	-	1
Volito Aviation August 2007 AB	Airbus A320	2	2
Volito Aviation November 2006 AB	Airbus A320	2	2
Volito November 2006 AB	Airbus A320	2	2
Wells Fargo Bank North National Association	Airbus A319	2	3
Wells Fargo Bank North National Association	Airbus A320	-	2
Wells Fargo Bank Northwest National Association	Airbus A320	5	7
Wells Fargo Bank Northwest National Association	Airbus A350	2	2
Wells Fargo Bank Northwest National Association	Boeing 767	2	3
Wells Fargo Bank Northwest National Association	Boeing 777	4	6
Wells Fargo Bank Northwest National Association	Boeing 787	11	11
Wilmington Trust Company	Airbus A319	-	1
Total		93	111

The rentals are shown in results for the period for which they are incurred.

The minimum future lease payments not yet payable are the following:

	As of December 31, 2017 ThUS\$	As of December 31, 2016 ThUS\$
No later than one year	462,205	533,319
Between one and five years	1,620,253	1,459,362
Over five years	1,498,064	1,262,509
Total	3,580,522	3,255,190

The minimum operating lease payments charged to income are the following:

	2017	For the period ended December 31, 2016	2015
	ThUS\$	ThUS\$	ThUS\$
Minimum operating lease payments	579,551	568,979	525,134
Total	579,551	568,979	525,134

During 2017 two Airbus A320-200N were added for a period of twelve years each and two Airbus A319-100 aircraft, fifteen Airbus A320 aircraft were returned. On the other hand, two Boeing 787-9 aircraft were added for a period of twelve year each and one Boeing 767-300ER aircraft and one Boeing 767-300 Freighter aircraft were returned.

The operating lease agreements entered into by the Parent Company and its subsidiaries establish that aircraft maintenance must be carried out in accordance with the technical provisions of the manufacturer and in the margins agreed in the contracts with the lessor, a cost assumed by the lessee. Additionally, for each aircraft, the lessee must purchase policies that cover the associated risk and the amount of the assets involved. As for the rent payments, these are unrestricted and cannot be netted from other accounts receivable or payable by the lessor and the lessee.

At December 31, 2017 the Company has existing letters of credit related to operating leasing as follows:

Creditor Guarantee	Debtor	Type	Value ThUS\$	Release date
GE Capital Aviation Services Limited	Lan Cargo S.A.	One letter of credit	1,100	Nov 30, 2018
ACS Aero 1 Alpha Limited	LATAM Airlines Group S.A.	One letter of credit	3,255	Aug 31, 2018
Bank of America	LATAM Airlines Group S.A.	Three letter of credit	1,043	Jul 2, 2018
Bank of Utah	LATAM Airlines Group S.A.	One letter of credit	2,000	Mar 24, 2019
Engine Lease Finance Corporation	LATAM Airlines Group S.A.	One letter of credit	4,750	Oct 8, 2018
GE Capital Aviation Services Ltd.	LATAM Airlines Group S.A.	Six letter of credit	22,105	Apr 30, 2018
International Lease Finance Corp	LATAM Airlines Group S.A.	Three letter of credit	1,450	Aug 5, 2018
ORIX Aviation Systems Limited	LATAM Airlines Group S.A.	Two letter of credit	7,366	Dec 11, 2018
Wells Fargo Bank	LATAM Airlines Group S.A.	Nine letter of credit	15,160	Mar 2, 2018
CIT Aerospace International	Tam Linhas Aéreas S.A.	One letter of credit	6,000	Oct 25, 2018
Wells Fargo Bank North N.A.	Tam Linhas Aéreas S.A.	One letter of credit	5,500	Jul 15, 2018
			69,729	

## (c) Other commitments

At December 31, 2017 the Company has existing letters of credit, certificates of deposits and warranty insurance policies as follows:

Creditor Guarantee	Debtor	Type	Value ThUS\$	Release date
Servicio Nacional de Aduana del Ecuador	Líneas Aéreas Nacionales del Ecuador S.A.	Three letter of credit	1,705	Aug 5, 2018
Corporación Peruana de Aeropuertos y Aviación Comercial	Lan Perú S.A.	Twenty five letter of credit	1,897	Jan 31, 2018
Lima Airport Partners S.R.L.	Lan Perú S.A.	Eighteen letter of credit	996	Apr 30, 2018
Superintendencia Nacional de Aduanas y de Administración Tributaria	Lan Perú S.A.	Ten letter of credit	80,000	Jan 21, 2018
Aena Aeropuertos S.A.	LATAM Airlines Group S.A.	Four letter of credit	2,809	Nov 15, 2018
American Alternative Insurance Corporation	LATAM Airlines Group S.A.	Six letter of credit	3,690	Apr 5, 2018
Comisión Europea	LATAM Airlines Group S.A.	One letter of credit	9,868	Jun 16, 2018
Deutsche Bank A.G.	LATAM Airlines Group S.A.	One letter of credit	15,000	Mar 31, 2018
Dirección General de Aeronáutica Civil	LATAM Airlines Group S.A.	Fifty three letter of credit	19,759	Feb 28, 2018
Empresa Pública de Hidrocarburos del Ecuador EP Petroecuador	LATAM Airlines Group S.A.	One letter of credit	5,500	Jun 18, 2018
Metropolitan Dade County	LATAM Airlines Group S.A.	Eight letter of credit	2,273	Mar 13, 2018
4ª Vara Mista de Bayeux	Tam Linhas Aéreas S.A.	One insurance policies guarantee	1,044	Mar 25, 2021
Conselho Administrativo de Conselhos Federais	Tam Linhas Aéreas S.A.	One insurance policies guarantee	12,703	May 19, 2020
Fundação de Proteção de Defesa do Consumidor Procon	Tam Linhas Aéreas S.A.	Two insurance policies guarantee	3,926	Apr 1, 2021
União Federal	Tam Linhas Aéreas S.A.	One insurance policies guarantee	6,604	Oct 20, 2021
União Federal -Fazenda Nacional	Tam Linhas Aéreas S.A.	One insurance policies guarantee	41,243	Jul 30, 2020
União Federal - Procuradoria - Gral da fazenda Nacional	Tam Linhas Aéreas S.A.	Four insurance policies guarantee	50,196	Jan 4, 2020
União Federal Vara Comarca de DF	Tam Linhas Aéreas S.A.	One insurance policies guarantee	1,551	Sep 28, 2021
União Federal Vara Comarca de SP	Tam Linhas Aéreas S.A.	One insurance policies guarantee	19,268	Feb 22, 2021
			<u>280,032</u>	

NOTE 33 - TRANSACTIONS WITH RELATED PARTIES

(a) Details of transactions with related parties as follows:

Tax No.	Related party	Nature of relationship with related parties	Country of origin	Nature of related parties transactions	Currency	Transaction amount with related parties As of December 31,		
						2017 ThUS\$	2016 ThUS\$	2015 ThUS\$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA.	Related director	Chile	Tickets sales	CLP	18	6	15
65.216.000-K	Comunidad Mujer	Related director	Chile	Tickets sales	CLP	14	9	2
				Services provided for advertising	CLP	-	(12)	(10)
78.591.370-1	Bethia S.A and subsidiaries	Related director	Chile	Services received of cargo transport	CLP	1,643	(394)	(259)
				Services received from National and International Courier	CLP	(382)	(285)	(227)
				Services provided of cargo transport	CLP	(17)	192	30
65.216.000-K	Viajes Falabella Ltda.	Related director	Chile	Sales commissions	CLP	(761)	(727)	(50)
79.773.440-3	Transportes San Felipe S.A	Related director	Chile	Services received of transfer of passengers	CLP	-	(84)	(127)
				Tickets sales	CLP	1	3	7
87.752.000-5	Granja Marina Tornagaleones S.A.	Common shareholder	Chile	Tickets sales	CLP	72	76	117
Foreign	Consultoría Administrativa Profesional S.A. de C.V.	Associate	Mexico	Professional counseling services received	MXN	(2,357)	(2,563)	(1,191)
Foreign	Inversora Aeronáutica Argentina	Related director	Argentina	Leases as lessor	ARS	(251)	(264)	(269)
				Revenue billboard advertising maintaining	US\$	-	-	1
Foreign	TAM Aviação Executiva e Taxi Aéreo S/A	Related director	Brazil	Services provided	BRL	45	(120)	(61)
				Services received at airports	BRL	(39)	7	5
Foreign	Qatar Airways	Indirect shareholder	Qatar	Services provided by aircraft lease	US\$	31,707	-	-
				Interlineal received service	US\$	(2,139)	-	-
				Interlineal provided service	US\$	5,279	-	-
				Services provided of handling	US\$	1,002	-	-

The balances of Accounts receivable and accounts payable to related parties are disclosed in Note 9.

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



(b) 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 (Senior).

		For the period ended December 31,	
	2017	2016	2015
	ThUS\$	ThUS\$	ThUS\$
Remuneration	17,826	16,514	17,185
Management fees	468	556	547
Non-monetary benefits	740	778	864
Short-term benefits	36,970	23,459	19,814
Share-based payments	13,173	8,085	10,811
Total	69,177	49,392	49,221

NOTE 34 - SHARE-BASED PAYMENTS

(a) Compensation plan for increase of capital

Compensation plans implemented by providing options for the subscription and payment of shares that have been granted by LATAM Airlines Group S.A. to employees of the Company and its subsidiaries, are recognized in the financial statements in accordance with the provisions of IFRS 2 "Share-based Payment", showing the effect of the fair value of the options granted under compensation in linear between the date of grant of such options and the date on which these irrevocable.

(a.1) Compensation plan 2011

On December 21, 2016, the subscription and payment period of the 4,800,000 shares corresponding to the compensation plan approved at the Extraordinary Shareholders' Meeting held on December 21, 2011, expired.

Of the total shares allocated to the 2011 Compensation Plan, only 10,282 shares were subscribed and paid, having been placed on the market in January 2014. In view of the above, at the expiration date, the 2011 Compensation Plan had a balance of 4,789,718 shares pending of subscription and payment, which was deducted from the authorized capital of the Company.

	Number of Stock Options In share-based payment arrangements			
Periods	Opening balance	Options waived by executives	Expired Action Options	Closing Balance
From January 1 to December 31, 2016	4,518,000	(4,172,000)	(346,000)	-
From January 1 to December 31, 2017	-	-	-	-

These options was valued and recorded at fair value at the grant date, determined by the "Black-Scholes-Merton". No result has been recognized as of December 2017 (ThUS\$ 2,989 at December 31, 2016).

(a.2) Compensation plan 2013

At the Extraordinary Shareholders' Meeting held on June 11, 2013, the Company's shareholders approved motions including increasing corporate equity, of which 1,500,000 shares were allocated to compensation plans for employees of the Company and its subsidiaries, in conformity with the stipulations established in Article 24 of the Corporations Law. With regard to this compensation, a defined date for implementation does not exist.

(b) Compensation plan 2016-2018

The company implemented a retention plan long-term for executives, which lasts until December 2018, with a vesting period between October 2018 and March 2019, which consists of an extraordinary bonus whose calculation formula is based on the variation the value to experience the action of LATAM Airlines Group S.A. for a period of time.

This benefit is recognized in accordance with the provisions of IFRS 2 "Share-based Payments" and has been considered as cash settled award and therefore recorded at fair value as a liability, which is updated to the closing date of each financial statement with effect on profit or loss.

Periods	Base Units				Closing Balance
	Opening balance	Granted	Annulled	Exercised	
From January 1 to December 31, 2016	4,719,720	-	-	-	4,719,720
From January 1 to December 31, 2017	4,719,720	37,359	(1,193,286)	(630,897)	2,932,896

The fair value has been determined on the basis of the best estimate of the future value of the Company share multiplied by the number of units granted bases.

At December 31, 2017, the carrying amount of ThUS\$ 13,173, is classified under "Administrative expenses" in the Consolidated Statement of Income by Function.

(c) Subsidiaries compensation plans

(c.1) Stock Options

Multiplus S.A., subsidiaries of TAM S.A., have outstanding stock options at December 31, 2017, which amounted to 316,025 shares (at December 31, 2016, the distribution of outstanding stock options amounted to 394,698 for Multiplus S.A.).

Multiplus S.A.

Description	3rd Grant	4th Grant	4th Extraordinary Grant	Total
	03/21/2012	04/03/2013	11/20/2013	
Outstanding option number as December 31, 2016	84,249	173,399	137,050	394,698
Outstanding option number as December 31, 2017	84,249	163,251	68,525	316,025

For Multiplus S.A., the plan's terms provide that the options granted to the usual prizes are divided into three equal parts and employees may exercise one-third of their two, three and four, options respectively, as long as they keep being employees of the company. The agreed term of the options is seven years after the grant of the option. The first extraordinary granting was divided into two equal parts, and only half of the options may be exercised after three years and half after four years. The second extraordinary granting was also divided into two equal parts, which may be exercised after one and two years respectively.

The acquisition of the share's rights, in both companies is as follows:

Company	Number of shares Accrued options		Number of shares Non accrued options	
	As of December 31, 2017	As of December 31, 2016	As of December 31, 2017	As of December 31, 2016
Multiplus S.A.	-	-	316,025	394,698

In accordance with IFRS 2 - Payments based on shares, the fair value of the option must be recalculated and recorded in the liability of the Company, once cash payment is made (cash-settled). The fair value of these options was calculated using the "Black-Scholes-Merton" method, where the assumptions were updated with information from LATAM Airlines Group S.A. As of December 31, 2017 and December 31, 2016 there is no value recorded in liabilities and results.

#### (c.2) Payments based on restricted stock

In May of 2014 the Management Council of Multiplus S.A. approved a plan to grant restricted stock, a total of 91,103 ordinary, registered book entry securities with no face value, issued by the Company to beneficiaries.

The quantity of restricted stock units was calculated based on employees' expected remunerations divided by the average price of shares in Multiplus S.A. traded on the BM&F Bovespa exchange in the month prior to issue, April of 2014. This benefits plan will only grant beneficiaries the right to the restricted stock when the following conditions have been met:

- Compliance with the performance goal defined by this Council as return on Capital Invested.
- The Beneficiary must remain as an administrator or employee of the Company for the period running from the date of issue to the following dates described, in order to obtain rights over the following fractions: (i) 1/3 (one third) after the 2nd year from the issue date; (ii) 1/3 (one third) after the 3rd year from the issue date; (iii) 1/3 (one third) after the 4th year from the issue date.

Number shares in circulation

	Opening balance	Granted	Exercised	Not acquired due to breach of employment retention conditions	Closing balance
From January 1 to December 31, 2016	175,910	138,282	(15,811)	(60,525)	237,856
From January 1 to December 31, 2017	237,856	129,218	(41,801)	(15,563)	309,710

NOTE 35 - STATEMENT OF CASH FLOWS

(a) The Company has done significant non-cash transactions mainly with financial leases, which are detailed in Note 17 letter (d), additional information in numeral (iv) Financial leases.

(b) Other inflows (outflows) of cash:

	For the periods ended December 31,		
	2017 ThUS\$	2016 ThUS\$	2015 ThUS\$
Guarantees	59,988	(51,559)	(2,125)
Fuel hedge	19,862	(50,029)	(243,587)
DOJ fine	-	(12,750)	-
SEC agreement	-	(4,719)	-
Fuel derivatives premiums	(2,832)	(6,840)	(20,932)
Hedging margin guarantees	(4,201)	1,184	87,842
Tax paid on bank transaction	(6,635)	(10,668)	(7,176)
Bank commissions, taxes paid and other	(7,738)	(769)	(5,137)
Change reservation systems	(16,120)	-	11,000
Currency hedge	(17,798)	(39,534)	1,802
Court deposits	(33,457)	(33,635)	(6,314)
Others	-	50	-
Total Other inflows (outflows) Operation flow	<u>(8,931)</u>	<u>(209,269)</u>	<u>(184,627)</u>
Others deposits in guarantees	3,754	-	-
Recovery loans convertible into shares	-	8,896	20,000
Certificate of bank deposits	-	-	3,497
Tax paid on bank transaction	(2,594)	(3,716)	(12,921)
Others	(10,383)	(4,337)	-
Total Other inflows (outflows) Investment flow	<u>(9,223)</u>	<u>843</u>	<u>10,576</u>
Loan guarantee	80,615	(74,186)	-
Credit card loan manager	-	-	3,227
Early redemption of bonds TAM 2020	-	-	(15,328)
Guarantees bonds emission	-	-	(26,111)
Aircraft Financing advances	(26,214)	(125,149)	(28,144)
Settlement of derivative contracts	(40,695)	(29,828)	(35,891)
Others	-	-	2,490
Total Other inflows (outflows) Financing flow	<u>13,706</u>	<u>(229,163)</u>	<u>(99,757)</u>

(c) Dividends:

	For the periods ended December 31,		
	2017 ThUS\$	2016 ThUS\$	2015 ThUS\$
Latam Airlines Group S.A.	(20,766)	-	-
Multiplus S.A. (*)	(45,876)	(40,823)	(34,632)
Lan Perú S.A. (*)	-	(400)	(400)
Total dividends paid	<u>(66,642)</u>	<u>(41,223)</u>	<u>(35,032)</u>

(\*) Dividends paid to minority shareholders

d) Reconciliation of liabilities arising from financing activities:

Obligations with financial institutions	As of December 31, 2016 ThUS\$	Cash flows			Non-Flow Movements		As of December 31, 2017 ThUS\$
		Obtainment Capital ThUS\$	Payment Capital ThUS\$	Interest ThUS\$	Interest accrued and others ThUS\$	Reclassifications ThUS\$	
Loans to exporters	278,164	130,000	(99,719)	(7,563)	13,737	-	314,619
Bank loans	585,287	70,357	(345,552)	(21,127)	32,668	-	321,633
Guaranteed obligations	4,758,552	182,140	(486,599)	(154,072)	155,907	(419,085)	4,036,843
Other guaranteed obligations	256,420	-	(15,022)	(8,890)	9,667	-	242,175
Obligation with the public	1,309,345	1,055,167	(797,828)	(128,764)	146,146	-	1,584,066
Financial leases	1,022,361	-	(344,005)	(46,874)	58,937	419,085	1,109,504
Other loans	394,791	13,107	(124,688)	(22,434)	22,024	-	282,800
Total Obligations with financial institutions	<u>8,604,920</u>	<u>1,450,771</u>	<u>(2,213,413)</u>	<u>(389,724)</u>	<u>439,086</u>	<u>-</u>	<u>7,891,640</u>

(e) Advances of aircraft

Below are the cash flows associated with aircraft purchases, which are included in the statement of consolidated cash flow, in the item Purchases of properties, plants and equipment:

	For the periods ended December 31,	
	2017 MU\$	2016 MU\$
Increases (payments)	(205,143)	(170,684)
Recoveries	78,641	727,585
Total cash flows	<u>(126,502)</u>	<u>556,901</u>

NOTE 36 - THE ENVIRONMENT

LATAM Airlines Group S.A has a commitment to sustainable development seeking to generate value taking into account the governance, environmental and social aspects. The company manages environmental issues at a corporate level, centralized in the Sustainability Management. For the company to monitor and minimize its impact on the environment is a commitment of the highest level; where the continuous improvement and contribute to the solution of the global climate change problem, generating added value to the company and the region, are the pillars of its management.

One of the functions of the Sustainability Management in environmental issues, together with the various areas of the Company, is to ensure environmental compliance, implement a management system and environmental programs that comply with the requirements every day more. demanding worldwide; in addition to continuous improvement programs in their internal processes, which generate environmental, social and economic benefits and which are added to those currently carried out.

Within the sustainability strategy, the Environment dimension of LATAM Airlines Group S.A., is called Climate Change and is based on the goal of achieving world leadership in this area, and for which we work on the following aspects:

- i. Carbon footprint
- ii. Eco Efficiency
- iii. Sustainable Alternative Energy
- iv. Standards and Certifications

This is how, during 2017, the following initiatives have been carried out:

- Implementation of an Environmental Management System for the main operations of the company. It is highlighted that the company during 2016 has recertified its environmental management system in Miami facilities following the guidelines of the international standard ISO 14.001.
- Maintenance of the Stage 2 Certification of IATA Environmental Assessment (IEnvA) whose scope is the international flights operated from Chile, the most advanced level of this certification; being the first in the continent and one of the four airlines in the world that have this certification.
- Preparation of the environmental chapter for the sustainability report of the company, which allows to measure progress in environmental issues.
- Answer to the questionnaire of the DJSI.
- Measurement and external verification of the Corporate Carbon Footprint.
- Neutralization of land operations in the operations of Colombia and Peru with emblematic reforestation projects in the respective countries.

It is highlighted that in 2017, LATAM Airlines Group maintained its inclusion for the fourth consecutive year in the world category of the Dow Jones Sustainability Index, with only 3 airlines in the world belonging to this select group.

NOTE 37 - EVENTS SUBSEQUENT TO THE DATE OF THE FINANCIAL STATEMENTS

Subsequent to December 31, 2017 and until the date of issuance of these financial statements, there is no knowledge of other financial or other events that significantly affect the balances or their interpretation.

The consolidated financial statements of LATAM Airlines Group S.A. and Subsidiaries as of December 31, 2017, have been approved in an Extraordinary Board Meeting on March 14, 2018.

**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 annual report on its behalf.

Date: April 4, 2018

LATAM AIRLINES GROUP S.A.

By: /s/ Enrique Cueto

Name: Enrique Cueto

Title: Latam Airlines Group CEO





**BY-LAWS**  
**LATAM AIRLINES GROUP S.A.**

**SECTION ONE: Name, Registered Office and Purpose**

**Article 1:** A corporation is incorporated that will be governed by the rules applicable to open corporations and will be called LATAM Airlines Group S.A., although it may also indistinctively use the fictitious names of “LATAM Airlines”, “LATAM Airlines Group”, “LATAM Group”, “LAN Airlines”, “LAN Group” y/o “LAN”

**Article 2:** The Company will have its registered offices in the city of Santiago, borough of the same name, although it may establish agencies, branches, offices or establishments in other places in the country or abroad.

**Article 3:** The duration of the Company will be indefinite.

**Article 4:** The Company shall engage in:

- (a) the trade of any form of air and/or ground transportation, whether passenger, cargo, or mail, and of everything relating directly or indirectly to that activity, in the country or abroad, for its own account or others;
- (b) the rendering of services relating to the maintenance and repair of aircraft, whether own or third parties;
- (c) the development and exploitation of other activities derived from the business purpose and/or linked, related, cooperative or complementary thereto;
- (d) the trade and development of activities relating to travel, tourism and lodging; and
- (e) holding interests in companies of any type or kind that facilitate the business of the Company.

**SECTION TWO: Capital, Shares and Shareholders**

**Article 5:** The capital of the Company is US\$3,174,555,519.29, divided into 608,374,525 shares in one single series, with no par value. There are no special series of shares or privileges. The form of share certificates, their issuance, exchange, ruin, misplacement, replacement and other circumstances thereof as well as the transfer of shares shall be governed by the provisions in the Companies Law and its Regulations.



**Article 6:** Shareholders may stipulate agreements limiting the free transfer of shares, but those agreements shall be deposited with the Company and be available to other shareholders and interested third parties, and they shall be annotated in the shareholders registry in order to be valid.

### **SECTION THREE: Management**

**Article 7:** The Company will be managed by the Board of Directors that will be elected by the Shareholders Meeting.

**Article 8:** The Board will be comprised of nine members and will hold office for two years. Members may be reelected. There will be no need to be a shareholder in order to be a director. The Board will appoint a Chairman and a Vice Chairman from among its members. The Vice Chairman shall substitute for the Chairman in the event of the latter's absence or impediment. The Board of Directors may appoint an Interim Chairman whenever the Chairman and Vice Chairman are absent or suffer from an impediment. The absences or impediments behind such substitution shall not have to be proven to third parties.

**Article 9:** The entire Board of Directors shall be elected at the next Regular Shareholders Meeting to be held by the Company whenever there is a vacancy in a Directorship. The Board may appoint a replacement in the interim.

**Article 10:** Directors will be compensated for their office. Whether they will be compensated and the amount thereof will be determined annually by the Regular Shareholders Meeting.

**Article 11:** Board meetings shall be installed by the presence of a majority of Directors. Resolutions will be adopted by an absolute majority of the Directors present, save resolutions that require a higher majority according to the law or these by-laws.

Any tie shall be decided by the vote of the Chairman of the Meeting. The Chief Executive Officer of the Company shall act as Secretary or the person expressly appointed by the Board of Directors to that position.

**Article 12:** The Board shall hold regular meetings on the days and at the times it determines. In any case, it shall meet at least once a month. Special meetings may be held when they are convened specially by the Chairman together with two directors and/or at the request of an absolute majority of directors, in which case the meeting must necessarily be held.

**Article 13:** The Board represents the Company judicially and extrajudicially and shall be vested, in order to fulfill the business purpose, which shall not be necessary to prove to third parties, with all powers of administration and disposition that the Law, Regulations and these by-laws do not reserve for the shareholders meeting. There will be no need to grant any special power of attorney, including for those acts or contracts regarding which the laws require such an event, as provided in article 40 of the Law. The foregoing is without prejudice to the judicial representation pertaining to the Chief Executive Officer of the Company.



The Board of Directors may delegate part of its authority to the General Manager, Managers, attorneys of the Company, to one director or a committee of directors, and to other people for certain special purposes.

**Article 14.** The deliberations and resolutions of the Board of Directors shall be written down in a minutes book that will be signed on each occasion by the directors who attended the meeting and by the Secretary.

A director who wishes to circumvent his liability for any act or resolution of the Board shall have his opposition recorded in the minutes and that opposition shall be disclosed by the Chairman at the next Regular General Shareholders Meeting.

If a director die or be unable for any reason to sign the corresponding minutes, a record of that fact shall be left at the foot of the minutes.

The minutes shall be deemed approved as from the time they have been signed by the aforesaid persons, and from that moment the resolutions indicated therein may be implemented.

**Article 15:** The Company will have an Executive Vice President and a Manager, who will be the legal representative of the Company. Both positions will be appointed by the Board of Directors and may be held by one same person. The Executive Vice President shall have the powers conferred thereupon by the Board of Directors. The Manager shall have the powers delegated thereto by the Board of Directors, notwithstanding those corresponding thereto by the Law and in particular:

- (i) he shall represent the Company judicially with the powers listed in both subparagraphs of article seventh of the Code of Civil Procedure, which are deemed expressly set out.
- (ii) he shall execute and enter into all acts and contracts, whether civil, commercial, administrative or otherwise, conducive to the purposes of the Company within the limits on amount set by the Board; and
- (iii) generally, he shall implement resolutions of the Board and execute all acts for which he has been expressly delegated authority, in the form, amount and conditions that are determined. The Board shall appoint one or more persons who may individually validly represent the company in all notifications made thereto in absence of the Manager, which the interested party shall not have to evidence.



#### **SECTION FOUR: Shareholders Meetings**

**Article 16:** Shareholders shall meet in a regular meeting once a year between February 1 and April 30.

**Article 17:** Matters for a regular meeting are:

1. the annual appointment of the independent external auditors to examine the accounting, inventory, balance sheet and other financial statements of the Company;
2. the examination of the situation of the Company and of the reports by the external auditors and approval, amendment or rejection of the annual report, balance sheet and financial statements and exhibits;
3. the approval of the distribution of fiscal year profits and the payment of dividends;
4. the election or revocation of the board, liquidators and auditors of management;
5. the determination of the annual compensation of directors;
6. acknowledgement of the resolutions adopted by the Board in which there was opposition of one or more directors.
7. acknowledgement of the resolutions approving acts or contracts in which one or more directors had or have an interest personally or as the representative of another person; and
8. generally, any matter of corporate interest not reserved for a Special Shareholders Meeting.

**Article 18:** Matters for a Special Shareholders Meeting are:

1. the amendment of the Company's by-laws;
2. the issuance of bonds or debentures convertible to shares;
3. the grant of real or personal guarantees to secure third-party obligations when those third parties are not subsidiaries; and
4. the other matters surrendered to the debate thereof by the by-laws and the law.

**Article 19:** Notices of meetings shall be given by a prominent advertisement that will be published at least 3 times on different days in a newspaper in the corporate domicile determined by the meeting or, failing agreement, or when compliance therewith is impossible, in the Official Gazette, in the time, form and conditions determined by the Companies Regulations.



In addition to the preceding notice, a notice should be sent by mail to each shareholder a minimum of 15 days in advance of the date of the meeting, which shall contain a reference to the matters to be discussed thereat.

The notice shall mention the resolutions of the Board that the Meeting must study according to Article 44 of the Law. Meetings attended by all issued shares may be validly held even though the formalities required for notice have not been completed.

**Article 20:** Regular and Special Shareholders Meeting shall be validly installed by representatives of a majority of the issued shares. If that number is not present, a new notice will be given and the Regular or Special Shareholders Meeting will be validly installed by the shareholders attending.

Special Shareholders Meetings shall be held before a notary. Second notices may only be published once the meeting has failed under a first notice or second notice, as the case may be, and a new shareholders meeting shall be convened, regardless, within 45 days after the date set for the meeting that was not held under a first notice.

Notices shall be published in the same period indicated above.

**Article 21:** Resolutions of both Regular and Special Shareholders Meeting shall be adopted by the affirmative vote of at least an absolute majority of the shares represented at the meeting. In any case, the resolutions indicated in the second subparagraph of article 67 of the Companies Law shall require the affirmative vote of two-thirds of the issued and voting shares. Only shareholders registered in the Shareholders Registry five days in advance of the date of the respective meeting may attend meetings and exercise their right to speak and vote. Directors shall be elected in one single voting, and the persons who earn the nine highest majorities shall be deemed elected. Shareholders may distribute their votes among candidates in the manner they deem convenient. In order to proceed with voting, save unanimously resolution otherwise, the Chairman and Secretary, together with the persons previously designated by the meeting to sign the minutes thereof, shall record in a document the votes that are cast out loud by the shareholders present, in the order of the attendance list. Any shareholder shall have the right, however, to vote on a ballot signed thereby, stating whether he signs personally or on behalf of another.

Notwithstanding the foregoing, in order to facilitate the conduct or quickness of the voting, the Chairman or the Superintendency, as the case maybe, may order that voting be taken alternatively and indistinctively out loud or by ballot. When counting votes from the annotations made by the aforesaid persons, the Chairman may read the votes out loud in order for all those present to calculate the votes themselves or to confirm the true outcome through such annotation and ballots.



The Secretary shall add up the votes and the Chairman shall proclaim the top majorities until completing the number to be elected.

The Secretary will put all papers in an envelope that he will close and seal by the company seal, which will be filed with the Company for at least two years.

**Article 22:** Shareholders may be represented at meetings by other shareholders or by third parties in the form and conditions set down in the Regulations. The proxy granted for the meeting not held shall be deemed valid for the new meeting held instead provided the first meeting was not held due to a lack of quorum.

**Article 23:** Attendees at meetings shall sign an attendance sheet that will indicate after their signature the number of shares held by the signatory, the number of shares represented by the signatory and the name of the principal.

**Article 24:** Deliberations and resolutions of Shareholders Meetings shall be set down in a Special Minutes Book that will be kept by the Secretary. Minutes will be signed by the Chairman or by his substitute, by the Secretary and by three Shareholders on behalf of attendees, elected by the meeting.

An abstract of the events of the meeting shall be written in minutes and the following data necessarily recorded: the name of the shareholders present, the number of shares owned or represented by each, a succinct account of any observations, an account of the motions submitted to discussion and the outcome of voting, and the list of shareholders who have voted against those motions, if anyone has requested nominal voting.

Only under the unanimous consent of attendees may the record of some event occurring at the meeting be eliminated from the minutes, provided it relates to corporate interests.

The minutes containing the election of directors shall indicate the names of all shareholders present and specify the number of shares voted by each, personally or on behalf of another, and the general outcome of the voting.

A copy of these minutes will be sent to the Superintendency of Securities and Insurance. The Company shall notify the Superintendency of the appointment of directors who are replaced within three business days.



## **SECTION FIVE: Annual Report, Balance Sheet and Profits**

**Article 25:** A General Balance Sheet of the Company's assets and liabilities shall be prepared as of December 31st of each year, which will contain the indications required by the laws and regulations.

**Article 26:** At the Regular General Shareholders Meeting, the Board of Directors shall advise shareholders of the status of the Company's business and present an annual report containing explanatory and analytical information on the transactions performed in the most recent fiscal year, accompanied by the general balance sheet, profit and loss statement and report presented by the external auditors.

All sums earned during the fiscal year by the Chairman and Director shall be placed in separate lines within the profit and loss accounts in such balance sheet.

**Article 27:** Dividends shall be paid exclusively against net profits from the fiscal year or retained earnings in balance sheets approved by the Shareholders Meeting. Should the Company have accumulated losses, profits earned in the fiscal year shall be first allocated to absorbing those losses. A cash dividend shall be paid annually to shareholders in proportion to their shares, amounting to at least 30% of the net profits from each fiscal year, save resolution otherwise adopted unanimously by the respective meeting.

**Article 28.** The annual report, balance sheet and inventory, minutes, books and other items supporting them and the report that the external auditors must present shall be available to shareholders for examination at the management's offices for 15 days prior to the date set for the Regular General Shareholders Meeting. For this purpose, the Company shall keep printed or typed copies of those documents in that office. The Company shall send each of the shareholders registered in the respective Registry a copy of the balance sheet and of the annual report of the Company on a date that is no later than the date of the first notice convening a Regular Shareholders Meeting, including the opinion of the auditors and the respective notes, all without prejudice to the provisions in the second and third subparagraphs of article 75 of the law.

**Article 29:** The Company shall publish the information determined by the Superintendency of Securities and Insurance on its duly audited general balance sheets and profit and loss statements in a widely circulated newspaper in the corporate domicile no less than 10 nor more than 20 days in advance of the date of the Regular Shareholders Meeting that will decide on them. In that same period, the Company shall submit the number of counterparts of such documents to the Superintendency of Securities and Insurance as determined thereby. If the balance sheet and profit and loss statements are modified by the meeting, the changes will be published in the same newspaper within 15 days following the date of the meeting, notwithstanding that they must also be sent to the Shareholders registered in the Registry. The balance sheet shall contain the name of the Chairman, directors, managers and indicate the share transactions performed by such individuals during the fiscal year.



**Article 30:** When the condition of corporate funds allow and the Board deems it convenient, interim dividends may be paid to Shareholders during the fiscal year on account of profits from that year, under the personal liability of directors approving the resolution, provided there are no cumulative losses.

#### **SECTION SIX: Audit of Management**

**Article 31:** The Regular Shareholders Meeting shall appoint independent external auditors annually to examine the accounting, inventories, balance sheets and other financial statements of the Company, under the obligation to report in writing on fulfillment of their mandate to the next Regular Shareholders Meeting.

#### **SECTION SEVEN: Arbitration**

**Article 32:** Any matter arising among shareholders as such or among them and the company or its managers shall be resolved without form of trial or further remedy by an arbitrator ex aequo et bono appointed by mutual consent of the parties involved, and failing consent, by the ordinary courts, in which case the arbitrator shall be a conciliator in regard to procedure and an arbiter in regard to the ruling. The appointment shall fall upon an attorney who is or has been a deputy justice of the Supreme Court of Justice for at least one year. Notwithstanding the foregoing, the plaintiff in any dispute may remove the hearing thereof from the venue of arbitrators and submit to the decision of the Ordinary Courts.

#### **TRANSITORY ARTICLES**

**Sole Transitory Article:** The capital of the Company is US\$3,174,555,519.29, divided into 608,374,525 shares in one single series, with no par value, which has been and will be subscribed and paid as follows:

(One) The sum of US\$ US\$3,146,265,152.04 divided into 606,407,693 shares, fully subscribed and paid in prior to this date.

(Two) The sum of US\$23,622,047.25, divided into 1,500,000 shares to be allocated to compensation plans for the employees of the Company and its subsidiaries, as provided in Article 24 of the Companies Law. These shares must be subscribed and paid no later than June 11, 2018. The Board was fully authorized: to create, implement and modify the stock option plans for subscription and payment of these shares in one or several stages; to make any relevant changes to the registration of such shares in the Securities Registry kept by the Securities and Insurance Commission; to enter into and amend option contracts; and to set and change the subscription price of these shares according to resolutions of the Special Shareholders Meeting delegating that authority, in accordance with the Companies Regulations. The shareholders do not enjoy a right of first refusal in regard to these shares, as provided in the third subparagraph of said Article 24. The price of these shares must be paid at once, at the time of subscription, in cash, by check, bank check, electronic money transfer or any other instrument or effect representing money payable upon demand;





(Three) The sum of US\$4,668,320, divided into 466,832 shares to be subscribed and paid on account of the capital increase approved at the Special Shareholders Meeting of the Company held on August 18, 2016, according with what was agreed at said Meeting, as applicable.

Regarding this capital increase, among others:

- a) These shares must be subscribed and paid before August 18, 2019;
- b) The price of these shares must be paid at once, at the moment of its subscription, in USD, either in cash or via electronic transfer of funds; or in CLP, the legal tender, according to the observed exchange rate that the Central Bank of Chile reports in the Official Journal of Chile on the date of said payment, either by check, bank draft, electronic transfer or by any other means or instrument representing money payable on demand;
- c) The shares are issued and registered in the Securities Registry of the Securities and Insurance Commission, with the N ° 1,048, dated November 11, 2016;
- d) These shares - which were already offered preferably to the shareholders and assignees of the options, at a price of US \$ 10 per share - may be offered to shareholders and / or third parties on the dates deemed pertinent by the Board, which has been broadly empowered to determine the procedures for the same.; and
- e) The Company's Board of Directors is amply empowered, within the framework of the resolutions adopted by the August 18 2016 Special Shareholders Meeting, to resolve the placement of these shares; to represent the Company or order that it be represented before any type of authority, entity or person, including, but not limited to, government, regulatory or oversight entities, stock exchanges or others related to the securities market; to grant the powers of attorney necessary or convenient to implement all or part of the foregoing; and, in general, to resolve all situations, modalities, supplements, amendments and details that may arise or be required in relation to this bylaw reform and related matters approved by the June 18, 2016 Special Shareholders Meeting.

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LATAM FINANCE LIMITED

as Issuer

LATAM AIRLINES GROUP S.A.

as Guarantor

and

THE BANK OF NEW YORK MELLON  
as Trustee, Registrar, Transfer Agent and Paying Agent

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**INDENTURE**

Dated as of April 11, 2017

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6.875% Senior Notes Due 2024

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EXHIBITS:

EXHIBIT A	—	Form of Note
EXHIBIT B	—	Form of Transfer Notice
EXHIBIT C	—	Form of Certificate for Transfer from Restricted Global Note or Certificated Note Bearing a Securities Act Legend to Regulation S Global Note or Certificated Note Not Bearing a Securities Act Legend
EXHIBIT D	—	Form of Transfer Certificate for Transfer from Regulation S Global Note or Certificated Note Not Bearing a Securities Act Legend to Restricted Global Note or Certificated Note Bearing a Securities Act Legend
EXHIBIT E	—	Form of Certificate for Removal of the Securities Act Legend on a Certificated Note

INDENTURE, dated as of April 11, 2017, among LATAM FINANCE LIMITED, an exempted company incorporated with limited liability in the Cayman Islands (the “**Company**”), LATAM AIRLINES GROUP S.A., an open stock corporation (*sociedad anónima abierta*) organized under the laws of Chile, as the guarantor (the “**Guarantor**”), and THE BANK OF NEW YORK MELLON, as Trustee, Registrar, Transfer Agent and Paying Agent.

RECITALS

The Company has duly authorized (i) the issue of 6.875% Senior Notes Due 2024 (the “**Initial Notes**” and, together with any Additional Notes, as hereinafter defined, the “**Notes**”), initially in an aggregate principal amount of U.S. \$700,000,000 and (ii) has duly authorized the execution and delivery of this Indenture.

All things necessary have been done to make the Notes when executed and authenticated and delivered hereunder and duly issued, the valid obligations of the Company, and to make this Indenture a valid agreement of the Company.

In addition, the Guarantor party hereto has duly authorized the execution and delivery of this Indenture as guarantor of the Notes.

The Guarantor has done all things necessary to make the Note Guaranty, when the Notes are executed by the Company and authenticated and delivered by the Trustee and duly issued by the Company, the valid obligations of the Guarantor, and to make this Indenture a valid agreement of the Guarantor.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Notes by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders, as follows:

ARTICLE 1  
DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

Section 1.01. *Definitions.*

“**Act**” when used with respect to any Holder, has the meaning specified in Section 1.05(b).

“**Additional Amounts**” has the meaning specified in Section 4.06(a).

“**Additional Notes**” means any notes issued under this Indenture in addition to the Initial Notes having the same terms in all respects as the Initial Notes except for the issue date, issue price and that interest will accrue on the Additional Notes from their date of issuance.

“**Affiliate**” means, with respect to any specified Person, (a) any other Person which, directly or indirectly, is in control of, is controlled by or is under common control with such specified Person or (b) any other Person who is a director or officer (i) of such specified Person, (ii) of any subsidiary of such specified Person or (iii) of any Person described in clause (a) above. For purposes of this definition, control of a Person means the power, direct or indirect, to direct or cause the direction of the management and policies of such Person whether by contract or otherwise, and the terms “**controlling**” and “**controlled**” have meanings correlative to the foregoing.

“**Affiliate Transaction**” has the meaning specified in Section 4.10.

“**Agents**” means each of the Registrar, the Transfer Agents and the Paying Agents, and each, individually, an “**Agent**.”

“**Applicable Procedures**” means the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

“**Authenticating Agent**” has the meaning specified in Section 2.02(b).

“**Authorized Denomination**” has the meaning specified in Section 2.02(a)(v).

“**Board of Directors**” means the Board of Directors of the Company or the Guarantor, as the case may be, or any committee thereof duly authorized to act on behalf of such Board of Directors.

“**Board Resolution**” means a copy of a resolution certified by the Secretary, the Assistant Secretary or another Officer or legal counsel performing corporate secretarial functions of the Company or the Guarantor, as the case may be, to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification and delivered to the Trustee.

“**Business Day**” means any day other than a Saturday, a Sunday or a legal holiday in the Cayman Islands, Chile or the United States or a day on which banking institutions or trust companies are authorized or obligated by law to close in the Cayman Islands, The City of New York or Santiago, Chile.

“**Capital Stock**” means, with respect to any Person, any and all shares of stock, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated, whether voting or non-voting) such person’s equity, including any preferred stock, but excluding any debt securities convertible into or exchangeable for such equity.

“**Cash Equivalents**” means:

- (i) Chilean pesos, U.S. Dollars, or money in other currencies received in the ordinary course of business that are readily convertible into U.S. Dollars;
- (ii) any evidence of Debt with a maturity of one year or less issued or directly and fully guaranteed or insured by Chile or the United States or any agency or instrumentality thereof, provided that the full faith and credit of Chile or the United States is pledged in support thereof;



(iii) (A) demand deposits, (B) time deposits and certificates of deposit with maturities of one year or less from the date of acquisition, (C) bankers' acceptances with maturities not exceeding one year from the date of acquisition, and (D) overnight bank deposits, in each case with any bank or trust company organized or licensed under the laws of Chile or any political subdivision thereof or the United States or any state thereof having capital, surplus and undivided profits in excess of U.S. \$500.0 million whose long-term debt is rated "AA-" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined under Rule 436 of the Securities Act);

(iv) repurchase obligations with a term of not more than seven days for underlying securities of the type described in clauses (ii) and (iii) above entered into with any financial institution meeting the qualifications specified in clause (iii) above;

(v) commercial paper rated at least F-1 by Fitch or A-1 by Standard & Poor's and maturing no later than one year after the date of acquisition; and

(vi) money market funds at least 95% of the assets of which consist of investments of the type described in clauses (i) through (v) above.

**"Cayman Islands"** means the Cayman Islands, a British Overseas Dependent Territory.

**"Certificated Note"** has the meaning specified in Section 2.01.

**"Change of Control"** means:

(i) the direct or indirect sale or transfer of all or substantially all the assets of LATAM Airlines Group S.A. and its Subsidiaries, taken as a whole, to any transferee Person other than the Permitted Holders, other than a transaction in which such transferee Person becomes the obligor in respect of the Notes and a Subsidiary of the transferor of such assets; or

(ii) the consummation of any transaction (including, without limitation, by merger, consolidation, acquisition or any other means) as a result of which any "person" or "group" (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act) other than the Permitted Holders is or becomes the "beneficial owner" (as such term is used in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of LATAM Airlines Group S.A.

**"Change of Control Event"** means the occurrence of both a Change of Control and a Ratings Decline.

**"Chile"** means the Republic of Chile.

**"Clearstream, Luxembourg"** means Clearstream Banking, *société anonyme*, Luxembourg.

**"Closing Date"** means April 11, 2017 or such later date on which the Notes are issued hereunder.

“**Code**” has the meaning specified in Section 2.03(e).

“**Company**” means LATAM Finance Limited until replaced by a successor thereof, and, thereafter, includes the successor for purposes of any provision contained herein.

“**Company Order**” means a written order signed in the name of the Company by an Officer.

“**Comparable Treasury Issue**” means the U.S. Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to April 11, 2021.

“**Comparable Treasury Price**” means with respect to any Date of Determination for Notes, the (A) arithmetic average of the Reference Treasury Dealer Quotations for such redemption date after excluding the highest and lowest Reference Treasury Dealer Quotations, or (B) if the Independent Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the arithmetic average of all Reference Treasury Dealer Quotations for such redemption date.

“**Corporate Trust Office**” means the office of the Trustee at which at any particular time its corporate trust business shall be principally administered (which office as of the date of this Indenture is located at 101 Barclay Street, Floor 7 East, New York, NY 10286).

“**covenant defeasance option**” has the meaning specified in Section 8.01(b).

“**Custodian**” means any receiver, trustee, assignee, liquidator, custodian or similar official under any bankruptcy law.

“**Date of Determination**” has the meaning specified in the definition of “Reference Treasury Dealer Quotations.”

“**Debt**” means, with respect to any Person, without duplication:

(i) the principal of and premium, if any, in respect of (a) indebtedness of such Person for money borrowed and (b) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable;

(ii) all Finance Lease Obligations of such Person;

(iii) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable or other short term obligations to suppliers payable within 180 days, in each case arising in the ordinary course of business);

(iv) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations other than obligations described in clauses (i) through (iii) above) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business Day following receipt by such Person of a demand for reimbursement following payment on the letter of credit);

(v) all Hedging Obligations of such Person;

(vi) all obligations of the type referred to in clauses (i) through (iv) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any guarantee (other than obligations of other Persons that are customers or suppliers of such Person for which such Person is or becomes so responsible or liable in the ordinary course of business to (but only to) the extent that such Person does not, or is not required to, make payment in respect thereof);

(vii) all obligations of the type referred to in clauses (i) through (v) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured; and

(viii) any other obligations of such Person which are required to be, or are in such Person's financial statements, recorded or treated as debt under IFRS.

**"Default"** means any event which is, or after notice or passage of time or both would be, an Event of Default.

**"defeasance trust"** has the meaning specified in Section 8.02(a).

**"Depository"** means DTC or any successor depository for the Notes.

**"Distribution Compliance Period"** means the relevant 40-day distribution compliance period as defined in Regulation S.

**"DTC"** means The Depository Trust Company.

**"Equity Offering"** means a private or public offering for cash by the Guarantor or any direct or indirect parent of the Guarantor as applicable, of its Capital Stock (in the case of any direct or indirect parent of the Guarantor, to the extent such cash proceeds are contributed to the Guarantor), other than (x) public offerings with respect to the Guarantor's or any such direct or indirect parent's, as applicable, Capital Stock registered on Form S-4, F-4 or S-8, or (y) an issuance to any Subsidiary or (z) any offering of Capital Stock issued in connection with a transaction that constitutes a Change of Control.

**"Euroclear"** means Euroclear Bank S.A./N.V.

**"Event of Default"** has the meaning specified in Section 6.01.

“**Exchange Act**” means the U.S. Securities Exchange Act of 1934, as amended.

“**expiration date**” has the meaning specified in Section 4.11.

“**Finance Lease Obligations**” means, with respect to any Person, any obligation which is required to be classified and accounted for as a finance lease on the face of a balance sheet of such Person prepared in accordance with IFRS; the amount of such obligation will be the capitalized amount thereof, determined in accordance with IFRS, and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

“**Fitch**” means Fitch Ratings, Ltd. and its successors.

“**Global Note**” means a global note representing the Notes substantially in the form attached hereto as Exhibit A.

“**guarantee**” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Debt or other obligation of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such Person (whether arising by virtue of partnership arrangements, or by agreement to keep well, to purchase assets, goods, securities or services, to take or pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the oblige of such Debt or other obligation of the payment thereof or to protect such oblige against loss in respect thereof (in whole or in part); provided however, that the term “guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “guarantee used as a verb has a corresponding meaning.

“**Guarantor**” means LATAM Airlines Group S.A., or any successor obligor under the Note Guaranty pursuant to Section 5.01, unless and until such Guarantor is released from its Note Guaranty pursuant to this Indenture.

“**Hedging Obligations**” means, with respect to any Person, the obligations of such Person pursuant to any interest rate swap agreement, foreign currency exchange agreement, interest rate collar agreement, option or futures contract or other similar agreement or arrangement designed to protect such Person against changes in interest rates or foreign exchange rates.

“**Holder**” means the Person in whose name a Note is registered in the Register.

“**IFRS**” means the International Financial Reporting Standards as issued by the International Accounting Standards Board.

“**Indenture**” means this Indenture, as amended or supplemented from time to time in accordance with the provisions hereof.

“**Independent Investment Banker**” means one of the Reference Treasury Dealers appointed by the Company.

“**Initial Notes**” means the Notes issued on the Issue Date and any Notes issued in replacement thereof.

“**interest**” on a Note means the interest on such Note (including any Additional Amounts payable by the Company in respect of such interest).

“**Interest Payment Date**” means the Payment Date of an installment of interest on the Notes.

“**issue**” means issue, assume, guarantee, incur or otherwise become liable for; *provided*, however, that any Debt or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be issued by such Subsidiary at the time it becomes a Subsidiary; and the term “issuance” has a corresponding meaning.

“**Issue Date**” means April 11, 2017.

“**legal defeasance option**” has the meaning specified in Section 8.01(b).

“**Lien**” means any mortgage, pledge, security interest, encumbrance, conditional sale or other title retention agreement or other similar lien.

“**Marketable Securities**” means publicly traded debt with a maturity or remaining maturity of one year or less that is listed for trading on a national securities exchange and that was issued by a corporation with debt securities rated at least “AA-” from Standard & Poor’s or “AA-” from Fitch.

“**Maturity**” means, when used with respect to any Note, the date on which the outstanding principal of and interest on such Note becomes due and payable as therein or herein provided, whether by declaration of acceleration, call for redemption or otherwise.

“**Net Cash Proceeds**” with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale, net of attorney’s fees, accountants’ fees, underwriters’ or placement agents’ fees, discounts or commissions and brokerage, consultants and other fees incurred in connection with such issuance or sale.

“**Note Guaranty**” means the guaranty of the Notes by a Guarantor pursuant to this Indenture.

“**Note**” or “**Notes**” has the meaning specified in the first paragraph of the Recitals to this Indenture and shall be in the form of Note set forth in Exhibit A.

“**Offering Memorandum**” means the offering memorandum dated April 6, 2017 relating to the Notes.

“**Offer to Purchase**” has the meaning specified in Section 4.11.

“**Officer**” means the president or chief executive officer, any vice president, the chief financial officer, the treasurer or any assistant treasurer, or the secretary or any assistant secretary, of the Company or the Guarantor, as the case may be, or any other Person duly appointed by the shareholders of the Company, or the Guarantor, as the case may be, or the Board of Directors to perform corporate duties.

“**Officers’ Certificate**” means a certificate signed by any two Officers of the Company or the Guarantor, as the case may be, and delivered to the Trustee.

“**Opinion of Counsel**” means a written opinion of legal counsel of recognized standing (who may be an employee of or counsel to the Company or the Guarantor) and who shall be reasonably acceptable to the Trustee, which opinion is reasonably satisfactory to the Trustee.

“**Outstanding**” means, when used with respect to Notes, as of the date of determination, all Notes theretofore authenticated and delivered under this Indenture, except:

(i) Notes theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Notes for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Notes; *provided* that, if such Notes are to be redeemed pursuant to Section 3.01, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(iii) Notes, except to the extent provided in Sections 8.01 and 8.02, with respect to which the Company has effected legal defeasance and/or covenant defeasance as provided in Article 8; and

(iv) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to this Indenture, other than any such Notes in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Notes are held by a bona fide purchaser or protected purchaser in whose hands such Notes are valid obligations of the Company;

*provided, however*, that in determining whether the Holders of the requisite principal amount of Outstanding Notes have given any request, demand, authorization, direction, consent, notice or waiver hereunder, Notes owned by the Company or any of its Affiliates shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, consent, notice or waiver, only Notes which a Responsible Officer of the Trustee has received written notice at its address specified herein of being so owned shall be so disregarded. Notes so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right so to act with respect to such Notes and that the pledgee is not the Company, or any other obligor upon the Notes or any of its or such other obligor’s Affiliates.

“**Paying Agent**” means The Bank of New York Mellon, until a successor Paying Agent shall have become such pursuant to the applicable provisions of this Indenture, and, thereafter, “Paying Agent” shall mean such successor Paying Agent.

“**Payment Date**” means the date on which payment of interest on and/or principal of the Notes is due.

“**Payment Default**” has the meaning specified in Section 6.01(d).

“**Permitted Holders**” means

- (i) any of Enrique Cueto Plaza, Ignacio Cueto Plaza and Juan Jose Cueto Plaza;
- (ii) any spouse, descendant, heir, trust or estate of Enrique Cueto Plaza, Ignacio Cueto Plaza or Juan Jose Cueto Plaza; or
- (iii) any Person as to whom more than 50% of the total voting power of the Voting Stock of such Person is beneficially owned (as such term is used in Rule 13d-3 under the Exchange Act) by one or more of the Persons specified in clauses (i) and (ii).

“**Person**” means an individual, a corporation, a partnership, a limited liability company, an association, a trust or any other entity, including a government or political subdivision or an agency or instrumentality thereof.

“**Primary Treasury Dealer**” means a primary U.S. government securities dealer in New York City.

“**principal**” of a Note means the principal amount of such Note (including any Additional Amounts payable by the Company in respect of such principal).

“**Proceeding**” has the meaning specified in Section 11.11(a).

“**Process Agent**” has the meaning specified in Section 11.11(a).

“**purchase date**” has the meaning specified in Section 4.11.

“**Rating Agency**” means Standard & Poor’s or Fitch; or if Standard & Poor’s or Fitch, or both, are not making rating of the Notes publicly available, an internationally recognized U.S. rating agency or agencies, as the case may be, selected by the Company, which will be substituted for Standard & Poor’s or Fitch, or both, as the case may be.

“**Ratings Decline**” means that at any time within 90 days (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by either Rating Agency) after the date of public notice of a Change of Control, or of our intention or that of any Person to effect a Change of Control, the then-applicable rating of the Notes is decreased by each Rating Agency; provided that any such Ratings Decline results from a Change of Control.

“**Record Date**” means, when used with respect to the interest on the Notes payable on any Interest Payment Date, the March 28 and September 27 (whether or not a Business Day), as the case may be, immediately preceding such Interest Payment Date.

“**Reference Treasury Dealer**” means each of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse Securities (USA) LLC and their respective successors and at least one additional Primary Treasury Dealer designed by the Company not later than the fifth Business Day preceding such redemption date; *provided however* that if any of the foregoing or their affiliates shall cease to be a Primary Treasury Dealer, the Company will substitute therefor another Primary Treasury Dealer.

“**Reference Treasury Dealer Quotations**” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York time, on the third Business Day preceding such redemption date (the “**Date of Determination**”).

“**Register**” has the meaning specified in Section 2.03(a).

“**Registrar**” means The Bank of New York Mellon, until a successor Registrar shall have become such pursuant to the applicable provisions of this Indenture, and, thereafter, “Registrar” shall mean such successor Registrar.

“**Regulation S**” means Regulation S under the Securities Act, as in effect from time to time.

“**Regulation S Global Note**” means one or more permanent Global Notes in definitive fully registered form without interest coupons representing Notes sold outside of the United States pursuant to Regulation S.

“**Relevant Date**” means, with respect to any payment on a Note, whichever is the later of: (i) the date on which such payment first becomes due; and (ii) if the full amount payable has not been received by the Trustee or a Paying Agent on or prior to such due date, the date on which notice is given to the Holders that the full amount has been received by the Trustee.

“**Resale Restriction Termination Date**” means, for any Restricted Global Note (or beneficial interest therein), one year from the Issue Date or, if any Additional Notes that are Restricted Global Notes have been issued before the Resale Restriction Termination Date for any Restricted Global Notes, from the latest such original issue date of such Additional Notes.

“**Responsible Officer**” means any officer of the Trustee or any Agent in Corporate Trust Administration with direct responsibility for the administration of this Indenture.

“**Restricted Global Note**” means one or more permanent Global Notes in definitive fully registered form without interest coupons sold to “qualified institutional buyers” (as such term is defined in Rule 144A) pursuant to Rule 144A.



“**Rule 144A**” means Rule 144A under the Securities Act, as in effect from time to time.

“**SEC**” means the U.S. Securities and Exchange Commission.

“**Securities Act**” means the U.S. Securities Act of 1933, as amended.

“**Securities Act Legend**” means the following legend, printed in capital letters:

NEITHER THIS GLOBAL NOTE NOR ANY BENEFICIAL INTEREST HEREIN HAS BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). NEITHER THIS GLOBAL NOTE NOR ANY BENEFICIAL INTEREST HEREIN MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO LATAM FINANCE LIMITED, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER OR BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (3) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND, IN EACH CASE, IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. AS A CONDITION TO REGISTRATION OF TRANSFER OF THIS GLOBAL NOTE IN ACCORDANCE WITH CLAUSE (4) ABOVE, LATAM FINANCE LIMITED, LATAM AIRLINES GROUP S.A. OR THE TRUSTEE MAY REQUIRE DELIVERY OF ANY DOCUMENTS OR OTHER EVIDENCE THAT IT, IN ITS ABSOLUTE DISCRETION, DEEMS NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION.

THIS LEGEND MAY BE REMOVED SOLELY IN THE DISCRETION AND AT THE DIRECTION OF LATAM FINANCE LIMITED.

“**Significant Subsidiary**” means any Subsidiary of LATAM Airlines Group S.A. (or any successor) which at the time of determination either (i) had assets which, as of the date of LATAM Airlines Group S.A.’s (or such successor’s) most recent quarterly consolidated balance sheet, constituted at least 10% of LATAM Airlines Group S.A.’s (or such successor’s) total assets on a consolidated basis as of such date or (ii) had revenues for the 12 month period ending on the date of LATAM Airlines Group S.A.’s (or such successor’s) most recent quarterly consolidated statement of income which constituted at least 10% of LATAM Airlines Group S.A.’s (or such successor’s) total revenues on a consolidated basis for such period.

“**Standard & Poor’s**” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc.

“**Stated Maturity**” means, with respect to any security, the date specified in such security as the fixed date on which the principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the Holder thereof upon the happening of any contingency unless such contingency has occurred).

“**Subsidiary**” means, in respect of any specified Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person; *provided that* TAM S.A. and its Subsidiaries shall be deemed to be Subsidiaries of LATAM Airlines Group S.A. for so long as LATAM Airlines Group S.A. is required to consolidate TAM S.A. and its Subsidiaries in LATAM Airlines Group S.A.’s consolidated financial statements pursuant to IFRS or any other accounting standards applicable to LATAM Airlines Group S.A., as in effect from time to time.

“**SVS**” means the Chilean Securities Commission (*Superintendencia de Valores y Seguros*).

“**Taxing Jurisdiction**” has the meaning specified in Section 4.06(a).

“**Transfer Agent**” means The Bank of New York Mellon and any other Person authorized by the Company to effectuate the exchange or transfer of any Note on behalf of the Company hereunder.

“**Treasury Rate**” means, with respect to any Date of Determination, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The Treasury Rate will be calculated on the Date of Determination.

“**Trust Indenture Act**” means the U.S. Trust Indenture Act of 1939, as amended.

“**Trustee**” means The Bank of New York Mellon, until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture and, thereafter, “Trustee” shall mean such successor Trustee.

“**United States**” and “**U.S.**” means the United States of America (including the States thereof and the District of Columbia) and its territories, its possessions and other areas subject to its jurisdiction.

“**USA Patriot Act**” has the meaning specified in Section 11.19.

“**U.S. Dollars**” and “**U.S. \$**” each mean the currency of the United States.

“**U.S. Government Obligations**” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States is pledged and which are not callable at the issuer’s option.

**“Voting Stock”** means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

**“Wholly-Owned Subsidiary”** means a Subsidiary all of the Capital Stock of which (other than directors’ qualifying shares) is owned by the Company or another Wholly-Owned Subsidiary.

Section 1.02. *Rules of Construction.* (a) For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

- (i) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;
- (ii) the words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision;
- (iii) “or” is not exclusive;
- (iv) “including” means including, without limitation; and
- (v) any reference to an “Article”, a “Section” or an “Exhibit” refers to an Article, a Section or an Exhibit, as the case may be, of this Indenture.

(b) All accounting terms not otherwise defined herein shall have the meanings assigned to them in accordance with IFRS.

(c) For purposes of the definitions set forth in Article 1 and this Indenture generally, all calculations and determinations shall be made in accordance with IFRS and shall be based upon the consolidated financial statements of LATAM Airlines Group S.A. and its Subsidiaries prepared in accordance with IFRS.

Section 1.03. *Table of Contents; Headings.* The table of contents and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof.

Section 1.04. *Form of Documents Delivered to Trustee.* In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an Officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such Officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his or her certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an Officer or Officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 1.05. *Communications by Holders with other Holders.* (a) Holders may communicate with other Holders of Notes with respect to their rights under this Indenture and the Notes pursuant to Section 312(b) of the Trust Indenture Act. The Company, the Trustee and any and all other persons benefitted by this Indenture shall have the protection afforded by Section 312(c) of the Trust Indenture Act.

(b) (i) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in Person or by agents duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the “**Act**” of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section 1.05.

(ii) The Trustee may make reasonable rules for action by or at a meeting of Holders, which will be binding on all the Holders.

(c) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner that the Trustee reviewing such instrument or writing deems sufficient.

(d) The principal amount and serial numbers of Notes held by any Person, and the date of holding the same, shall be proved by the Register.

(e) If the Company solicits from the Holders of Notes any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, by or pursuant to a Board Resolution, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall not have any obligation to do so. Such record date shall be the record date specified in or pursuant to such Board Resolution, which shall be a date not earlier than the date 30 days prior to the first solicitation of Holders generally in connection therewith and not later than the date such solicitation is completed. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Notes have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the Outstanding Notes shall be computed as of such record date; *provided* that no such authorization, agreement or consent by the Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than eleven months after the record date.

(f) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Note shall bind every future Holder of the same Note and the Holder of every Note issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Note.

## ARTICLE 2

### THE NOTES

Section 2.01. *Form and Dating.* The Notes and the Trustee's certificate of authentication shall be substantially in the form of Note set forth in Exhibit A, which is hereby incorporated in and expressly made a part of this Indenture. The Notes may have such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture and may have such letters, numbers or other marks of identification and such notations, legends or endorsements as may be required to comply with any law, stock exchange rule, agreement to which the Company is subject, if any, or usage, provided that any such notation, legend or endorsement is in a form acceptable to the Company.

Each Global Note representing Initial Notes shall be dated the Issue Date. Each definitive certificated Note ("**Certificated Note**") and Global Note shall be dated the date of its authentication.

The Notes shall be printed, lithographed or engraved or produced by any combination of these methods or may be produced in any other manner permitted by the rules of any stock exchange on which the Notes may be listed, if any, all as determined by the officers executing such Notes, as evidenced by their execution of such Notes.

Section 2.02. *Execution, Authentication and Delivery.* (a) One Officer of the Company shall sign the Notes for the Company by manual or facsimile signature.

(i) If an Officer whose signature is on a Note no longer holds that office at the time the Trustee authenticates the Note, the Note shall be valid nevertheless.

(ii) A Note shall not be valid until an authorized signatory of the Trustee or an authenticating agent manually signs the certificate of authentication on the Note upon Company Order. Such signature shall be conclusive evidence that the Note has been authenticated under this Indenture. Such Company Order shall specify the amount of the Notes to be authenticated and the date on which the original issue of Notes is to be authenticated.

(iii) The Trustee or an authenticating agent shall authenticate and deliver initially Initial Notes on the Issue Date in an aggregate principal amount of U.S. \$700,000,000 and any Additional Notes for original issue from time to time after the Issue Date in such principal amounts as set forth in Section 2.14, in each case upon a Company Order.

(iv) The Company may from time to time, without the consent of the Holders of the Notes, create and issue Additional Notes having the same terms and conditions as the Notes in all respects, except for issue date, issue price and the first payment of interest thereon. Additional Notes issued in this manner shall be consolidated with and shall form a single series for non-U.S. federal income tax purposes with the previously outstanding Notes. Unless the context otherwise requires, for all purposes of this Indenture and the form of Note attached hereto, references to the Notes include any Additional Notes actually issued.

(v) The Notes shall be issued in fully registered form without coupons attached in minimum denominations of U.S. \$200,000 and integral multiples of U.S. \$1,000 in excess thereof (each, an “**Authorized Denomination**”).

(b) The Trustee may appoint an authenticating agent, with a copy of such appointment to the Company, to authenticate the Notes (the “**Authenticating Agent**”). Unless limited by the terms of such appointment, an Authenticating Agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by an Authenticating Agent. An Authenticating Agent has the same rights as the Registrar or any Transfer Agent or Paying Agent or agent for service of notices and demands.

(i) Any corporation into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation or conversion to which any Authenticating Agent shall be a party, or any corporation succeeding to the corporate trust business (and this transaction in particular) of any Authenticating Agent, shall be the successor of such Authenticating Agent hereunder, without the execution or filing of any further act on the part of the parties hereto or such Authenticating Agent or such successor corporation.

(ii) Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee and the Company. The Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and the Company. Upon receiving such notice of resignation or upon such a termination, the Trustee may appoint a successor Authenticating Agent reasonably acceptable to the Company and shall give written notice of such appointment to the Company.

(iii) The Company agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services and reimbursement for its reasonable expenses relating thereto.

Section 2.03. *Transfer Agent, Registrar and Paying Agent.* (a) Subject to such reasonable regulations as the Company may prescribe, the books of the Company for the exchange, registration, and registration of transfer of Notes shall be kept at the office of the Registrar (such books maintained in such office and in any other office or agency designated for such purpose being herein referred to as the “**Register**”). The Company shall also cause the Trustee to maintain books for the exchange, registration and registration of transfer of Notes. The Trustee shall notify the Registrar and the Registrar shall notify the Trustee, when necessary, upon any exchange, registration or registration of transfer of any Notes and shall cause their respective books to be amended accordingly. The Company may have one or more co-registrars and one or more additional Transfer Agents or Paying Agents. The terms “Transfer Agent” and “Paying Agent” include any additional transfer agent or paying agent, as the case may be. The term “Registrar” includes any co-registrar.

(b) The Company shall enter into any appropriate agency agreements with any Registrar, Transfer Agent or Paying Agent not a party to this Indenture, which shall implement the provisions of this Indenture that relate to such agent. The Company shall notify the Trustee of the name and address of any such agent. If the Company fails to maintain a Registrar or Paying Agent, the Trustee may act as such and shall be entitled to appropriate compensation therefor pursuant to Section 7.06. The Company initially appoints the Trustee as Registrar, Transfer Agent and Paying Agent in connection with the Notes.

(c) The Registrar shall keep a record of all the Notes and shall make such record available during regular business hours for inspection upon the request of the Company provided a reasonable amount of time prior to such inspection. Such books and records shall include notations as to whether such Notes have been redeemed, or otherwise paid or cancelled, and, in the case of mutilated, destroyed, defaced, stolen or lost Notes, whether such Notes have been replaced. In the case of the replacement of any of the Notes, the Registrar shall keep a record of the Note so replaced, and the Notes issued in replacement thereof. In the case of the cancellation of any of the Notes, the Registrar shall keep a record of the Note so cancelled and the date on which such Note was cancelled. Each Transfer Agent shall notify the Trustee and the Registrar of any transfers or exchanges of Notes effected by it. The Registrar shall not be required to register the transfer of or exchange Certificated Notes for a period of 15 days preceding any date of selection of Notes for redemption, or register the transfer of or exchange any Certificated Notes previously called for redemption.

(d) All Notes surrendered for payment, redemption, registration of transfer or exchange shall be cancelled by the relevant Transfer Agent or Paying Agent, Registrar or the Trustee, as the case may be. Each Registrar, Paying Agent and Transfer Agent shall notify the Trustee of the surrender and cancellation of such Notes and shall deliver such Notes to the Trustee. The Trustee may destroy or cause to be destroyed all such Notes surrendered for payment, redemption, registration of transfer or exchange and, if so destroyed, shall, upon the instructions of the Company, promptly deliver a certificate of destruction to the Company.

(e) The Paying Agent shall comply with applicable backup withholding tax and information reporting requirements under the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), and the U.S. Treasury Regulations promulgated thereunder with respect to payments made under the Notes (including, to the extent required, the collection of U.S. Internal Revenue Service Forms W-8 and W-9 and the filing of U.S. Internal Revenue Service Forms 1099 and 1096).

Section 2.04. *Paying Agent to Hold Money in Trust.* By 10:00 a.m. (New York time), no later than one Business Day prior to each Payment Date on any Note, the Company (or the Guarantor pursuant to its guarantee) shall deposit with the Paying Agent in immediately available funds a sum sufficient to pay such principal and interest when so becoming due (including any amounts under Section 4.06). The Company shall request that the bank through which such payment is to be made agree to supply to the Paying Agent by 10:00 a.m. (New York time) two Business Days prior to the due date from any such payment an irrevocable confirmation (by facsimile) of its intention to make such payment. The Company shall require the Paying Agent (other than the Trustee) to agree in writing that the Paying Agent shall hold in trust, for the benefit of Holders or the Trustee, all money held by the Paying Agent for the payment of principal and interest on the Notes and shall notify the Trustee of any default by the Company in making any such payment. The Company at any time may require the Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed by it. Upon complying with this Section 2.04, the Paying Agent shall have no further liability for the money delivered to the Trustee.

Each payment in full of principal, redemption amount, Additional Amounts and/or interest payable under the Notes and this Indenture in respect of any Note made by or on behalf of the Company or the Guarantor to or to the order of the Paying Agent in the manner specified herein or in the Notes on the date due shall be valid and effective to satisfy and discharge the obligation of the Company or the Guarantor, as the case may be, to make payment of principal, redemption amount, Additional Amounts and/or interest payable hereunder and under the Notes on such date, provided, however, that the liability of the Paying Agent hereunder shall not exceed any amounts paid to it by the Company or the Guarantor, as the case may be,, or held by it, on behalf of the Holders hereunder.

Section 2.05. *Payment of Principal and Interest; Principal and Interest Rights Preserved.* (a) Except as otherwise provided herein for the redemption of the Notes, the payment of principal of or interest on the Notes shall be allocated on a pro rata basis among all Outstanding Notes, without preference or priority of any kind among the Notes.

(b) Final payments in respect of any Note (whether upon redemption, declaration of acceleration or otherwise) shall be made only against presentation and surrender of such Note at the Corporate Trust Office, at the offices of the Trustee and, subject to any fiscal or other laws and regulations applicable thereto, at the specified offices of any other Paying Agent appointed by the Company.



(c) Payment of the principal of any Note on a relevant Payment Date shall be made to the Person in whose name such Note is registered in the Register at the close of business on the fifteenth day (whether or not a Business Day) immediately preceding such Payment Date, by U.S. Dollar check drawn on a bank in The City of New York and mailed to the Person entitled thereto at its address as it appears on the Register, or by wire transfer to a U.S. Dollar account maintained by the payee with a bank in The City of New York, *provided* that such Holder so elects by giving written notice to such effect designating such account, upon application to the Trustee at least 15 days prior to such Payment Date.

(d) Payment of interest on each Interest Payment Date with respect to any Note shall be made to the Person in whose name such Note is registered on the Record Date immediately preceding such Interest Payment Date by wire or by U.S. Dollar check drawn on a bank in The City of New York and delivered to the Person entitled thereto at its address as it appears on the Register, or by wire transfer to a U.S. Dollar account maintained by the payee with a bank in The City of New York, *provided* that the Holder so elects by giving written notice to such effect designating such account, which is received by the Trustee or a Paying Agent no later than the Record Date immediately preceding such Interest Payment Date. Unless such designation is revoked, any such designation made by such Holder with respect to such Note shall remain in effect with respect to any future payments with respect to such Note payable to such Holder. The Company shall pay any administrative costs imposed by banks in connection with making payments by wire transfer.

If the Payment Date in respect of any Note is not a business day at the place in which it is presented for payment, the Holder thereof shall not be entitled to payment of the amount due until the next succeeding business day at such place and shall not be entitled to any further interest or other payment in respect of any such delay.

Notwithstanding the provisions of this Section 2.05, payments on Notes registered in the name of DTC or its nominee shall be effected in accordance with the Applicable Procedures.

Section 2.06. *Holder Lists.* The Trustee shall preserve in as current a form as is reasonably practicable, the most recent list available to it of the names and addresses of Holders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee in writing, at least ten Business Days before each Interest Payment Date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Holders.

Section 2.07. *Transfer and Exchange.* (a) Interests in the Regulation S Global Note and the Restricted Global Note shall be exchangeable or transferable, as the case may be, for physical delivery of Certificated Notes if (i) DTC notifies the Company that it is unwilling or unable to continue as depository for such Global Note, or DTC ceases to be a “clearing agency” registered under the Exchange Act, and a successor depository is not appointed by the Company within 90 days, or (ii) an Event of Default has occurred and is continuing with respect to such Notes, provided that such transfer or exchange is made in accordance with the provisions of this Indenture and the Applicable Procedures.

Upon receipt of notice by DTC or the Trustee, as the case may be, regarding the occurrence of any of the events described in the preceding paragraph, the Company shall use its best efforts to make arrangements with DTC for the exchange of interests in the Global Notes for individual Certificated Notes, and cause the requested individual Certificated Notes to be executed and delivered to the Trustee in sufficient quantities and authenticated by the Trustee for delivery to Holders. In the case of Certificated Notes issued in exchange for the Restricted Global Note, such Certificated Notes shall bear the Securities Act Legend. Upon the registration of transfer, exchange or replacement of Notes bearing such Securities Act Legend, or upon specific request for removal of the Securities Act Legend on a Note, the Company shall deliver only Notes that bear such Securities Act Legend, or shall refuse to remove such Securities Act Legend, as the case may be, unless there is delivered to the Company a certificate in the form of Exhibit C or Exhibit E, as the case may be, or such satisfactory evidence as may reasonably be required by the Company, which may include an Opinion of Counsel, that neither the Securities Act Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. The Trustee shall exchange a Note bearing the Securities Act Legend for a Note not bearing such Securities Act Legend only if it has been directed to do so in writing by the Company, upon which direction it may conclusively rely.

(b) On or prior to the 40th day after the Closing Date, transfers by a DTC participant which is an owner of a beneficial interest in the Regulation S Global Note to a transferee who takes delivery of such interest through the Restricted Global Note shall be made only in Authorized Denominations in accordance with the Applicable Procedures and upon receipt by the Trustee or Transfer Agent of a written certification from the transferor of the beneficial interest in the form of Exhibit D to the effect that such transfer is being made to a Person who the transferor reasonably believes is a “qualified institutional buyer” within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After such 40th day, such certification requirement shall no longer apply to such transfers.

(c) Transfers by a Holder of a Certificated Note bearing the Securities Act Legend or by a DTC participant of a beneficial interest in the Restricted Global Note to a transferee who takes delivery of such interest through the Regulation S Global Note or in the form of a Certificated Note not bearing the Securities Act Legend shall be made only in Authorized Denominations upon receipt by the Trustee or Transfer Agent of a written certification from the transferor in the form of Exhibit C to the effect that such transfer is being made in accordance with Regulation S.

Beneficial interests in the Global Notes shall be shown on, and transfers thereof shall be effected only through records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg.

Transfers between participants in Euroclear and Clearstream, Luxembourg shall be effected in the ordinary way in accordance with Applicable Procedures.

(d) Certificated Notes may be exchanged or transferred in whole or in part in the principal amount of Authorized Denominations by surrendering such Certificated Notes at the office of the Trustee or any Transfer Agent with a written instrument of transfer as provided in this Indenture in the form of Exhibit B hereto duly executed by the Holder thereof or his attorney duly authorized in writing.

In exchange for any Certificated Note properly presented for transfer, the Trustee shall promptly authenticate and deliver or cause to be authenticated and delivered at the Corporate Trust Office, to the transferee, or send by mail (at the risk of the transferee) to such address as the transferee may request, a Certificated Note or Notes, as the case may require, registered in the name of such transferee, for the same aggregate principal amount as was transferred. In the case of the transfer of any Certificated Note in part, the Trustee shall also promptly authenticate and deliver or cause to be authenticated and delivered at the Corporate Trust Office, to the transferor, or send by mail (at the risk of the transferor) to such address as the transferor may request, a Certificated Note or Notes, as the case may require, registered in the name of such transferor, for the aggregate principal amount that was not transferred. No transfer of any Notes shall be made unless the request for such transfer is made by the registered Holder or his attorney duly authorized in writing at the Corporate Trust Office and is accompanied by a completed instrument of transfer in the form of Exhibit B attached to the Note presented for transfer.

(e) Transfer, registration and exchange of any Note or Notes shall be permitted and executed as provided in this Section 2.07 without any charge to the Holder of any such Note or Notes other than any taxes or governmental charges or insurance charges payable on transfers or any expenses of delivery by other than regular mail, but subject to such reasonable regulations as the Company, the Registrar and the Trustee may prescribe.

The costs and expenses of effecting any exchange or registration of transfer pursuant to the foregoing provisions, except for the expense of delivery by other than regular mail (if any) and except for the payment of a sum sufficient to cover any tax or other governmental charges or insurance charges that may be imposed in relation thereto, shall be borne by the Company.

All Certificated Notes issued upon any exchange or registration of transfer of Notes shall be valid obligations of the Company, evidencing the same debt, and entitled to the same benefits, as the Notes surrendered upon exchange or registration of transfer.

(f) The Trustee or the Transfer Agent shall effect transfers of Global Notes and Certificated Notes. In addition, the Registrar shall keep the Register for the ownership, exchange and registration of transfer of any Notes. The Transfer Agent shall give prompt notice to the Registrar and the Registrar shall likewise give prompt notice to the Trustee of any exchange or registration of transfer of such Notes. Neither the Trustee nor any Transfer Agent shall register the exchange or the transfer of any Global Note or Certificated Note (or any portion of a Certificated Note) during the period of 15 days ending on the Record Date. The Trustee shall give prompt notice to the Company of any replacement, transfer, cancellation or destruction of the Notes.

(g) Upon any such exchange or registration of transfer of all or a portion of any Global Note for a Certificated Note or an interest in either the Restricted Global Note or the Regulation S Global Note for an interest in the other Global Note, the Global Note to be so exchanged shall be marked to reflect the reduction of its principal amount by the aggregate principal amount of such Certificated Note or the interest to be so exchanged for an interest in a Regulation S Global Note or a Restricted Global Note, as the case may be. Until so exchanged in full, the Note shall in all respects be entitled to the same benefits under this Indenture as the Notes authenticated and delivered hereunder.

Section 2.08. *Replacement Notes.* If any Note at any time becomes mutilated, defaced, destroyed, stolen or lost, such Note may be replaced at the cost of the applicant (including reasonable legal fees of the Company, the Trustee, the Transfer Agents, the Registrar and the Paying Agents) at the office of the Trustee or any Transfer Agent, upon provision of, in the case of destroyed, stolen or lost Notes, evidence satisfactory to the Trustee and the Company that such Note was destroyed, stolen or lost, together with such indemnity as the Trustee and the Company may require. Mutilated or defaced Notes must be surrendered before replacements shall be issued.

Each Note authenticated and delivered in exchange for or in lieu of any such Note shall carry rights to accrued and unpaid interest and to interest to accrue equivalent to the rights that were carried by such Note before such Note was mutilated, defaced, destroyed, stolen or lost.

Every replacement Note is an additional obligation of the Company and shall be entitled to the benefits of this Indenture.

Section 2.09. *Temporary Notes.* Subject to the provisions of Section 2.07(a), until Certificated Notes are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Notes. Temporary Notes shall be substantially in the form of Certificated Notes but may have variations that the Company considers appropriate for temporary Notes. As necessary, the Company shall prepare and the Trustee shall authenticate Certificated Notes and deliver them in exchange for temporary Notes at the office or agency of the Company or the Trustee, without charge to the Holder. Until so exchanged, the temporary Notes shall be entitled to the same benefits under this Indenture as Certificated Notes.

Section 2.10. *Cancellation.* The Company at any time may deliver Notes to the Trustee for cancellation. The Transfer Agent and the Paying Agent shall forward to the Trustee any Notes surrendered to them for transfer, exchange or payment. The Trustee or Paying Agent and no one else shall cancel and the Trustee shall destroy in accordance with its customary procedures (subject to the record-retention requirements of the Exchange Act) all Notes surrendered for transfer, exchange, payment or cancellation and, if so destroyed, upon written instructions from the Company deliver a certificate of such destruction to the Company unless the Company directs the Trustee in writing to deliver cancelled Notes to the Company. The Company may not issue new Notes to replace Notes it has redeemed, paid or delivered to the Trustee for cancellation, which shall not prohibit the Company from issuing any Additional Notes. A Note does not cease to be Outstanding because the Company, the Guarantor or any of their respective Affiliates holds such Note, except that such Note will not be deemed to be Outstanding for voting purposes pursuant to and in accordance with the definition of “Outstanding” in Section 1.01.

Section 2.11. *Defaulted Interest.* If the Company defaults in a payment of interest on the Notes, the Company shall pay the defaulted interest (plus interest on such defaulted interest at the rate specified in Section 4.01 to the extent lawful) in any lawful manner not inconsistent with the requirements of any stock exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, if, after written notice given by the Company to the Trustee of the proposed payment pursuant to this Section 2.11, such manner of payment shall be deemed practicable by the Trustee.

The Company may pay the defaulted interest to the Persons who are Holders on a subsequent special record date, which date shall be at least five Business Days prior to the payment date of such defaulted interest. The Company shall fix or cause to be fixed any such special record date and payment date, and, at least 15 days before any such special record date, the Company shall deliver to each Holder, with a copy to the Trustee, a notice that states the special record date, the payment date and the amount of defaulted interest to be paid.

Section 2.12. *CUSIP and ISIN Numbers.* The Company in issuing the Notes may use CUSIP and ISIN numbers (if then generally in use) and, if so, the Trustee shall use CUSIP and ISIN numbers in notices as a convenience to Holders; provided, however, that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice and that reliance may be placed only on the other identification numbers printed on the Notes, and any such notice shall not be affected by any defect in or omission of such numbers. The Company shall promptly notify the Trustee in writing of any change in CUSIP or ISIN numbers.

Section 2.13. *Open Market Purchases.* The Company or its Affiliates may at any time purchase Notes in the open market or otherwise at any price. Any such purchased Notes may not be resold, except in compliance with applicable requirements or exemptions under the relevant securities laws.

Section 2.14. *Issuance of Additional Notes.* The Company shall be entitled, from time to time, without notice to, or consent of, the Holders of the Notes, to create and issue additional principal amounts of Additional Notes under this Indenture which shall have identical terms as the Initial Notes issued on the Issue Date (other than with respect to the issue date, issue price, the payment of interest accruing prior to the issue date thereof and the first payment of interest thereon, and any Additional Amounts due with respect thereto, after the issue date thereof), as the case may be; provided, however, that unless such Additional Notes are issued under a separate CUSIP number, such Additional Notes shall be issued pursuant to a “qualified reopening” of the original series, are otherwise treated as part of the same “issue” of debt instruments as the original series or are issued with no more than a *de minimis* amount of original discount, in each case for U.S. federal income tax purposes.

With respect to any Additional Notes, the Company shall set forth in a Board Resolution and an Officers’ Certificate, a copy of each which shall be delivered to the Trustee, the following information:

- (i) the aggregate principal amount of such Additional Notes to be authenticated and delivered pursuant to this Indenture;

- (ii) the issue price, the issue date and the “CUSIP” and “ISIN” number of any such Additional Notes and the amount of interest payable on the first payment date applicable thereto;
- (iii) whether such Additional Notes shall be transfer restricted securities and issued in the same form as Initial Notes as set forth in Exhibit A to this Indenture; and
- (iv) if applicable, the Resale Restriction Termination Date relating to the Notes and the Distribution Compliance Period for such Additional Notes.

Section 2.15. *One Class of Notes.* The Initial Notes and any Additional Notes shall vote and consent together on all matters as one class; and none of the Initial Notes or any Additional Notes shall have the right to vote or consent as a separate class on any matter. The Initial Notes and any Additional Notes shall together be deemed to constitute a single class or series for all purposes, other than for U.S. federal income tax purposes, under this Indenture.

### ARTICLE 3 REDEMPTION

Section 3.01. *Right of Redemption.* (a) Except as described in this Section 3.01 and Paragraph 8 of the form of Note set forth in Exhibit A, the Notes may not be redeemed prior to Maturity.

(b) *Optional Redemption.* On or after April 11, 2021, the Company may, at its option, redeem the Notes, in whole or in part, at the following redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest to but excluding the redemption date and Additional Amounts, if any, on the Notes redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on of the years indicated below, subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Percentage
2021	103.438%
2022	101.719%
2023 and thereafter	100.000%

(c) *Optional Redemption with a Make-Whole Premium.* Prior to April 11, 2021, the Notes will be redeemable, at the option of the Company at any time, in whole or in part, at a redemption price equal to (1) 100% of the principal amount of the Notes to be redeemed and (2) the excess (which shall be a positive number) of (a) the present value at such redemption date of (i) the redemption price of the Notes at April 11, 2021, (such redemption price being set forth in the table appearing above in Section 3.01(b)) plus (ii) all required interest payments due thereon through April 11, 2021 (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points, over (b) the principal amount of the Notes, plus accrued and unpaid interest and Additional Amounts, if any, on the principal amount being redeemed to such redemption date.

(d) *Optional Redemption with Proceeds from Equity Offerings.* Prior to April 11, 2020, the Company may on any one or more occasions redeem up to 35% of the outstanding aggregate principal amount of the Notes with the Net Cash Proceeds of one or more Equity Offerings at a redemption price equal to 106.875% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to but excluding the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant Interest Payment Date); *provided that*

- (i) At least 65% of the original aggregate principal amount of the Notes remains outstanding after each such redemption; and
- (ii) Such redemption occurs within 90 days after the closing of such Equity Offering.

(e) *Optional Redemption Upon a Tax Event.* If as a result of any change in or amendment to the laws (or any rules or regulations thereunder) of a Taxing Jurisdiction, or any amendment to or change in an official interpretation, administration or application of such laws, rules or regulations, or any treaties or related agreements to which the Taxing Jurisdiction is a party (including a holding by a court of competent jurisdiction), which change or amendment becomes effective or, in the case of a change in official position, is announced on or after the issue date of the Notes (or if the Taxing Jurisdiction became a Taxing Jurisdiction on a later date, such later date), (i) the Company or any successor to the Company has or will become obligated to pay Additional Amounts or (ii) the Guarantor or any successor to the Guarantor has or will become obligated to pay Additional Amounts, in each case, in excess of the Additional Amounts, if any, that would have been payable on the date that the relevant Taxing Jurisdiction became a Taxing Jurisdiction, the Company or any successor to the Company may, at its option, redeem all, but not less than all, of the Notes, at a redemption price equal to 100% of their principal amount, together with accrued and unpaid interest to but excluding the date fixed for redemption, including any Additional Amounts with respect thereto, upon publication of irrevocable notice to Holders not less than 30 days nor more than 60 days prior to the date fixed for redemption. No notice of such redemption may be given earlier than 60 days prior to the earliest date on which the Company, the Guarantor or a successor to the foregoing would, but for such redemption, become obligated to pay any such Additional Amounts were payment then due. For the avoidance of doubt, the Company or any successor to the Company shall not have the right to so redeem the Notes unless (a) it is or will become obligated to pay such Additional Amounts or (b) the Guarantor or any successor to the Guarantor is or will become obligated to pay such Additional Amounts. Notwithstanding the foregoing, the Company or any successor to the Company shall not have the right to so redeem the Notes unless it has taken reasonable measures (including without limitation, using reasonable measures to cause payment on the Notes to be made through a paying agent in a different jurisdiction or by the Company, its successor or another Subsidiary) to avoid the obligation to pay Additional Amounts. For the avoidance of doubt, reasonable measures do not include changing the jurisdiction of incorporation of the Company or any successor of the Company.

In the event that the Company or any successor elects to so redeem the Notes pursuant to this Section 3.01(e), it will deliver to the Trustee: (i) a certificate, signed in the name of the Company or any successor to the Company by any two of its executive officers or by its attorney-in-fact in accordance with its bylaws, stating that the Company or any successor to the Company is entitled to redeem the Notes pursuant to their terms and setting forth a statement of facts showing that the condition or conditions precedent to the right of the Company or any successor to the Company to so redeem have occurred or been satisfied; and (ii) an Opinion of Counsel to the effect that (1) the Company or any successor to the Company has or will become obligated to pay Additional Amounts or the Guarantor or any successor to the Guarantor is or will become obligated to pay Additional Amounts and that such obligation cannot be avoided by taking reasonable measures to avoid such obligation (including, without limitation, by causing payment on the Notes to be made through a paying agent in a different jurisdiction or by a Subsidiary), (2) such obligation is the result of a change in or amendment to the laws (or any rules or regulations thereunder) of a Taxing Jurisdiction, as described above and (3) that all governmental requirements necessary for the Company or any successor to the Company to effect the redemption have been complied with.

Section 3.02. *Applicability of Article.* Redemption of Notes at the option of the Company, as permitted by Section 3.01 or required by any provision of this Indenture, shall be made in accordance with such provision and this Article 3.

Section 3.03. *Election to Redeem; Notice to Trustee.* The election of the Company to redeem the Notes pursuant to Section 3.01(b), 3.01(c), 3.01(d) or 3.01(e) shall be evidenced by a Board Resolution. In case of any redemption of Notes at the election of the Company, the Company shall, at least 70 days prior to the redemption date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such redemption date.

Section 3.04. *Notice of Redemption by the Company.* In the case of redemption of Notes pursuant to Section 3.01(b), 3.01(c), 3.01(d) or 3.01(e) notice of redemption shall be delivered at least 30 but not more than 60 days before the redemption date to each Holder of any Note to be redeemed by first-class mail at its registered address and such notice shall be irrevocable.

The notice shall state:

- (i) the redemption date;
- (ii) the redemption Price;
- (iii) the name and address of the Paying Agents;
- (iv) that Notes called for redemption must be surrendered to a Paying Agent to collect the redemption price;
- (v) that, unless the Company defaults in making such redemption payment or the Paying Agent is prohibited from making such payment pursuant to the terms of this Indenture, interest on Notes or portions thereof called for redemption ceases to accrue on and after the redemption date;



- (vi) the paragraph of the Notes pursuant to which the Notes called for redemption are being redeemed;
- (vii) the CUSIP or ISIN number, if any; and
- (viii) that no representation is made as to the correctness or accuracy of the CUSIP or ISIN number, if any, listed in such notice or printed on the Notes.

At the Company's election and at its request, made in writing to the Trustee at least 60 days before a date for redemption of Notes, the Trustee shall give the notice of redemption in the Company's name and at the Company's expense; *provided* that the Company shall deliver to the Trustee, at least 70 days prior to the redemption date, an Officers' Certificate requesting that the Trustee give such notice and setting forth the information to be stated in such notice as provided in the preceding paragraph.

Section 3.05. *Deposit of Redemption Price.* By 10:00 A.M. New York time, no later than one Business Day prior to the redemption date, the Company shall deposit with the Paying Agent money sufficient to pay the redemption price of and accrued and unpaid interest on the Notes other than Notes that have been delivered by the Company to the Trustee at least 15 days prior to the redemption date for cancellation. The Company shall request that the bank through which such payment is to be made agree to supply to the Paying Agent by 10:00 A.M. (New York time) two Business Days prior to the due date from any such payment an irrevocable confirmation (by facsimile) of its intention to make such payment.

Section 3.06. *Effect of Notice of Redemption.* Notice of redemption having been given as aforesaid, the Notes shall, on the redemption date, become due and payable at the applicable redemption price (together with accrued and unpaid interest, if any, to the redemption date), and from and after such date (except in the event of a default in the payment of the redemption price and accrued and unpaid interest) such Notes shall cease to bear interest. Upon surrender of any such Note for redemption in accordance with such notice, such Note shall be paid by the Company at the redemption price, together with accrued and unpaid interest, if any, to the redemption date; provided, however, that installments of interest whose Payment Date is on or prior to the redemption date shall be payable to the Holders of such Notes registered as such at the close of business on the relevant Record Dates according to their terms.

If any Note to be redeemed shall not be so paid upon surrender thereof in accordance with the Company's instructions for redemption, the principal shall, until paid, bear interest from the redemption date at the rate borne by the Notes. Upon surrender to the Paying Agent, such Notes shall be paid at the applicable redemption price, plus accrued and unpaid interest to the redemption date; *provided, however*, that installments of interest payable on or prior to the redemption date shall be payable to the Holders of such Notes registered as such at the close of business on the relevant Record Date according to their terms.

Section 3.07. *Notes Redeemed In Part.* Upon surrender of a Note that is redeemed in part, the Company shall execute and the Trustee shall authenticate for the Holder thereof (at the Company's expense) a new Note, equal in a principal amount to the unredeemed portion of the Note surrendered; provided that each new Note shall be in a principal amount of U.S. \$200,000 or an integral multiple of U.S. \$1,000 in excess thereof.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to redemption of Notes shall relate, in the case of any Note redeemed or to be redeemed only in part, to the portion of the principal amount of such Note which has been or is to be redeemed.

#### ARTICLE 4 COVENANTS

Section 4.01. *Payment of Principal and Interest Under the Notes.* The Company shall punctually pay the principal of and interest on the Notes on the dates and in the manner provided in the form of Note set forth as Exhibit A. By 10:00 a.m. (New York time), no later than one Business Day prior to any Payment Date, the Company shall irrevocably deposit with the Trustee or with the Paying Agent money sufficient to pay such principal and interest.

The Company shall pay interest on overdue principal or installments of interest, to the extent lawful, at the rate borne by the Notes plus 1% per annum.

No interest shall be payable hereunder in excess of the maximum rate permitted by applicable law.

Section 4.02. *Maintenance of Office or Agency.* The Company shall maintain in each place of payment for the Notes an office or agency where Notes may be presented or surrendered for payment and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Corporate Trust Office of the Trustee shall be such office or agency of the Company, unless the Company shall designate and maintain some other office or agency for one or more of such purposes. The Company shall give prompt written notice to the Trustee of any change in the location of any such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

Section 4.03. *Money for Note Payments to Be Held in Trust.* If the Company shall at any time act as its own Paying Agent, it shall, on or before each due date of principal of or interest on any of the Notes, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and shall promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for the Notes, it shall, on or before each due date of principal of or interest on any Notes, irrevocably deposit with a Paying Agent a sum sufficient to pay such principal and interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal or interest, and (unless such Paying Agent is the Trustee) the Company shall promptly notify the Trustee in writing of such action or any failure so to act.

Each Paying Agent, subject to the provisions of this Section 4.03, shall:

- (i) hold all sums held by it for the payment of principal of or interest on Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein; *provided, however*, such sums need not be segregated from other funds held by it, except as required by law;
- (ii) give the Trustee written notice of any Default by the Company (or any other obligor upon the Notes) in the making of any payment of principal or interest; and
- (iii) at any time during the continuance of any such Default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company shall cause the Paying Agent to execute and deliver an instrument in which such Paying Agent shall agree with the Trustee to act as a Paying Agent in accordance with this Section 4.03.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such sums.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of principal of or interest on any Note and remaining unclaimed for two years after such principal or interest has become due and payable shall be paid to the Company at the request of the Company, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Note shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; *provided, however*, that the Trustee or such Paying Agent, before being required to make any such repayment, shall, upon request and at the expense of the Company, cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the Borough of Manhattan, The City of New York notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining shall be repaid to the Company.

Section 4.04. *Maintenance of Corporate Existence.* LATAM Airlines Group S.A. shall, and shall cause each of its Subsidiaries to, (i) maintain in effect its corporate existence and all registrations necessary therefor, provided that these restrictions shall not prohibit any transactions permitted by Article 5 or the merger of any Subsidiary with or into LATAM Airlines Group S.A. or with or into any other Wholly-Owned Subsidiary of LATAM Airlines Group S.A.; (ii) take all reasonable actions to maintain all rights, privileges, titles to property, franchises and the like necessary in the normal conduct of its business, activities or operations; and (iii) maintain or cause to be maintained in good repair, working order and condition (normal wear and tear excepted) all properties used in their business; provided, however, that neither LATAM Airlines Group S.A. nor its Subsidiaries shall be prevented from discontinuing those operations (including through the transfer or dissolution of a Subsidiary) or suspending the maintenance of those properties (including through the sale thereof) which, in the reasonable judgment of LATAM Airlines Group S.A. are no longer necessary in the conduct of LATAM Airlines Group S.A.'s business, or that of its Subsidiaries; and provided, further, that such discontinuation of operations or suspension of maintenance shall not be materially disadvantageous to the Holders of the Notes.

Section 4.05. *Payment of Taxes and Claims.* LATAM Airlines Group S.A. shall, and shall cause each of its Subsidiaries to, pay all taxes, assessments and other governmental charges imposed upon it or any of its property in respect of any of its franchises, businesses, income or profits before any penalty or interest accrues thereon, and pay all claims (including claims for labor, services, materials and supplies) for sums which have become due and payable and which by law have or might become a Lien upon its property; provided, however, that any such payment shall not be required unless the failure to make such payment would have a material adverse effect upon the financial condition of LATAM Airlines Group S.A. and its Subsidiaries considered as one enterprise or a material adverse effect on the performance of LATAM Airlines Group S.A.'s obligations hereunder; and provided, further, that no such charge or claim need be paid while it is being contested in good faith by appropriate proceedings and if appropriate reserves or other provisions shall have been made therefor.

Section 4.06. *Payment of Additional Amounts.* (a) All payments (including any premium paid upon redemption of the Notes) by or on behalf of the Company or a successor in respect of the Notes or the Guarantor or a successor in respect of the Note Guaranty will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments, or other governmental charges of whatever nature imposed or levied by or on behalf of Chile, the Cayman Islands or any authority therein or thereof or any other jurisdiction in which the Company or the Guarantor (or in each case, their successor) are organized or doing business or from or through which payments are made in respect of the Notes, or any political subdivision or taxing authority thereof or therein (any of the aforementioned being a "**Taxing Jurisdiction**"), unless the Company or the Guarantor (or their respective successor) are compelled by law to deduct or withhold such taxes, duties, assessments, or governmental charges. In such event, the Company or the Guarantor (or their respective successor) will make such deduction or withholding, make payment of the amount so withheld to the appropriate governmental authority and pay such additional amounts as may be necessary to ensure that the net amounts received by registered Holders of Notes after such withholding or deduction shall equal the respective amounts of principal and interest (or other amounts stated to be payable under the Notes) which would have been received in respect of the Notes in the absence of such withholding or deduction ("**Additional Amounts**"). Notwithstanding the foregoing, no such Additional Amounts shall be payable:

(i) to, or to a third party on behalf of, a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of the existence of any present or former connection between such Holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such Holder, if such Holder is an estate, a trust, a partnership, or a corporation) and the relevant Taxing Jurisdiction, including, without limitation, such Holder (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein, other than the mere holding of the Note or enforcement of rights under this Indenture and the receipt of payments with respect to the Note;

(ii) in respect of Notes surrendered or presented for payment (if surrender or presentment is required) more than 30 days after the Relevant Date except to the extent that payments under such Note would have been subject to withholdings and the Holder of such Note would have been entitled to such Additional Amounts, on surrender of such Note for payment on the last day of such period of 30 days;

(iii) to, or to a third party on behalf of, a Holder who is liable for such taxes, duties, assessments or other governmental charges by reason of such Holder's failure to comply, with any certification, identification, documentation or other reporting requirement concerning the nationality, residence, identity or connection with the relevant Taxing Jurisdiction of such Holder, if (1) compliance is required by law or an applicable income treaty as a precondition to, exemption from, or reduction in the rate of, the tax, assessment or other governmental charge and (2) the Company has given the Holders at least 30 days' notice that Holders will be required to provide such certification, identification, documentation or other requirement;

(iv) in respect of any estate, inheritance, gift, sales, transfer, capital gains, excise or personal property or similar tax, assessment or governmental charge, other than as provided in Section 4.06(g);

(v) in respect of any tax, assessment or other governmental charge which is payable other than by deduction or withholding from payments of principal of (including premium) or interest on the Note;

(vi) in respect of any tax imposed on overall net income or any branch profits tax; or

(vii) in respect of any combination of the above.

(b) Notwithstanding anything to the contrary in this Section 4.06, none of the Company, the Guarantor, their respective successors, the Paying Agent or any other person shall be required to pay any Additional Amounts with respect to any payment in respect of any taxes imposed under Sections 1471 through 1474 of the Code, or any successor law or regulation implementing or complying with, or introduced in order to conform to, such sections, or imposed pursuant to any intergovernmental agreement or any agreement entered into pursuant to section 1471(b)(1) of the Code.

(c) No Additional Amounts shall be paid with respect to any payment on a Note to a Holder who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment to the extent that payment would be required by the relevant Taxing Jurisdiction to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in a limited liability company or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member or beneficial owner been the Holder.

(d) Payments on the Notes are subject in all cases to any tax, fiscal or other law or regulation or administrative or judicial interpretation. Except as specifically provided above, neither the Company nor the Guarantor shall be required to pay Additional Amounts with respect to any tax, assessment or governmental charge imposed by any government or a political subdivision or taxing authority thereof or therein.

(e) In the event that Additional Amounts actually paid with respect to the Notes are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the Holder of such Notes, and, as a result thereof such Holder is entitled to make claim for a refund or credit of such excess from the authority imposing such withholding tax, then such Holder shall, by accepting such Notes, be deemed to have assigned and transferred all right, title, and interest to any such claim for a refund or credit of such excess to the Company.

(f) Any reference in this Indenture or the Notes to principal, interest or any other amount payable in respect of the Notes by the Company or the Note Guaranty by the Guarantor (or their successors) will be deemed also to refer to any Additional Amount, unless the context requires otherwise, that may be payable with respect to that amount under the obligations referred to in this Section.

(g) Each of the Company and the Guarantor covenants that if any of the Company or the Guarantor, as applicable, is required under applicable law to make any deduction or withholding on payments of principal of or interest on the Notes for or on account of any tax, duty, assessment or other governmental charge, at least 10 days prior to the first payment date on the Notes and at least 10 days prior to each payment date thereafter where such withholding is required, the Company or the Guarantor, as applicable, shall furnish the Trustee and the Paying Agent with an Officers' Certificate (but only if there has been any change with respect to the matters set forth in any previously delivered Officers' Certificate) instructing the Trustee and the Paying Agent as to whether such payment of principal of or interest on the Notes shall be made without deduction or withholding for or on account of any tax, duty, assessment or other governmental charge, or, if any such deduction or withholding shall be required by the Taxing Jurisdiction, then such certificate shall: (i) specify the amount required to be deducted or withheld on such payment to the relevant recipient; (ii) certify that the Company or the Guarantor, as applicable, shall pay such deduction or withholding amount to the appropriate taxing authority; and (iii) certify that the Company or the Guarantor, as applicable, shall pay or cause to be paid to the Trustee or the Paying Agent such Additional Amounts as are required by this Section 4.06.

(h) Each of the Company and the Guarantor (or their respective successor) will pay any Taxes required to be deducted or withheld pursuant to applicable law and will furnish to the Holders, within 60 days after the date such payment is due, either certified copies of tax receipts evidencing such payment, or, if such receipts are not obtainable, other evidence of such payments reasonably satisfactory to the Holders.

(i) The Company or the Guarantor, as applicable, will pay when due any present or future stamp, transfer, court or documentary taxes or any other excise or property taxes, charges or similar levies and any penalties, additions to tax or interest due with respect thereto imposed by Chile (or any political subdivision or governmental authority thereof or therein having power to tax) or the Cayman Islands (or any political subdivision or governmental authority thereof or therein having power to tax) with respect to the initial execution, delivery or registration of the Notes or any other document or instrument relating thereto.

(j) Each of the Company and the Guarantor agrees to indemnify the Trustee and the Paying Agent for, and to hold each harmless against, any loss, liability or expense reasonably incurred without bad faith on its part arising out of or in connection with actions taken or omitted by it in reliance on any Officers' Certificate furnished pursuant to this Section 4.06 or any failure to furnish such a certificate.

(k) The obligations of the Company and the Guarantor pursuant to this Section 4.06 shall survive termination or discharge of this Indenture, payment of the Notes and/or resignation or removal of the Trustee or the Paying Agent.

Section 4.07. *Reporting Requirements.* (a) The Guarantor shall provide the Trustee with the following reports (and shall also provide the Trustee with sufficient copies, as required, of the reports referred to in clauses (i)-(iii) of this Section 4.07(a) for distribution, at the Company's expense, to all Holders of Notes):

(i) an English language version of LATAM Airlines Group S.A. annual audited consolidated financial statements prepared in accordance with IFRS promptly upon such financial statements becoming available but not later than 120 days after the close of its fiscal year;

(ii) an English language version of LATAM Airlines Group S.A. unaudited quarterly financial statements prepared in accordance with IFRS promptly upon such statements becoming available but not later than 60 days after the close of each fiscal quarter (other than the last fiscal quarter of its fiscal year); and

(iii) without duplication, English language versions or summaries of such other reports or notices as may be filed or submitted by (and promptly after filing or submission by) the Company with (a) the SVS or (b) the SEC (in each case, to the extent that any such report or notice is generally available to security holders of the Company or the public in Chile or elsewhere and, in the case of clause (b), is filed or submitted pursuant to Rule 12g3-2(b) under, or Section 13 or 15(d) of, the Exchange Act, or otherwise).

Delivery of the above reports to the Trustee is for informational purposes only and the Trustee's receipt of such reports shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of their covenants in this Indenture (as to which the Trustee is entitled to rely exclusively on Officers' Certificates). The requirement to provide any report to the trustee shall be deemed satisfied if such report has been filed with the SEC through the Electronic Data Gathering Analysis and Retrieval (EDGAR) system (or any successor method of filing) or if such report is made available on the Company's website (and the Company shall provide the relevant URL to the Trustee upon request).

(b) Within 60 days of the close of each of the first three fiscal quarters and within 90 days of the close of each fiscal year, for so long as any of the Notes remain Outstanding, (i) the Company shall request from DTC, a current list of the names and addresses of each DTC participant which is a Holder of an interest in a Global Note and (ii) at the Company's written request, the Trustee shall provide the Company with the names and addresses of each Holder of a Certificated Note, if any.

Section 4.08. *Available Information.* Each of the Company and the Guarantor shall take all action necessary to provide information to permit resales of the Notes pursuant to Rule 144A, including furnishing to any Holder of a Note or owner of a beneficial interest in a Global Note, or to any prospective purchaser designated by such a Holder or beneficial owner, upon request to such Holder or beneficial owner, financial and other information required to be delivered under paragraph (d)(4) of Rule 144A (as amended from time to time and including any successor provision) unless, at the time of such request, the Company or the Guarantor is subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act or is exempt from such requirements pursuant to Rule 12g3-2(b) under the Exchange Act (as amended from time to time and including any successor provision).

Section 4.09. *Limitations on the Company.* The Company may not own any material assets or other property, other than Debt or other obligations owing to the Company by the Guarantor and Subsidiaries, Cash Equivalents and Marketable Securities, or engage in any trade or conduct any business other than treasury, financing, cash management, hedging and cash pooling activities and activities incidental thereto. In addition, the Company shall not incur any material liabilities or obligations other than its obligations pursuant to the Notes and obligations pursuant to other Debt guaranteed by the Guarantor.

Section 4.10. *Limitation on Transactions with Affiliates.* The Guarantor will not, nor will the Guarantor permit any of its Subsidiaries to, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Guarantor other than itself or any of its Subsidiaries, (an "**Affiliate Transaction**") unless the terms of the Affiliate Transaction are no less favorable to the Guarantor or such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm's length dealings with a person who is not an Affiliate.

Section 4.11. *Repurchase of Notes upon a Change of Control.* Not later than 30 days following a Change of Control Event, the Company or the Guarantor will make an Offer to Purchase all Outstanding Notes at a purchase price equal to 101% of the principal amount plus accrued interest up to, but not including the date of repurchase; provided that the Company shall not be required to make such an Offer to Purchase if (a) a third party makes such an Offer to Purchase in the manner, at the times and otherwise in compliance with, the requirements set forth in this Section 4.11 with respect to an Offer to Purchase made by the Company or the Guarantor and (b) such third party purchases all Notes validly tendered and not withdrawn under its Offer to Purchase.



An “**Offer to Purchase**” must be made by written offer, which will specify the purchase price. The offer must specify an expiration date (the “**expiration date**”) not less than 30 days or more than 60 days after the date of the offer and a settlement date for the purchase (the “**purchase date**”) not more than five Business Days after the expiration date. An Offer to Purchase may be made in advance of a Change of Control and conditioned on a Change of Control occurring if a definitive agreement is in place at the time such conditional Offer to Purchase is made that, if consummated, would result in a Change of Control. The offer must include information required by the Securities Act, Exchange Act or any other applicable laws. The offer will also contain instructions and materials necessary to enable Holders to tender notes pursuant to the offer.

A Holder may tender all or any portion of its Notes pursuant to an Offer to Purchase, subject to the requirement that any portion of a Note tendered must be in a denomination of U.S. \$200,000 and integral multiples of U.S. \$1,000 principal amount in excess thereof. Holders are entitled to withdraw Notes tendered up to the close of business on the expiration date. On the purchase date the purchase price will become due and payable on each Note accepted for purchase pursuant to the Offer to Purchase, and interest on Notes purchased will cease to accrue on and after the purchase date.

The Company and the Guarantor will comply with Rule 14e-1 under the Exchange Act (to the extent applicable) and all other applicable laws in making any Offer to Purchase, and the above procedures will be deemed modified as necessary to permit such compliance.

## ARTICLE 5

### CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

Section 5.01. *Limitation on Consolidation, Merger or Transfer of Assets.* The Guarantor shall not consolidate with or merge with or into, or sell, convey, transfer or dispose of, or lease all or substantially all of its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions, to, any Person, unless:

(i) the resulting, surviving or transferee Person (if not the Guarantor) shall be a Person organized and existing under the laws of Chile, Brazil, Peru or the United States, or any other country (or political subdivision thereof) that is a member country of the European Union or of the Organisation for Economic Co-operation and Development on the date of this Indenture, and such Person expressly assumes, by a supplemental indenture hereto, executed and delivered to the Trustee, all the obligations of the Guarantor under this Indenture and the Notes;

(ii) the resulting, surviving or transferee person (if not the Guarantor), if organized and existing under the laws of a jurisdiction other than Chile, undertakes in such supplemental indenture, (i) to pay such Additional Amounts in respect of principal (and premium, if any) and interest as may be necessary in order that every net payment made in respect of the Notes after deduction or withholding for or on account of any present or future tax, duty, assessment or other governmental charge imposed by such other country or any political subdivision or taxing authority thereof or therein shall not be less than the amount of principal (and premium, if any) and interest then due and payable on the Notes subject to the same exceptions set forth under Section 4.06(a)(i)-(viii) and (ii) that the provisions set forth in Section 3.01(e) shall apply to such person, but in both cases, replacing existing references in such Section to Chile with references to the jurisdiction of organization of the resulting, surviving or transferee Person, as the case may be;

(iii) immediately prior to such transaction and immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing; and

(iv) the Guarantor shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture, if any, comply with this Indenture.

The Trustee shall accept such Officers' Certificate and Opinion of Counsel as sufficient evidence of the satisfaction of the conditions precedent set forth in this Section 5.01, in which event it shall be conclusive and binding on the Holders.

Section 5.02. *Successor Substituted.* Upon any consolidation or merger, or any sale, assignment, conveyance, transfer, lease or disposition of all or substantially all of the properties and assets of the Guarantor in accordance with Section 5.01 in which the Guarantor is not the continuing obligor under this Indenture, the surviving or transferor Person shall succeed to, and be substituted for, and may exercise every right and power of the Guarantor under this Indenture with the same effect as if such successor had been named as the Guarantor therein. When a successor assumes all the obligations of its predecessor under this Indenture and the Notes the predecessor shall be released from those obligations; provided that in the case of a transfer by lease, the predecessor shall not be released from the payment of principal and interest on the Notes.

## ARTICLE 6

### EVENTS OF DEFAULT AND REMEDIES

Section 6.01. *Events of Default.* The term "**Event of Default**" means, when used herein, any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to, or as a result of any failure to obtain, any authorization, order, rule, regulation, judgment or decree of any governmental or administrative body or court):

(a) The Company defaults in any payment of interest (including any related Additional Amounts) on any Note when the same becomes due and payable, and such Default continues for a period of 30 days;

(b) The Company defaults in the payment of the principal (including any related Additional Amounts) of any Note when the same becomes due and payable upon acceleration or redemption or otherwise;

(c) The Company or the Guarantor fails to comply with any of its covenants or agreements in the Notes or this Indenture (other than those referred to in clauses (a) and (b) of this Section 6.01), and such failure continues for 60 days after the notice specified below;

(d) The Company, the Guarantor or any Significant Subsidiary defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Debt for money borrowed by the Company, the Guarantor, or any such Significant Subsidiary (or the payment of which is guaranteed by the Company, the Guarantor, or any such Significant Subsidiary) whether such Debt or guarantee now exists, or is created after the date of this Indenture, which default (i) is caused by failure to pay principal of or premium, if any, on such Debt after giving effect to any grace period provided in such Debt on the date of such default ("**Payment Default**") or (ii) results in the acceleration of such Debt prior to its express maturity and, in each case, the principal amount of any such Debt, together with the principal amount of any other such Debt under which there has been a Payment Default or the maturity of which has been so accelerated, totals U.S. \$75,000,000 (or the equivalent thereof at the time of determination) or more in the aggregate;

(e) One or more final judgments or decrees for the payment of money of U.S. \$75,000,000 (or the equivalent thereof at the time of determination) or more in the aggregate (determined net of any amount covered by an insurance policy or policies issued by insurance companies with sufficient financial resources to perform their obligations under such policies) are rendered against the Company, the Guarantor, or any Significant Subsidiary and are not paid (whether in full or in installments in accordance with the terms of the judgment) or otherwise discharged and, in the case of each such judgment or decree, either (i) an enforcement proceeding has been commenced by any creditor upon such judgment or decree and is not dismissed within 30 days following commencement of such enforcement proceedings or (ii) there is a period of 60 days following such judgment during which such judgment or decree is not discharged, waived or the execution thereof stayed;

(f) A decree or order by a court having jurisdiction has been entered adjudging the Company, the Guarantor or any Significant Subsidiary as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization of or by the Company, the Guarantor or any Significant Subsidiary and such decree or order continues undischarged or unstayed for a period of 60 days; or a decree or order by a court having jurisdiction for the appointment of a receiver or liquidator or for the liquidation or dissolution of the Company, the Guarantor or any Significant Subsidiary has been entered, and such decree or order continues undischarged or unstayed for a period of 60 days; provided that any Significant Subsidiary may be liquidated or dissolved if, pursuant to such liquidation or dissolution, all or substantially all of its assets are transferred to the Company, the Guarantor or another Significant Subsidiary;

(g) the Company or any Significant Subsidiary (i) commences a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its Debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (ii) consents to the appointment of or taking possession by a receiver, *veedor*, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for all or substantially all of the property of the Company or any Significant Subsidiary or (iii) effects any general assignment for the benefit of creditors;

(h) any event occurs that under the laws of the Cayman Islands, Chile or any political subdivision thereof or any other country has substantially the same effect as any of the events referred to in any of clause (f) or (g);

(i) the guarantee ceases to be in full force and effect, other than in accordance with the terms of this Indenture, or the Guarantor denies or disaffirms its obligations under the guarantee; or

(j) the Guarantor ceases to own directly or indirectly 100% of the outstanding share capital of the Company.

A Default under clause (c) of this Section 6.01 shall not constitute an Event of Default until the Trustee or the Holders of at least 25% in principal amount of the Outstanding Notes notify the Company and the Guarantor of the Default and the Company or the Guarantor does not cure such Default within 60 days after receipt of such notice.

As soon as possible, and in any event within 15 Business Days after the Company becomes aware of the existence of a Default or Event of Default, the Company shall deliver to the Trustee an Officers' Certificate setting forth the details thereof and the action which the Company is taking or propose to take with respect thereto.

Section 6.02. *Acceleration of Maturity, Rescission and Amendment.* If an Event of Default (other than an Event of Default specified in Section 6.01(f), Section 6.01(g) or Section 6.01(h)) occurs and is continuing, the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Notes may declare all unpaid principal of and accrued and unpaid interest on all Notes to be due and payable immediately, by a notice in writing to the Company and the Guarantor (and to the Trustee, if the notice is given by the Holders), stating that such notice is an "acceleration notice," and upon any such declaration such amounts shall become due and payable immediately. If an Event of Default specified in Section 6.01(f), Section 6.01(g) or Section 6.01(h) occurs and is continuing, then the principal of and accrued and unpaid interest on all Notes shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

At any time after a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter provided in this Article, the Holders of a majority in principal amount of the Notes by written notice to the Company and the Trustee may rescind or annul such declaration if:

(i) the Company has paid or deposited with the Trustee a sum sufficient to pay (A) all overdue interest on Outstanding Notes, (B) all unpaid principal of the Notes that has become due otherwise than by such declaration of acceleration, (C) to the extent that payment of such interest on the Notes is lawful, interest on such overdue interest (including any Additional Amounts) as provided herein and (D) all sums paid or advanced by the Trustee and Agents hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee and Agents and their agents and counsel; and

(ii) all Events of Default have been cured or waived as provided in Section 6.13 other than the nonpayment of principal that has become due solely because of acceleration.

No such rescission shall affect any subsequent Default or Event of Default or impair any right consequent thereto.

Section 6.03. *Collection Suit by Trustee.* If an Event of Default specified in Section 6.01(a) or 6.01(b) occurs, the Trustee, in its own name as trustee of an express trust, (i) may institute a judicial proceeding for the collection of the whole amount then due and payable on such Notes for principal and interest (including Additional Amounts), and interest on any overdue principal and, to the extent that payment of such interest (including Additional Amounts) shall be legally enforceable, upon any overdue installment of interest (including Additional Amounts), at the rate borne by the Notes, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, (ii) may prosecute such proceeding to judgment or final decree and (iii) may enforce the same against the Company or any other obligor upon the Notes and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon the Notes, wherever situated.

If an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders by any available proceeding at law or in equity, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 6.04. *Other Remedies.* If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal of or interest (including Additional Amounts) on the Notes or to enforce the performance of any provision of the Notes or this Indenture.

Section 6.05. *Trustee May Enforce Claims Without Possession of Notes.* All rights of action and claims under this Indenture or the Notes may be prosecuted and enforced by the Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name and as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Notes in respect of which such judgment has been recovered.

Section 6.06. *Application of Money Collected.* Any money collected by the Trustee pursuant to this Article 6 shall be applied in the following order:

FIRST: to the Trustee for amounts due to it hereunder (including, without limitation, under Section 7.06);

SECOND: to Holders for amounts due and unpaid on the Notes for principal and interest (including Additional Amounts), ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal and interest (including Additional Amounts), respectively; and

THIRD: to the Company or, to the extent the Trustee collects any amounts from the Guarantor, to the Guarantor or as a court of competent jurisdiction may direct.

The Trustee may fix a record date and payment date for any payment to Holders pursuant to this Section 6.06. At least 15 days before such record date, the Company shall deliver to each Holder and the Trustee a notice that states the record date, the payment date and amount to be paid.

Section 6.07. *Limitation on Suits.* A Holder may not pursue any remedy with respect to this Indenture or the Notes unless:

- (i) the Holder has previously given to the Trustee written notice stating that an Event of Default has occurred and is continuing;
- (ii) the Holders of at least 25% in principal amount of the Notes have made a written request to the Trustee to pursue the remedy in respect of such Event of Default;
- (iii) such Holder or Holders has offered and provided to the Trustee security or indemnity reasonably satisfactory to the Trustee against any cost, loss, liability or expense to be incurred in compliance with such request;
- (iv) the Trustee does not comply with the request within 60 days after receipt of the request and the offer and provision of security or indemnity; and
- (v) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Notes Outstanding.

A Holder may not use this Indenture to prejudice the rights of another Holder or to obtain a preference or priority over another Holder.

Section 6.08. *Rights of Holders to Receive Principal and Interest.* Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of principal of and interest on the Notes held by such Holder, on or after the respective Payment Dates expressed in the Notes, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

Section 6.09. *Restoration of Rights and Remedies.* If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Guarantor, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

Section 6.10. *Trustee May File Proofs of Claim.* The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due to the trustee hereunder) and the Holders allowed in any judicial proceedings relative to the Company, the Guarantor, their respective creditors or their respective properties and, unless prohibited by law or applicable regulations, may vote on behalf of the Holders in any election of a trustee in bankruptcy or other Person performing similar functions, and any Custodian in any such judicial proceeding is hereby authorized by each Holder to make payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and its counsel, and any other amounts due the Trustee under Section 7.06. Nothing herein shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 6.11. *Delay or Omission Not Waiver.* No delay or omission of the Trustee or of any Holder of any Note to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article 6 or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Section 6.12. *Control by Holders.* The Holders of a majority in principal amount of the Outstanding Notes may direct in writing the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. However, the Trustee shall be under no obligation to exercise any of the rights or powers under this Indenture at the request or direction of the Holders if such request or direction conflicts with any law or with this Indenture or, subject to Section 7.01, if the Trustee determines it is unduly prejudicial to the rights of other Holders (it being understood that, subject to Sections 7.01 and 7.02, the Trustee shall have no duty to ascertain whether or not such actions or forbearance are unduly prejudicial to such Holders) or would involve the Trustee in personal liability or expense; provided, however, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such request or direction. Prior to taking any action hereunder, the Trustee shall be entitled to indemnification satisfactory to it in its sole discretion against all costs, losses, liabilities and expenses caused by taking or not taking such action.

Section 6.13. *Waiver of Past Defaults and Events of Default.* Subject to Section 6.02, the Holders of a majority in principal amount of the Outstanding Notes by written notice to the Trustee may waive an existing Default or Event of Default and its consequences except (i) a Default or Event of Default in the payment of the principal of or interest on a Note or (ii) a Default or Event of Default in respect of a provision that under Section 9.02 cannot be amended without the consent of each Holder affected. When a Default or Event of Default is waived, it is deemed cured, but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any consequent right.

Section 6.14. *Rights and Remedies Cumulative.* Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes in Section 2.08, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 6.15. *Waiver of Stay or Extension Laws.* The Company and the Guarantor covenant (to the extent that they may lawfully do so) that they shall not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture or the Notes; and the Company and the Guarantor (to the extent that it may lawfully do so) hereby expressly waive all benefit or advantage of any such law, and shall not hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had been enacted.

#### ARTICLE 7 TRUSTEE AND AGENTS

Section 7.01. *Duties of Trustee.* (a) If an Event of Default has occurred and is continuing and a Responsible Officer has actual knowledge thereof, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

(b) Except during the continuance of an Event of Default in the case of the Trustee only, (i) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and (ii) in the absence of bad faith on the part of the Trustee, the Trustee, may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee, and conforming to the requirements of this Indenture. However, in the case of any certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of the mathematical calculations or other facts stated therein).



(c) The Trustee may not be relieved from liability for its own gross negligence, bad faith or willful misconduct, except that:

(i) this Section 7.01(c) does not limit the effect of Section 7.01(b);

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer unless it is proved that the Trustee was grossly negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.07 or exercising any trust or power conferred upon it under this Indenture.

(d) The Trustee shall not be liable for interest on any money received by it except as each may agree in writing with the Company.

(e) Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

(f) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds and/or adequate indemnity against such risk or liability is not satisfactorily assured to it.

(g) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section 7.01.

Section 7.02. *Rights of Trustee.* (a) The Trustee may conclusively rely upon, and shall be protected in acting or refraining from acting based upon, any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in any such document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate, the written advice of a qualified tax expert or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on the Officers' Certificate, the qualified tax expert's written advice or Opinion of Counsel.

(c) The Trustee may act through agents or attorneys and shall not be responsible for the willful misconduct or negligence of any agent or attorneys appointed with due care.

(d) Any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by an Officers' Certificate of the Company (unless other evidence in respect thereof be herein specifically prescribed); and any resolution of the Board of Directors of the Company may be evidenced to the Trustee or any Agent by copies thereof certified by the Secretary or an Assistant Secretary (or equivalent officer) of the Company.

(e) The Trustee shall not be under an obligation to exercise any of the trusts or powers vested in it by this Indenture at the request, order or direction of any of the Holders pursuant to the provisions of this Indenture, unless such Holders shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities that might be incurred thereby.

(f) The Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion, rights or powers conferred upon it by this Indenture, *provided* that the conduct of the Trustee does not constitute willful misconduct, gross negligence or bad faith.

(g) The Trustee shall not be deemed to have notice of any Default or Event of Default unless a Responsible Officer of the Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Trustee at the Corporate Trust Office of the Trustee, and such notice references the Notes and this Indenture.

(h) The Trustee may consult with counsel of its selection, and the advice or Opinion of Counsel with respect to legal matters relating to this Indenture and the Notes shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(i) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document unless, in the case of the Trustee, requested in writing by the Holders of not less than a majority in aggregate principal amount of the Notes Outstanding; *provided* that if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not satisfactorily assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require from the Holders indemnity satisfactory to the Trustee against such expenses or liabilities as a condition to proceeding; the reasonable expenses of every such investigation shall be paid by the Company or, if paid by the Trustee, shall be reimbursed by the Company upon demand.

(j) Neither the Trustee nor any Paying Agent shall be required to invest, or shall be under any liability for interest, on any moneys at any time received by it pursuant to any of the provisions of this Indenture or the Notes except as the Trustee or any Paying Agent may otherwise agree with the Company. Such moneys need not be segregated from other funds except to the extent required by mandatory provisions of law.

(k) In no event shall the Trustee be liable for special, indirect or consequential loss or damage of any kind whatsoever (including, but not limited to, lost profits), even if the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

(l) The permissive rights of the Trustee enumerated herein shall not be construed as duties of the Trustee.

(m) The Trustee may request that the Company deliver a certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture.

(n) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder (including its Agent roles), and to each agent, custodian and other Person employed to act hereunder.

Section 7.03. *Individual Rights of Trustee.* The Trustee and any Paying Agent, Registrar or co-registrar or any other agent of the Company or of the Trustee, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee, Paying Agent, Registrar or such other agent.

Section 7.04. *Trustee's Disclaimer.* Neither the Trustee nor any Agent shall be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Notes, it shall not be accountable for the Company's use of the proceeds from the Notes, and it shall not be responsible for any statement of the Company in this Indenture or in any document issued in connection with the sale of the Notes or in the Notes other than the Trustee's certificate of authentication.

Section 7.05. *Notice of Defaults and Events of Default.* If a Default or Event of Default occurs and is continuing, and if it is known to the Responsible Officer, the Trustee shall mail or deliver to each Holder notice of the Default or Event of Default within 90 days after a Responsible Officer acquires actual knowledge of such Default or Event of Default. Except in the case of a Default or Event of Default in payment of principal of or interest on any Note, the Trustee may withhold the notice and shall be protected from withholding the notice if and so long as a committee of its Responsible Officers of the Trustee in good faith determines that withholding the notice is in the interests of Holders. For all purposes of this Indenture and the Notes, the Trustee is not to be charged with knowledge of a Default or Event of Default or knowledge of any cure of any Default or Event of Default unless either (i) an attorney, authorized officer or agent of the Trustee with direct responsibility for this Indenture has actual knowledge of such Default or Event of Default or (ii) written notice of such Default or Event of Default has been given to the Trustee by the Company or any Holder.

Section 7.06. *Compensation and Indemnity.* The Company agrees to pay to the Trustee from time to time such compensation as shall be agreed upon in writing for its services. The Trustee's compensation shall not be limited by any law regarding compensation of a trustee of an express trust. The Company agrees to reimburse promptly the Trustee upon request for all reasonable out-of-pocket expenses incurred or made by it, including costs of collection, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the Trustee's agents, counsel, accountants and experts. Payments of any such expenses by the Company to the Trustee shall be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments, fees or other governmental charges of whatever nature (and any fines, penalties or interest related thereto) imposed or levied by or on behalf of the Cayman Islands, Chile or any political subdivision or authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Company shall pay to the Trustee such Additional Amounts as may be necessary in order that every net payment made by the Company to the Trustee after deducting or withholding for or on account of any present or future tax, penalty, fine, duty, assessment or other governmental charge imposed upon or as a result of such payment by the Cayman Islands, Chile or any political subdivision or taxing authority thereof or therein shall not be less than the amount then due and payable to the Trustee or the Paying Agent, as the case may be. The Company shall indemnify each of the Trustee and each Agent against any and all loss, liability or expense (including reasonable attorneys' fees and expenses) incurred by it without gross negligence or bad faith on its part arising out of and in connection with the administration of this Indenture, the performance of its respective duties hereunder, and the exercise of its rights hereunder including, without limitation, the costs and expenses of defending itself against any claim or liability and of complying with any process served upon it or any of its officers in connection with the exercise or performance of any of its powers or duties under this Indenture. The Company undertakes to indemnify the Trustee and each of the Agents and their affiliates against all losses, liabilities, including any and all tax liabilities, which, for the avoidance of doubt, shall include without limitation the Cayman Islands and Chilean taxes and associated penalties, costs, claims, actions, damages, expenses or demands which any of them may incur or which may be made against any of them as a result of or in connection with the appointment of or the exercise of the powers and duties or rights by the Trustee or any Agent or its affiliates under this Indenture except as may result from its own gross negligence or willful misconduct. The Trustee and each Agent shall notify the Company promptly of any claim for which it may seek indemnity. Failure by the Trustee or such Agent to so notify the Company shall not relieve the Company of its obligations hereunder. If the Trustee or any Agent, as the case may be, determines in its reasonable discretion that no conflict of interest (or potential conflict of interest) exists, the Company will be entitled to participate in the Trustee's defense of the claim or such Agent's defense of the claim, as the case may be, and the Trustee or such Agent may have separate counsel and the Company shall pay the fees and expenses of such counsel.

To secure the payment obligations of the Company in this Section 7.06, the Trustee shall have a lien prior to the Notes on all money or property held or collected by the Trustee or the Paying Agent, except that held in trust to pay principal of and interest on particular Notes.

The obligations of the Company pursuant to this Section 7.06 shall survive the payment of the Notes, resignation or removal of the Trustee or any Agent and the satisfaction, discharge and termination of this Indenture. When the Trustee incurs expenses after the occurrence of a Default or Event of Default specified in Section 6.01(h), the expenses are intended to constitute expenses of administration under any bankruptcy law.

The Company acknowledges that none of the Trustee, the Paying Agent or any other Agent makes any representations as to the interpretation or characterization of the transactions herein undertaken for tax or any other purpose, in any jurisdiction. The Company represents that it has fully satisfied itself as to any tax impact of this Indenture before agreeing to the terms herein, and is responsible for any and all federal, state, local, income, franchise, withholding, value added, sales, use, transfer, stamp or other taxes imposed by any jurisdiction in respect of this Indenture.

The Company agrees to pay any and all stamp and other documentary taxes or duties which may be payable in connection with the execution, delivery, performance and enforcement of this Indenture by the Trustee or any Agent.

Section 7.07. *Replacement of Trustee.* The Trustee may resign at any time by so notifying the Company in writing. The Holders of a majority in principal amount of the Notes may remove the Trustee by so notifying the Trustee in writing and may appoint a successor Trustee. The Company shall remove the Trustee if:

- (i) the Trustee fails to comply with Section 7.09;
- (ii) the Trustee is adjudged a bankrupt or insolvent;
- (iii) a receiver or other public officer takes charge of the Trustee or its property; or
- (iv) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason (the Trustee in such event being referred to herein as the retiring Trustee) the Company shall promptly appoint a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Holders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.06.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of a majority in principal amount of the Notes may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.09, any Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding the replacement of the Trustee pursuant to this Section 7.07, the Company's obligation under Section 7.06 shall continue for the benefit of the retiring Trustee.

Section 7.08. *Successor Trustee by Merger.* If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business (including this transaction) or assets to, another corporation or banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee.

In case at the time such successor or successors by merger, conversion or consolidation to the Trustee shall succeed to the trusts created by this Indenture any of the Notes shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Trustee may authenticate such Notes in the name of the successor to the Trustee; and in all such cases such adopted certificates shall have the full force of all provisions within the Notes or in this Indenture relating to the certificate of the Trustee.

Section 7.09. *Eligibility; Disqualification.* The Trustee hereunder shall at all times be a corporation, bank or trust company organized and doing business under the laws of the United States or any state thereof (i) which is authorized under such laws to exercise corporate trust power, (ii) is subject to supervision or examination by governmental authorities, (iii) shall have at all times a combined capital and surplus of at least U.S. \$50,000,000 as set forth in its most recent published annual report of condition and (iv) shall have its Corporate Trust Office in The City of New York. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 7.09, it shall resign immediately in the manner and with the effect specified in Section 7.07.

#### ARTICLE 8

##### DISCHARGE OF INDENTURE; DEFEASANCE

Section 8.01. *Discharge of Liability on Notes.* (a) This Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of Notes, as expressly provided for in this Indenture) as to all Notes when (i) either (A) all the Notes heretofore authenticated and delivered (except lost, stolen or destroyed notes which have been replaced or paid and notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the trustee for cancellation; or (B) all Notes not theretofore delivered to the trustee for cancellation (x) have become due and payable or will become due and payable within one year or (y) are to be called for redemption within one year under irrevocable arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company, and, in each case, the Company or the Guarantor has irrevocably deposited or caused to be deposited with the Trustee funds or certain direct, non-callable obligations of, or guaranteed by, the United States sufficient without reinvestment to pay and discharge the entire indebtedness on the Notes not heretofore delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the Notes to the date of deposit (in the case of Notes that have become due and payable) or to the maturity or redemption date, as the case may be, together with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment; (ii) if in any such case no Default or Event of Default has occurred and is continuing on the date of such deposit after giving effect thereto; (iii) the Company pays all other sums payable hereunder and under the Notes by the Company and (iv) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel each stating that all conditions precedent herein provided relating to the satisfaction and discharge of this Indenture have been complied with and at the cost and expense of the Company.

(b) Subject to Sections 8.01(c), 8.02 and 8.06, the Company or the Guarantor at any time may terminate (i) all its obligations under this Indenture and the Notes (“**legal defeasance option**”) or (ii) its obligations under Sections 4.07, 4.08, 4.09, 5.01(iii) and 5.02 and the operation of Sections 6.01(c), 6.01(d) and 6.01(e) (“**covenant defeasance option**”). The legal defeasance option may be exercised notwithstanding any prior exercise of the covenant defeasance option. Upon exercise by the Company or the Guarantor of the legal defeasance option or the covenant defeasance option, the Guarantor’s obligations under its Note Guaranty will terminate, subject to the provisions of Section 8.01(c) and Section 10.03.

If the legal defeasance option is exercised, payment of the Notes may not be accelerated because of an Event of Default with respect thereto. If the covenant defeasance option is exercised, payment of the Notes may not be accelerated because of an Event of Default specified in Sections 6.01(c), 6.01(d) or 6.01(e).

Upon satisfaction of the conditions set forth herein and upon request of the Company or the Guarantor, the Trustee shall acknowledge in writing the discharge of the obligations of the Company or the Guarantor hereunder except those specified in Section 8.01(c).

(c) Notwithstanding Section 8.01(a) and Section 8.01(b), Sections 2.03, 2.04, 2.05, 2.06, 2.07, 2.08, 4.06, 7.06, 7.07, 8.04, 8.05, 8.06 and 10.03 shall survive until the Notes have been paid in full. Thereafter, the obligations of the Company or the Guarantor pursuant to Sections 7.06, 7.07, 8.04 and 8.05 shall survive. Furthermore, the Guarantor’s obligations to pay fully and punctually all amounts payable by the Company or the Guarantor to the Trustee under this Indenture shall survive.

Section 8.02. *Conditions to Defeasance.* The Company or the Guarantor may exercise the legal defeasance option or the covenant defeasance option only if:

(a) the Company or the Guarantor irrevocably deposits or causes to be deposited with the Trustee as trust funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders (the “**defeasance trust**”) pursuant to an irrevocable trust and security agreement in form and substance satisfactory to the Trustee, money or U.S. Government Obligations, or a combination thereof, sufficient for the payment of principal of, premium, if any, and interest on all the Notes to Maturity or redemption;

(b) the Company or the Guarantor delivers to the Trustee a written certificate from an internationally recognized firm of independent public accountants expressing their opinion that, without consideration of any reinvestment, the payments of principal of and interest on the Notes when due and without reinvestment on the deposited U.S. Government Obligations plus any deposited money without investment and after payment of all federal, state and local taxes or other charges or assessments in respect thereof payable by the Trustee shall provide cash at such times and in such amounts as shall be sufficient to pay principal of, premium, if any, and interest on all the Notes when due at Maturity or on redemption, as the case may be;

(c) 123 days pass after the deposit is made in accordance with the terms of Section 8.02(a) and during such 123-day period no Default or Event of Default specified in Section 6.01(h) occurs which is continuing at the end of the period;

(d) no Default or Event of Default has occurred and is continuing on the date of such deposit and after giving effect thereto;

(e) the deposit does not constitute a default or event of default under any other agreement binding on the Company or the Guarantor;

(f) the Company or any Guarantor delivers to the Trustee an Opinion of Counsel with respect to Chilean matters stating that, under Chilean law, Holders (1) shall not recognize income, gain or loss for Chilean income tax purposes as a result of such deposit and defeasance and shall be subject to Chilean tax on the same amounts, in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred and (2) payments from the defeasance trust to any such Holder shall not be subject to withholding or deduction for or on account of any taxes, duties, assessments or other governmental charges under Chilean law;

(g) in the case of the legal defeasance option, the Company or the Guarantor delivers to the Trustee an Opinion of Counsel with respect to U.S. Federal income tax matters stating that (1) the Company or the Guarantor has received from, or there has been published by, the U.S. Internal Revenue Service a ruling, or (2) since the date of this Indenture there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders shall not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and shall be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred;

(h) in the case of the covenant defeasance option, the Company or the Guarantor delivers to the Trustee an Opinion of Counsel with respect to U.S. federal income tax matters to the effect that the Holders shall not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and shall be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred;

(i) the Company or the Guarantor delivers to the Trustee an Opinion of Counsel with respect to Cayman Islands tax matters and Opinions of Counsel with respect to tax matters of any other jurisdiction in which the Company is conducting business in a manner which causes the Holders of the Notes to be liable for taxes on payments under the Notes for which they would not have been so liable but for such conduct of business in such other jurisdiction, stating that the Holders will not recognize income, gain or loss in the relevant jurisdiction as a result of such deposit and the defeasance and will be subject to taxes in the relevant jurisdiction (including any withholding taxes) on the same amount and in the same manner and at the same times as would otherwise have been the case if such deposit and defeasance had not occurred;

(j) the Company or the Guarantor delivers to the Trustee an Opinion of Counsel, in form and substance reasonably satisfactory to Trustee, to the effect that, after the passage of 123 days following the deposit, the trust funds shall not be subject to any applicable bankruptcy, insolvency, reorganization or similar law affecting creditors' rights generally; and



(k) the Company or the Guarantor delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent to the defeasance and discharge of the Notes as contemplated by this Article 8 have been complied with.

Before or after a deposit, the Company or the Guarantor may make arrangements satisfactory to the Trustee for the redemption of Notes at a future date in accordance with Article 3.

Section 8.03. *Application of Trust Money.* The Trustee shall hold in trust money or U.S. Government Obligations deposited with it pursuant to Section 8.02. It shall apply the deposited money and the money from U.S. Government Obligations through the Paying Agent or Paying Agents and in accordance with this Indenture to the payment of principal of and interest on the Notes.

Section 8.04. *Repayment to Company.* Upon termination of the trust established pursuant to Section 8.02, the Trustee and each Paying Agent shall promptly pay to the Company upon request, any excess cash or U.S. Government Obligations held by them.

The Trustee and each Paying Agent shall pay to the Company, upon request, any money held by them for the payment of principal of or interest on the Notes that remains unclaimed for two years after the due date for such payment of principal or interest, and, thereafter, the Trustee and each Paying Agent, as the case may be, shall not be liable for payment of such amounts hereunder and the Holders shall be entitled to such recovery of such amounts only from the Company.

Section 8.05. *Indemnity for U.S. Governmental Obligations.* The Company shall pay and shall indemnify the Trustee against any tax, fee or other charge imposed on or assessed against deposited U.S. Government Obligations or the principal and interest received on such U.S. Government Obligations.

Section 8.06. *Reinstatement.* If the Trustee or any Paying Agent is unable to apply any money or U.S. Government Obligations in accordance with this Article 8 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the obligations of the Company and the Guarantor under this Indenture, the Notes and the Note Guaranty shall be revived and reinstated as though no deposit had occurred pursuant to this Article 8 until such time as the Trustee or such Paying Agent is permitted to apply all such money or U.S. Government Obligations in accordance with this Article 8; *provided, however,* that, if the Company or the Guarantor has made any payment of principal of or interest on any Notes because of the reinstatement of its obligations, the Company and the Guarantor shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money or U.S. Government Obligations held by the Trustee or such Paying Agent.

ARTICLE 9  
AMENDMENTS

Section 9.01. *Without Consent of Holders.* The Company and the Guarantor, when each authorized by a Board Resolution, and the Trustee may amend or supplement this Indenture or the Notes, without the consent or vote of any Holder for the following purposes:

- (i) to cure any ambiguity, omission, defect or inconsistency;
- (ii) to comply with Section 5.01;
- (iii) to add to the covenants of the Company or the Guarantor for the benefit of the Holders;
- (iv) to surrender any right herein conferred upon the Company or the Guarantor;
- (v) to evidence and provide for the acceptance of an appointment by a successor Trustee;
- (vi) to provide for the issuance of Additional Notes;
- (vii) to provide for any guarantee of the Notes, to secure the Notes or to confirm and evidence the release, termination or discharge of any guarantee of the Notes when such release termination or discharge is permitted by this Indenture;
- (viii) to make any other change that does not materially and adversely affect the rights of any Holder or to conform this Indenture to the section "Description of Notes" in the Offering Memorandum; or
- (ix) to comply with any applicable requirements of the SEC.

*provided* that, in the case of clause (i) or (ii) above, the Company has delivered to the Trustee an Opinion of Counsel and an Officers' Certificate, each stating that such amendment or supplement complies with the provisions of this Section 9.01.

Upon the written request of the Company, accompanied by a Board Resolution authorizing the execution of any supplemental indenture, and upon receipt by the Trustee of the documents described in Section 9.05, the Trustee shall join with the Company and the Guarantor in the execution of any supplemental indenture authorized or permitted by the terms of this Indenture and to make any further appropriate agreements and stipulations which may be therein contained, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects its own rights, duties or immunities under this Indenture or otherwise.

The Guarantor must consent to any amendment or supplement hereunder.

Section 9.02. *With Consent of Holders.* Except as specified in Section 9.01, the Company and the Guarantor, when authorized by a Board Resolution, and the Trustee, together, may amend or supplement this Indenture or the Notes with the written consent of the Holders of at least a majority in principal amount of the Outstanding Notes for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or modifying in any manner the rights of the Holders under this Indenture, and the Holders of at least a majority in principal amount of the Outstanding Notes may, except as set forth below, waive any past Default or compliance with any provision of this Indenture; provided, however, that, without the consent of each Holder affected, an amendment or waiver may not:

- (i) reduce the principal amount of or change the Stated Maturity of any payment on any Note;
- (ii) reduce the rate or change the time for payment of interest on any Note;
- (iii) reduce the amount payable upon the redemption of any Note or change the time at which any Note may be redeemed;
- (iv) change the place of payment for or the currency for payment of principal of, premium, if any, or interest or any Additional Amounts on, any Note;
- (v) impair the right to institute suit for the enforcement of any right to payment on or with respect to any Note;
- (vi) waive a Default or Event of Default in payment of principal of and interest on the Notes;
- (vii) reduce the principal amount of Notes whose Holders must consent to any amendment or waiver;
- (viii) make any change in this first paragraph of this Section 9.02;
- (ix) modify or change any provision of this Indenture or any Note Guaranty affecting the ranking of the Notes in a manner adverse to the Holders of the Notes; or
- (x) make any change in the any Note Guaranty that would adversely affect the Holders of the Notes.

Upon the written request of the Company, accompanied by a Board Resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of the Holders as aforesaid, and upon receipt by the Trustee of the documents described in Section 9.05 hereof, the Trustee shall join with the Company and the Guarantor in the execution of such supplemental indenture but the Trustee shall not be obligated to enter into any such supplemental indenture which affects its own rights, duties or immunities under this Indenture or otherwise.

The Company shall mail to Holders prior written notice of any amendment or waiver proposed to be adopted under this Section 9.02.

It shall not be necessary for the consent of the Holders under this Section 9.02 to approve the particular form of any proposed amendment or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment or waiver under this Section 9.02 becomes effective, the Company shall mail to Holders a notice briefly describing such amendment or waiver. The failure to give such notice to all Holders, or any defect therein, shall not impair or affect the validity of an amendment or waiver under this Section 9.02.

The Guarantor must consent to the amendment, supplement or waiver under this Section 9.02.

Section 9.03. *Revocation and Effect of Consents and Waivers.* (a) A consent to an amendment or a waiver by a Holder of Notes shall bind the Holder and every subsequent Holder of that Note or portion of the Note that evidences the same debt as the consenting Holder's Note, even if notation of the consent or waiver is not made on the Note. However, any such Holder or subsequent Holder may revoke the consent or waiver as to such Holder's Note or portion of the Note if the Trustee receives the written notice of revocation at least one Business Day prior to the date the amendment or waiver becomes effective. After it becomes effective, an amendment or waiver shall bind every Holder.

(b) The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Holders entitled to give their consent or take any other action described above. If a record date is fixed, then notwithstanding Section 9.03(a) those Persons who were Holders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to give such consent or to revoke any consent previously given or to take any such action, whether or not such Persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 120 days after such record date.

Section 9.04. *Notation on or Exchange of Notes.* If an amendment changes the terms of a Note, the Company may require the Holder to deliver the Note to the Trustee. If so instructed by the Company, the Trustee may place an appropriate notation on the Note regarding the changed terms and return it to the Holder. Alternatively, if the Company so determines, the Company in exchange for the Note shall issue and the Trustee shall authenticate a new Note that reflects the changed terms. Failure to make the appropriate notation or to issue a new Note shall not affect the validity of such amendment.

Section 9.05. *Trustee to Sign Amendments.* The Trustee shall sign any amendment authorized pursuant to this Article 9 if the amendment, waiver or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. In signing such amendment, waiver or supplement, in addition to the documents required by Section 11.03, the Trustee shall be entitled to receive indemnity satisfactory to the Trustee and to receive, and, subject to Section 7.01, shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel each stating and as conclusive evidence that such amendment, waiver or supplemental indenture is authorized or permitted by this Indenture, that it is not inconsistent herewith, and that it shall be valid and binding upon the Company in accordance with its terms.

Section 9.06. *Payment for Consent.* Neither the Company nor any of its Affiliates shall, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of this Indenture or the Notes unless such consideration is offered to be paid or agreed to be paid to all Holders which so consent, waive or agree to amend in the time frame set forth in solicitation documents relating to such consent, waiver or agreement.

ARTICLE 10  
GUARANTEE

Section 10.01. *The Note Guaranty.* Subject to the provisions of this Article, the Guarantor hereby irrevocably and unconditionally guarantees, jointly and severally with the Company, on an unsecured basis, the full and punctual payment (whether at Stated Maturity, upon redemption, acceleration, or otherwise) of the principal of, premium, if any, and interest on, and all other amounts payable under, each Note, and the full and punctual payment of all other amounts payable by the Company under this Indenture. Upon failure by the Company to pay punctually any such amount, the Guarantor shall forthwith on demand pay the amount not so paid at the place and in the manner specified in this Indenture.

Section 10.02. *Guaranty Unconditional.* The obligations of the Guarantor hereunder are unconditional and absolute and, without limiting the generality of the foregoing, will not be released, discharged or otherwise affected by:

- (i) any extension, renewal, settlement, compromise, waiver or release in respect of any obligation of the Company under this Indenture or any Note, by operation of law or otherwise;
- (ii) any modification or amendment of or supplement to this Indenture or any Note;
- (iii) any change in the corporate existence, structure or ownership of the Company, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting the Company or its assets or any resulting release or discharge of any obligation of the Company contained in this Indenture or any Note;
- (iv) the existence of any claim, set-off or other rights which the Guarantor may have at any time against the Company, the Trustee or any other Person, whether in connection with this Indenture or any unrelated transactions; *provided* that nothing herein prevents the assertion of any such claim by separate suit or compulsory counterclaim;
- (v) any invalidity or unenforceability relating to or against the Company for any reason of this Indenture or any Note, or any provision of applicable law or regulation purporting to prohibit the payment by the Company of the principal of or interest on any Note or any other amount payable by the Company under this Indenture; or
- (vi) any other act or omission to act or delay of any kind by the Company, the Trustee or any other Person or any other circumstance whatsoever which might, but for the provisions of this paragraph, constitute a legal or equitable discharge of or defense to the Guarantor's obligations hereunder.

Section 10.03. *Discharge; Reinstatement.* The Guarantor's obligations hereunder will remain in full force and effect until the principal of, premium, if any, and interest on the Notes and all other amounts payable by the Company under this Indenture have been paid in full. If at any time any payment of the principal of, premium, if any, or interest on any Note or any other amount payable by the Company under this Indenture is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy or reorganization of the Company or otherwise, the Guarantor's obligations hereunder with respect to such payment will be reinstated as though such payment had been due but not made at such time.

Section 10.04. *Waiver by the Guarantors.* The Guarantor irrevocably waives (i) acceptance hereof, presentment, demand, protest and any notice not provided for herein, (ii) any requirement that at any time any action be taken by any Person against the Company or any other Person, (iii) any requirement that the assets of the Company or any other Person (including the Guarantor's or any other guarantor) first be used, applied or depleted as payment of the Company's or the Guarantor's obligations hereunder before the assets of the Guarantor may be used, applied or depleted in connection with its Note Guaranty, and (iv) any rights to have any claims against the Company or the Guarantor arising under the Notes or this Indenture and/or against the Guarantor under their respective Note Guaranty be divided among the Guarantor or among the Guarantor and the Company.

Section 10.05. *Subrogation and Contribution.* Upon making any payment with respect to any obligation of the Company under this Article, the Guarantor making such payment will be subrogated to the rights of the payee against the Company with respect to such obligation; provided that the Guarantor may not enforce either any right of subrogation, or any right to receive payment in the nature of contribution, or otherwise, from any other Guarantor, with respect to such payment so long as any amount payable by the Company hereunder or under the Notes remains unpaid.

Section 10.06. *Stay of Acceleration.* If acceleration of the time for payment of any amount payable by the Company under this Indenture or the Notes is stayed upon the insolvency, bankruptcy or reorganization of the Company, all such amounts otherwise subject to acceleration under the terms of this Indenture are nonetheless payable by the Guarantor hereunder forthwith on demand by the Trustee or the Holders.

Section 10.07. *Limitation on Amount of Guaranty.* Notwithstanding anything to the contrary in this Article, the Guarantor, and by its acceptance of Notes, each Holder, hereby confirms that it is the intention of all such parties that the Note Guaranty of the Guarantor not constitute a fraudulent conveyance under applicable fraudulent conveyance provisions of the laws of the Cayman Islands, Chile, the United States Bankruptcy Code or any comparable provision of state law. To effectuate that intention, the Trustee, the Holders and the Guarantor hereby irrevocably agree that the obligations of the Guarantor under the Note Guaranty are limited to the maximum amount that would not render the Guarantor's obligations subject to avoidance under applicable fraudulent conveyance provisions of the laws of the Cayman Islands, Chile, the United States Bankruptcy Code or any comparable provision of state law.

Section 10.08. *Execution and Delivery of Guaranty.* The execution by the Guarantor of this Indenture evidences the Note Guaranty of the Guarantor, whether or not the person signing as an officer of the Guarantor still holds that office at the time of authentication of any Note. The delivery of any Note by the Trustee after authentication constitutes due delivery of the Note Guaranty set forth in this Indenture on behalf of the Guarantor.

Section 10.09. *Release of Guaranty.* The Note Guaranty of the Guarantor will terminate upon:

- (i) a sale or other disposition (including by way of consolidation or merger) of the Guarantor or the sale or disposition of all or substantially all the assets of the Guarantor (in each case other than to the Company or a Subsidiary) otherwise permitted by this Indenture; or
- (ii) defeasance or discharge of the Notes, as provided in Article 8, subject to those obligations of the Guarantor that shall survive defeasance or discharge.

Upon delivery by the Company to the Trustee of an Officers' Certificate and an Opinion of Counsel to the foregoing effect, the Trustee will execute any documents reasonably requested by the Company in writing in order to evidence the release of the Guarantor from its obligations under its Note Guaranty.

ARTICLE 11  
MISCELLANEOUS

Section 11.01. *Provisions of Indenture and Notes for the Sole Benefit of Parties and Holders of Notes.* Nothing in this Indenture or the Notes, expressed or implied, shall give to any Person other than the parties hereto and their successors hereunder and the Holders of the Notes any benefit or any legal or equitable right, remedy or claim under this Indenture or the Notes.

Section 11.02. *Notices.* Any request, demand, authorization, direction, notice, consent, waiver or other communication or document provided or permitted by this Indenture to be made upon, given, provided or furnished to, or filed with, any party to this Indenture shall, except as otherwise expressly provided herein, be in writing and shall be deemed to have been received only upon actual receipt thereof by prepaid first class mail, courier, telecopier or electronic transmission, addressed to the relevant party as follows:

*To the Company and the Guarantor:*

LATAM Airlines Group S.A.  
Ptde Riesco 574, 20<sup>th</sup> Floor  
Las Condes Santiago, Chile

With a copy to:

Clifford Chance US LLP  
31 West 52<sup>nd</sup> Street  
New York, NY 10019  
USA

Attention: Gary Brooks  
Facsimile: (212) 878-8375

*To the Trustee, Registrar, Transfer Agent or Paying Agent:*

The Bank of New York Mellon  
Corporate Trust Administration- Global Finance Americas  
101 Barclay Street, Floor 7 East  
New York, New York 10286  
USA  
Telephone: (212) 815-8273  
Facsimile: (212) 815-5390

Notices or communications to the Guarantor will be deemed given if given to the Company.

Any party by written notice to the other parties may designate additional or different addresses for subsequent notices or communications.

Where this Indenture provides for the giving of notice to Holders, such notice shall be deemed to have been given upon the mailing of first class mail, postage prepaid, of such notice to Holders of the Notes at their registered addresses as recorded in the Register; and

The Company shall also cause all other such publications of such notices as may be required from time to time by applicable Chilean law, including, without limitation, those required under the applicable regulations issued by the SVS.

Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed to a Holder in the manner provided above, it is duly given, whether or not the addressee receives it.

Section 11.03. *Electronic Instructions to Trustee.* The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, pdf, facsimile transmission or other similar unsecured electronic methods, provided, however, that the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the Company elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction, except as may result from its own gross negligence or willful misconduct. The Company agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.



Section 11.04. *Officers' Certificate and Opinion of Counsel as to Conditions Precedent.* Upon any request or application by the Company to the Trustee to take or refrain from taking any action under this Indenture, the Company shall furnish to the Trustee:

- (i) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee (which shall include the statements set forth in Section 11.05) stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and
- (ii) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee (which shall include the statements set forth in Section 11.05) stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Section 11.05. *Statements Required in Officers' Certificate or Opinion of Counsel.* Each certificate or opinion with respect to compliance with a covenant or condition provided for in this Indenture shall include substantially:

- (i) a statement that each Person making or rendering such Officers' Certificate or Opinion of Counsel has read such covenant or condition and the related definitions;
- (ii) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such Officers' Certificate or Opinion of Counsel are based;
- (iii) a statement that, in the opinion of each such Person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (iv) a statement as to whether or not, in the opinion of each such Person, such covenant or condition has been complied with.

Section 11.06. *Rules by Trustee, Registrar, Paying Agent and Transfer Agents.* The Trustee may make reasonable rules for action by or a meeting of Holders. The Registrar, the Paying Agents and the Transfer Agents may make reasonable rules for their functions.

Section 11.07. *Currency Indemnity.* U.S. Dollars are the sole currency of account and payment for all sums payable by the Company or the Guarantor under or in connection with the Notes and the Note Guaranty, including damages. Any amount received or recovered in a currency other than U.S. Dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Company or otherwise) by any Holder of a Note in respect of any sum expressed to be due to it from the Company or the Guarantor shall only constitute a discharge to the Company or the Guarantor, as the case may be, to the extent of the U.S. Dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. Dollar amount is less than the U.S. Dollar amount expressed to be due to the recipient under any Note, the Company and the Guarantor shall indemnify such Holder against any loss sustained by it as a result, and if the amount of U.S. Dollars so purchased is greater than the sum originally due to such Holder, such Holder shall, by accepting a Note, be deemed to have agreed to repay such excess. In any event, the Company and the Guarantor shall indemnify the recipient against the cost of making any such purchase.

For the purposes of this Section 11.07, it shall be sufficient for the Holder of a Note to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of U.S. Dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of U.S. Dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from the other obligations of the Company and the Guarantors, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder of a Note and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note.

Section 11.08. *No Recourse Against Others.* No director, officer, employee or shareholder, as such, of the Company, the Guarantor or the Trustee shall have any liability for any obligations of the Company, the Guarantor or the Trustee, respectively, under this Indenture or the Notes or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Note, each Holder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Notes.

Section 11.09. *Legal Holidays.* In any case where any Interest Payment Date or redemption date or date of Maturity of any Note shall not be a Business Day, then (notwithstanding any other provision of this Indenture or of the Notes) payment of interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the Interest Payment Date or redemption date or date of Maturity; provided that no interest shall accrue for the period from and after such Interest Payment Date or redemption date or date of Maturity, as the case may be on account of such delay.

Section 11.10. *Governing Law.* THE INTERNAL LAW OF THE STATE OF NEW YORK WILL GOVERN AND BE USED TO CONSTRUCT THIS INDENTURE AND THE NOTES AND THE NOTE GUARANTY WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE, THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 11.11. *Consent to Jurisdiction; Waiver of Immunities.* (a) Each of the parties hereto hereby irrevocably submits to the non-exclusive jurisdiction of any New York state or U.S. federal court sitting in the Borough of Manhattan in The City of New York with respect to actions brought against it as a defendant in respect of any suit, action or proceeding or arbitral award arising out of or relating to this Indenture or the Notes or any transaction contemplated hereby or thereby (a “**Proceeding**”), and irrevocably accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts. Each of the parties hereto irrevocably waives, to the fullest extent it may do so under applicable law, trial by jury and any objection which it may now or hereafter have to the laying of the venue of any such Proceeding brought in any such court and any claim that any such Proceeding brought in any such court has been brought in an inconvenient forum. Each of the Company and the Guarantor irrevocably appoints Law Debenture Corporate Services (the “**Process Agent**”), with an office at 400 Madison Avenue, 4th Floor, New York, NY 10017, as its authorized agent to receive on behalf of it and its property service of copies of the summons and complaint and any other process which may be served in any Proceeding. If for any reason such Person shall cease to be such agent for service of process, each of the Company and the Guarantor shall forthwith appoint a new agent of recognized standing for service of process in the State of New York and deliver to the Trustee a copy of the new agent’s acceptance of that appointment within 30 days. Nothing herein shall affect the right of the Trustee, any Agent or any Holder to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against the Company and the Guarantor in any other court of competent jurisdiction.

(b) Each of the Company and the Guarantor hereby irrevocably appoints the Process Agent as its agent to receive, on behalf of itself and its property, service of copies of the summons and complaint and any other process which may be served in any such suit, action or proceeding brought in such New York state or U.S. federal court sitting in the Borough of Manhattan in The City of New York. Such service shall be made by delivering by hand a copy of such process to the Company or the Guarantor, as the case may be, in care of the Process Agent at the address specified above. The Company irrevocably authorizes and directs the Process Agent to accept such service on its behalf. Failure of the Process Agent to give notice to the Company or failure of the Company to receive notice of such service of process shall not affect in any way the validity of such service on the Process Agent or the Company. As an alternative method of service the Company consents to the service of any and all process in any such Proceeding by the delivery by hand of copies of such process to the Company at its address specified in Section 11.02 or at any other address previously furnished in writing by the Company to the Trustee. The Company covenants and agrees that it shall take any and all reasonable action, including the execution and filing of any and all documents, that may be necessary to continue the designation of the Process Agent above in full force and effect during the term of the Notes, and to cause the Process Agent to continue to act as such.

(c) Nothing in this Section 11.11 shall affect the right of any party, including the Trustee, any Agent or any Holder, to serve legal process in any other manner permitted by law or affect the right of any party to bring any action or proceeding against any other party or its property in the courts of other competent jurisdictions.

(d) Each of the Company and the Guarantor irrevocably agrees that, in any proceedings anywhere (whether for an injunction, specific performance or otherwise), no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) from such proceedings, from attachment (whether in aid of execution, before judgment or otherwise) of its assets or from execution of judgment shall be claimed by it or on its behalf or with respect to its assets, except to the extent required by applicable law, any such immunity being irrevocably waived, to the fullest extent permitted by applicable law. Each of the Company and the Guarantor irrevocably agrees that, where permitted by applicable law, it and its assets are, and shall be, subject to such proceedings, attachment or execution in respect of its obligations under this Indenture or the Notes.

Section 11.12. *Successors and Assigns.* All covenants and agreements of the Company and the Guarantor in this Indenture, the Notes and the Note Guaranty shall bind their respective successors and assigns, whether so expressed or not. All agreements of the Trustee in this Indenture shall bind its successors.

Section 11.13. *Multiple Originals.* The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Indenture.

Section 11.14. *Severability Clause.* In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. To the extent permitted by applicable law, the parties hereby waive any provision of law which renders any term or provision hereof invalid or unenforceable in any respect.

Section 11.15. *Force Majeure.* In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

Section 11.16. *Trustee Compliance with FATCA.* In order to comply with applicable tax laws, rules and regulations (inclusive of directives, guidelines and interpretations promulgated by competent authorities) in effect from time to time that a foreign financial institution, issuer, paying agent, Holder or other institution is or has agreed to be subject to related to this Indenture, the Company and the Guarantor agrees (i) to provide to the Trustee sufficient information about Holders or other applicable parties and/or transactions (including any modification to the terms of such transactions), to the extent the Company or the Guarantor has access to such information, so the Trustee can determine whether it has tax related obligations under applicable law, (ii) that the Trustee shall be entitled to make any withholding or deduction from payments under this Indenture to the extent necessary to comply with applicable law for which the Trustee shall not have any liability except as may result from its own gross negligence or willful misconduct and (iii) to hold harmless the Trustee for any losses it may suffer due to the actions it takes to comply with such applicable law except as may result from its own gross negligence or willful misconduct. The terms of this section shall survive the termination of this Indenture.

Section 11.17. *Indenture Controls.* If and to the extent that any provision of the Notes limits, qualifies or conflicts with a provision of this Indenture, such provision of this Indenture shall control.

Section 11.18. *Limited Incorporation by Reference of Trust Indenture.* This Indenture is not subject to the mandatory provisions of the Trust Indenture Act. The provisions of the Trust Indenture Act are not incorporated by reference in or made part of this Indenture unless specifically provided herein.

Section 11.19. *USA Patriot Act.* The parties hereto acknowledge that, in accordance with Section 326 of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (as amended, modified or supplemented from time to time, the “**USA Patriot Act**”), the Trustee, like all financial institutions, is required to obtain, verify and record information that identifies each person or legal entity that opens an account. The parties to this Indenture agree that they will provide the Trustee with such information as the Trustee may request in order for the Trustee to satisfy the requirements of the USA Patriot Act.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the date first written above.

LATAM FINANCE LIMITED,  
as the Company

By: /s/ José Miguel Bellagamba  
Name: José Miguel Bellagamba  
Title: Authorized Signatory

LATAM AIRLINES GROUP S.A.,  
as the Guarantor

By: /s/ José Miguel Bellagamba  
Name: José Miguel Bellagamba  
Title: Authorized Signatory

[Signature page to Indenture]

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THE BANK OF NEW YORK MELLON,  
as Trustee, Registrar, Transfer Agent and  
Paying Agent

By: /s/ Catherine F. Donohue  
Name: Catherine F. Donohue  
Title: Vice President

*[Signature page to Indenture]*

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## FORM OF NOTE

[[RESTRICTED]][REGULATION S] GLOBAL NOTE]

*Include the following legend on all Notes that are Global Notes*

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE OF A DEPOSITARY. THIS SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS NOTE (OTHER THAN A TRANSFER OF THIS NOTE AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY) MAY BE REGISTERED EXCEPT IN LIMITED CIRCUMSTANCES.

UNLESS THIS GLOBAL NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY (“DTC”) TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY DEFINITIVE NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

*Include the following Securities Act Legend on all Notes that are Restricted Global Notes.*

NEITHER THIS GLOBAL SECURITY NOR ANY BENEFICIAL INTEREST HEREIN HAS BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). NEITHER THIS GLOBAL SECURITY NOR ANY BENEFICIAL INTEREST HEREIN MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO LATAM FINANCE LIMITED, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER OR BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (3) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND, IN EACH CASE, IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. AS A CONDITION TO REGISTRATION OF TRANSFER OF THIS GLOBAL SECURITY AS SET FORTH IN CLAUSE (4) ABOVE, LATAM FINANCE LIMITED, LATAM AIRLINES GROUP S.A. MAY REQUIRE DELIVERY OF ANY DOCUMENTS OR OTHER EVIDENCE THAT IT, IN ITS ABSOLUTE DISCRETION, DEEMS NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION.



THIS LEGEND MAY BE REMOVED SOLELY IN THE DISCRETION AND AT THE DIRECTION OF LATAM FINANCE LIMITED.

*Include the following Regulation S Legend on all Notes that are Regulation S Notes.*

NEITHER THIS GLOBAL NOTE NOR ANY BENEFICIAL INTEREST HEREIN HAS BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). NEITHER THIS GLOBAL NOTE NOR ANY BENEFICIAL INTEREST HEREIN MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN THE ABSENCE OF SUCH REGISTRATION UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY OTHER JURISDICTION.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS GLOBAL NOTE AFTER 40 DAYS BEGINNING ON AND INCLUDING THE LATER OF (A) THE DATE OF WHICH THE NOTES ARE OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) AND (B) THE ORIGINAL ISSUE DATE OF THE NOTES.

*Include the following legend on all Notes that are Certificated Notes*

IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR AND ANY TRANSFER AGENT SUCH CERTIFICATES AND OTHER INFORMATION AS SUCH REGISTRAR OR TRANSFER AGENT MAY REASONABLY REQUIRE TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS.

[FORM OF FACE OF NOTE]

**LATAM FINANCE LIMITED**

U.S. \$[       ]

6.875% Senior Notes Due 2024

[RESTRICTED GLOBAL NOTE]  
[REGULATION S GLOBAL NOTE]  
[CERTIFICATED NOTE]  
Representing U.S. \$ [       ]  
6.875% Senior Notes Due 2024

No. [R-1] [S-1]

CUSIP No. [144A: 51818K AB6] [Reg S: G53770 AB2]  
ISIN No. [144A: US51818KAB61] [Reg S: USG53770AB22]  
Common Code [144A: 15973064] [Reg S: 159873072]

Principal Amount  
U.S. \$ \_\_\_\_\_  
as revised by the Schedule of Increases and Decreases in Global Note attached hereto

LATAM FINANCE LIMITED, an exempted company incorporated with limited liability in the Cayman Islands (the “**Company**,” which term includes any successor corporation under the Indenture referred to on the reverse hereof), for value received, hereby promises to pay to Cede & Co., or registered assigns, U.S. \$[\_\_\_\_], upon presentment and surrender of this Note on April 11, 2024 or on such date or dates as the then relevant principal sum may become payable in accordance with the provisions hereof and in the Indenture.

Interest on the outstanding principal amount shall be borne at the rate of 6.875% per annum payable semi-annually in arrears on each April 11 and October 11 (each such date an “**Interest Payment Date**”), commencing on October 11, 2017, all subject to and in accordance with the terms and conditions set forth herein and in the Indenture; *provided, however*, that in the event that the Company shall at any time default on the payment of interest or such other amounts as any may be payable in respect of the Notes, the Company shall pay interest on overdue principal or installments of interest, to the extent lawful, at the rate borne by the Notes plus 1% per annum.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication herein has been executed by the Trustee or Authenticating Agent by the manual signature of one of its authorized signatories, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed.

Dated: April 11, 2017

LATAM FINANCE LIMITED

By:

\_\_\_\_\_  
Name:

Title:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Notes referred to in the within mentioned Indenture.

THE BANK OF NEW YORK MELLON,  
as Trustee

By:

\_\_\_\_\_  
Authorized Signatory

Dated: April 11, 2017

[FORM OF REVERSE SIDE OF NOTE]

6.875% Senior Notes Due 2024

TERMS AND CONDITIONS OF THE NOTES

This Note is one of a duly authorized issue of 6.875% Senior Notes Due 2024 of the Company. The Notes constitute unsecured unsubordinated obligations of the Company, initially in an aggregate principal amount of U.S. \$700,000,000.

1. *Indenture.*

The Notes are, and shall be, issued under an Indenture, dated as of April 11, 2017 (the “**Indenture**”), among the Company, LATAM Airlines Group S.A., as guarantor (the “**Guarantor**”), and The Bank of New York Mellon, as trustee (the “**Trustee**”), Registrar, Transfer Agent and Paying Agent (the “**Paying Agent**”) (collectively, the “**Agents**” and each individually an “**Agent**”). The terms of the Notes include those stated in the Indenture. The Holders of the Notes shall be entitled to the benefit of, be bound by and be deemed to have notice of, all provisions of the Indenture. Reference is hereby made to the Indenture and all supplemental indentures thereto for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee, each Agent and the Holders of the Notes and the terms upon which the Notes, are, and are to be, authenticated and delivered. All terms used in this Note that are defined in the Indenture shall have the meanings assigned to them in the Indenture. Copies of the Indenture and each Global Note shall be available for inspection at the offices of the Trustee and each Paying Agent.

The Company may from time to time, without the consent of the Holders of the Notes, create and issue Additional Notes having the same terms and conditions as the Notes in all respects, except for issue date, issue price and the first payment of interest thereon. Additional Notes issued in this manner shall be consolidated with and shall form a single series with the previously outstanding Notes. Unless the context otherwise requires, for all purposes of the Indenture and this Note, references to the Notes include any Additional Notes actually issued.

The Indenture imposes certain limitations on consolidation, merger and certain other transactions involving the Company. In addition, the Indenture requires the maintenance of insurance for the Company and its Subsidiaries, the maintenance of the existence of the Company and its Subsidiaries, the payment of certain taxes and claims and reporting requirements applicable to the Company.

This Note is one of the [Initial] <sup>1</sup>[Additional] <sup>2</sup> Notes referred to in the Indenture. The Notes include the Initial Notes issued on the Issue Date and any Additional Notes issued in accordance with Section 2.14 of the Indenture. The Initial Notes and any Additional Notes are treated as a single class of securities under the Indenture.

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<sup>1</sup> Include if Initial Note.

<sup>2</sup> Include if Additional Note.

2. *Principal.*

The Company promises to pay the principal on April 11, 2024, unless earlier redeemed in accordance with Section 8 below.

3. *Interest.*

The Notes bear interest at the rate per annum shown above from April 11, 2017 or from the most recent Interest Payment Date (as defined below) to which interest has been paid or provided for, payable semi-annually in arrears on April 11 and October 11 of each year (each such date, an “**Interest Payment Date**”), commencing on October 11, 2017. Interest on the Notes shall be computed on the basis of a 360-day year of twelve 30-day months. The Company shall pay interest on overdue principal or installments of interest, to the extent lawful, at the rate borne by the Notes plus 1% per annum.

4. *Method of Payment.*

Payments of interest in respect of each Note shall be made on each Interest Payment Date by the Paying Agents to the Persons shown on the Register at the close of business on the March 28 and September 27, as the case may be (each, a “**Record Date**”), immediately preceding such Interest Payment Date.

Payments in respect of each Note shall be made by wire or by U.S. Dollar check drawn on a bank in The City of New York and may be delivered to the Holder of such Note at its address appearing in the Register. Upon written application by the Holder to the specified office of any Paying Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by wire transfer to a U.S. Dollar account maintained by the payee with a bank in The City of New York. Payment of principal in respect of each Note shall be made on any Payment Date for such principal to the Person shown on the Register at the close of business on the fifteenth day immediately preceding such Payment Date.

All payments on this Note are subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions of Paragraph 6 hereof. Except as provided in Section 2.08 of the Indenture, no fees or expenses shall be charged to the Holders in respect of such payments.

If the Payment Date in respect of any Note is not a business day at the place in which it is presented for payment, the Holder thereof shall not be entitled to payment of the amount due until the next succeeding business day at such place and shall not be entitled to any further interest or other payment in respect of any such delay.

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar shall annotate the Register with a record of the amount of interest, if any, in fact paid.

5. *Registrar, Paying Agent and Transfer Agent.*

The Trustee shall act as Registrar, Transfer Agent and Paying Agent of the Notes. The Company may appoint and change any Registrar, Paying Agent or Transfer Agent in accordance with the terms of the Indenture.

6. *Additional Amounts.*

All payments (including any premium paid upon redemption of the Notes) by or on behalf of the Company or a successor in respect of the Notes or the Guarantor or a successor in respect of the Note Guaranty will be made free and clear of, and without withholding or deduction for, or on account of any present or future taxes, duties, assessments, or other governmental charges of whatever nature imposed or levied by or on behalf of Chile, the Cayman Islands, or any authority therein or thereof or any other jurisdiction in which the Company or the Guarantor (in each case, their successor) are organized, doing business or from or through which payments are made in respect of the Notes, or any political subdivision or taxing authority thereof or therein (any of the aforementioned being a “**Taxing Jurisdiction**”), unless the Company or the Guarantor (or their respective successor) are compelled by law to deduct or withhold such taxes, duties, assessments, or governmental charges. In such event, the Company or the Guarantor (or their respective successor) will make such deduction or withholding, make payment of the amount so withheld to the appropriate governmental authority and pay such Additional Amounts as may be necessary to ensure that the net amounts received by registered Holders of Notes after such withholding or deduction shall equal the respective amounts of principal and interest (or other amounts stated to be payable under the Notes) which would have been received in respect of the Notes in the absence of such withholding or deduction (“**Additional Amounts**”). Notwithstanding the foregoing, no such Additional Amounts shall be payable:

(i) to, or to a third party on behalf of, a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of the existence of any present or former connection between such Holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such Holder, if such Holder is an estate, a trust, a partnership, or a corporation) and the relevant Taxing Jurisdiction, including, without limitation, such Holder (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein, other than the mere holding of the Note or enforcement of rights under the Indenture and the receipt of payments with respect to the Note;

(ii) in respect of Notes surrendered or presented for payment (if surrender or presentment is required) more than 30 days after the Relevant Date except to the extent that payments under such Note would have been subject to withholdings and the Holder of such Note would have been entitled to such Additional Amounts, on surrender of such Note for payment on the last day of such period of 30 days;

(iii) to, or to a third party on behalf of, a Holder who is liable for such taxes, duties, assessments or other governmental charges by reason of such Holder’s failure to comply with any certification, identification, documentation or other reporting requirement concerning the nationality, residence, identity or connection with the relevant Taxing Jurisdiction of such Holder, if (1) compliance is required by law or an applicable income treaty as a precondition to, exemption from, or reduction in the rate of, the tax, assessment or other governmental charge and (2) the Company has given the Holders at least 30 days’ notice that Holders will be required to provide such certification, identification, documentation or other requirement;

(iv) in respect of any estate, inheritance, gift, sales, transfer, capital gains, excise or personal property or similar tax, assessment or governmental charge, other than as provided in Section 4.06(g) of the Indenture;

(v) in respect of any tax, assessment or other governmental charge which is payable other than by deduction or withholding from payments of principal of (including premium) or interest on the Note;

(vi) in respect of any tax imposed on overall net income or any branch profits tax; or

(vii) in respect of any combination of the above.

Notwithstanding anything to the contrary in this section, none of the Company, the Guarantor, their respective successors, the Paying Agent or other person shall be required to pay any Additional Amounts with respect to any payment in respect of any taxes imposed under Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the “**Code**”), as amended, or any successor law or regulation implementing or complying with, or introduced in order to conform to, such sections or any intergovernmental agreement or imposed pursuant to any agreement entered into pursuant to section 1471(b)(1) of the Code.

No Additional Amounts shall be paid with respect to any payment on a Note to a Holder who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment to the extent that payment would be required by the relevant Taxing Jurisdiction to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in a limited liability company or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member or beneficial owner been the Holder.

Payments on the Notes are subject in all cases to any tax, fiscal or other law or regulation or administrative or judicial interpretation. Except as specifically provided above, the Company shall not be required to pay Additional Amounts with respect to any tax, assessment or governmental charge imposed by any government or a political subdivision or taxing authority thereof or therein.

Each of the Company and the Guarantor (or their successors) will pay any Taxes required to be deducted or withheld pursuant to applicable law and furnish to the Holders, within 60 days after the date such payment is due, either certified copies of tax receipts evidencing such payment, or, if such receipts are not obtainable, other evidence of such payments reasonably satisfactory to the Holders.



In the event that Additional Amounts actually paid with respect to the Notes are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the Holder of such Notes, and, as a result thereof such Holder is entitled to make claim for a refund or credit of such excess from the authority imposing such withholding tax, then such Holder shall, by accepting such Notes, be deemed to have assigned and transferred all right, title, and interest to any such claim for a refund or credit of such excess to the Company.

Any reference in the Indenture or the Notes to principal, interest or any other amount payable in respect of the Notes by the Company or the Note Guaranty by the Guarantor (or their successors) will be deemed also to refer to any Additional Amount, unless the context requires otherwise, that may be payable with respect to that amount under the obligations referred to in this Paragraph 6.

The Company, or the Guarantor, as applicable, will pay when due any present or future stamp, transfer, court or documentary taxes or any other excise or property taxes, charges or similar levies and any penalties, additions to tax or interest due with respect thereto imposed by Chile (or any political subdivision or governmental authority thereof or therein having power to tax) or the Cayman Islands with respect to the initial execution, delivery or registration of the Notes or any other document or instrument relating thereto.

The foregoing obligation will survive termination or discharge of the Indenture.

7. *Open Market Purchases.*

The Company or its Affiliates may at any time purchase Notes in the open market or otherwise at any price. Any such purchased Notes will not be resold, except in compliance with applicable requirements or exemptions under the relevant securities laws.

8. *Redemption.*

Except as described in Section 3.01 of the Indenture and this Paragraph 8, the Notes may not be redeemed.

(a) On or after April 11, 2021, the Company may, at its option, redeem the Notes, in whole or in part, at the following redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest to but excluding the redemption date and Additional Amounts, if any, on the Notes redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on April 11 of the years indicated below, subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Percentage
2021	103.438%
2022	101.719%
2023 and thereafter	100.000%

(b) Prior to April 11, 2021, the Notes will be redeemable, at the option of the Company at any time, in whole or in part, at a redemption price equal to (1) 100% of the principal amount of the Notes to be redeemed and (2) the excess (which shall be a positive number) of (a) the present value at such redemption date of (i) the redemption price of the Notes at April 11, 2021, (such redemption price being set forth in the table appearing above in Section 8(a)) plus (ii) all required interest payments due thereon through April 11, 2021 (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points, over (b) the principal amount of the Notes, plus accrued and unpaid interest and Additional Amounts, if any, on the principal amount being redeemed to such redemption date.

(c) Prior to April 11, 2020, the Company may on any one or more occasions redeem up to 35% of the outstanding aggregate principal amount of the Notes with the Net Cash Proceeds of one or more Equity Offerings at a redemption price equal to 106.875% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to but excluding the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided that*

- (1) At least 65% of the original aggregate principal amount of the Notes remains outstanding after each such redemption; and
- (2) Such redemption occurs within 90 days after the closing of such Equity Offering.

(d) If as a result of any change in or amendment to the laws (or any rules or regulations thereunder) of a Taxing Jurisdiction, or any amendment to or change in an official interpretation, administration or application of such laws rules or regulations or, any treaties, or related agreements to which a Taxing Jurisdiction is a party (including a holding by a court of competent jurisdiction), which change or amendment becomes effective or, in the case of a change in official position, is announced on or after the issue date of the Notes (or, if the Taxing Jurisdiction become a Taxing Jurisdiction on a later date, such later date), (i) the Company or any successor to the Company has or will become obligated to pay Additional Amounts (as defined in Section 4.06 of the Indenture and Paragraph 6 hereof) or (ii) the Guarantor or any successor the Guarantor has or will become obligated to pay Additional Amounts, in each case, in excess of the Additional Amounts, if any, that would have been payable on the date that the relevant Taxing Jurisdiction became a Taxing Jurisdiction, the Company or any of its successors may, at its option, redeem all, but not less than all, of the Notes, at a redemption price equal to 100% of their principal amount, together with accrued and unpaid interest to but excluding the date fixed for redemption, upon publication of irrevocable notice to Holders not less than 30 days nor more than 60 days prior to the date fixed for redemption. No notice of such redemption may be given earlier than 60 days prior to the earliest date on which the Company, the Guarantor or successor to the foregoing would, but for such redemption, become obligated to pay any such Additional Amounts were payments then due. For the avoidance of doubt, the Company or any successor to the Company shall not have the right to so redeem the Notes unless (a) it is obligated or will become obligation to pay such Additional Amounts or (b) the Guarantor or any successor to the Guarantor is or will become obligated to pay Additional Amounts. Notwithstanding the foregoing, the Company or any successor to the Company shall not have the right to so redeem the Notes unless it has taken reasonable measures (including without limitation, using reasonable measures to cause payment on the Notes to be made through a paying agent in a different jurisdiction or by the Company, its successor or another Subsidiary) to avoid the obligation to pay such Additional Amounts. For the avoidance of doubt, reasonable measures do not include changing the jurisdiction of incorporation of the Company or any successor of the Company.

In the event that the Company or any successor elects to so redeem the Notes pursuant to Section 3.01 of the Indenture, it will deliver to the Trustee: (i) a certificate, signed in the name of the Company by any two of its executive officers or by its attorney-in-fact in accordance with its bylaws, stating that the Company or any successor to the Company is entitled to redeem the Notes pursuant to their terms and setting forth a statement of facts showing that the condition or conditions precedent to the right of the Company or any successor to the Company to so redeem have occurred or been satisfied; and (ii) an Opinion of Counsel to the effect that (1) the Company or any successor to the Company has or will become obligated to pay Additional Amounts or the Guarantor or any successor to the Guarantor is or will become obligated to pay Additional Amounts and that such obligation cannot be avoided by taking reasonable measures to avoid such obligation (including, without limitation, by causing payment on the Notes to be made through a paying agent in a different jurisdiction or by a Subsidiary), (2) such obligation is the result of a change in or amendment to the laws (or any rules or regulations thereunder) of a Taxing Jurisdiction, as described above and (3) that all governmental requirements necessary for the Company to effect the redemption have been complied with.

9. *Denominations; Transfer; Exchange.*

The Notes are in registered form without coupons in minimum denominations of U.S. \$200,000 and integral multiples of U.S. \$1,000 in excess thereof.

A Holder may transfer or exchange Notes in accordance with the Indenture. The Trustee, the Registrar or Transfer Agent, as the case may be, may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture.

The Trustee, the Registrar or Transfer Agent, as the case may be, need not register the transfer or exchange of any Notes selected for redemption or any Notes for a period of 15 days before a selection of Notes to be redeemed or before an Interest Payment Date.

10. *Persons Deemed Owners.*

The registered Holder of this Note may be treated as the owner thereof for all purposes.

11. *Unclaimed Money.*

Subject to applicable law, the Trustee and the Paying Agents shall pay to the Company upon request any monies held by them for the payment of principal or interest that remains unclaimed for two years, and thereafter, Holders entitled to such monies must look to the Company for payment as general creditors.

12. *Defeasance.*

Subject to the terms of the Indenture, the Company and the Guarantor at any time may terminate some or all of their obligations under the Notes, the Indenture and the Note Guaranty, as the case may be, if the Company or the Guarantor irrevocably deposits in trust with the Trustee money or U.S. Government Obligations sufficient for the payment of principal of and interest on all the Notes to Maturity or redemption. At such time, the Guarantor's obligations under its Note Guaranty will terminate, subject to its continuing obligations as set forth in Section 8.1(c) of the Indenture.

13. *Amendment; Waiver.*

Subject to certain exceptions set forth in the Indenture, the Indenture or the Notes may be amended or supplemented without notice to any Holder but with the written consent of the Holders of at least a majority in principal amount of the Notes then outstanding, and any past Default or compliance with any provision may be waived with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding. However, subject to certain exceptions set forth in the Indenture, without the consent of each Holder of an outstanding Note affected thereby, no amendment or waiver may, among other things:

- (i) reduce the principal amount of or change the Stated Maturity of any payment on any Note;
- (ii) reduce the rate of or change the time for payment of any interest on any Note;
- (iii) reduce the amount payable upon the redemption of any Note or change the time at which any Note may be redeemed;
- (iv) change the place of payment for or the currency for payment of principal of, premium, if any, or interest or any Additional Amounts on, any Note;
- (v) impair the right to institute suit for the enforcement of any right to payment on or with respect to any Note;
- (vi) waive a Default or Event of Default in payment of principal of and interest on the Notes;
- (vii) reduce the principal amount of Notes whose Holders must consent to any amendment, supplement or waiver;
- (viii) make any change to the first paragraph of Section 9.02 of the Indenture;

- (ix) modify or change any provision of the Indenture affecting the ranking of the Notes or the Note Guaranty in a manner adverse to the Holders of the Notes; or
- (x) make any change in the Note Guaranty that would adversely affect Holders of the Notes.

The Company, the Guarantor and the Trustee may, without the consent of any Holder of the Notes, amend the Indenture or the Notes to:

- (i) to cure any ambiguity, omission, defect or inconsistency;
- (ii) to comply with Section 5.01 of the Indenture;
- (iii) to add to the covenants of the Company or the Guarantor for the benefit of the Holders;
- (iv) to surrender any right herein conferred upon the Company or the Guarantor;
- (v) to evidence and provide for the acceptance of an appointment by a successor Trustee;
- (vi) to provide for the issuance of Additional Notes;
- (vii) to provide for any guarantee of the Notes, to secure the Notes or to confirm and evidence the release, termination or discharge of any guarantee of the Notes when such release, termination or discharge is permitted by this Indenture;
- (viii) to make any other change that does not materially and adversely affect the rights of any Holder or to conform this Indenture to the section "Description of Notes" in the Offering Memorandum; or
- (ix) to comply with any applicable requirements of the SEC.

*provided* that, in such case, the Company has delivered to the Trustee an Opinion of Counsel and an Officers' Certificate, each stating that such amendment or supplement complies with the provisions of Section 9.01 of the Indenture.

The Guarantor must consent to any amendment, supplement or waiver.

14. *Defaults and Remedies.*

An "**Event of Default**" occurs if:

- (i) the Company defaults in any payment of interest (including any related Additional Amounts) on any Note when the same becomes due and payable, and such default continues for a period of 30 days;

(ii) the Company defaults in the payment of the principal (including any related Additional Amounts) of any Note when the same becomes due and payable upon acceleration or redemption or otherwise;

(iii) the Company fails to comply with any of its covenants or agreements in the Notes or the Indenture (other than those referred to in (i) and (ii) above), and such failure continues for 60 days after the notice specified below;

(iv) the Company or any Significant Subsidiary defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Debt for money borrowed by the Company or any such Significant Subsidiary (or the payment of which is guaranteed by the Company or any such Significant Subsidiary) whether such Debt or guarantee now exists, or is created after the date of the Indenture, which default (a) is caused by failure to pay principal of or premium, if any, on such Debt after giving effect to any grace period provided in such Debt on the date of such default (“**Payment Default**”) or (b) results in the acceleration of such Debt prior to its express maturity and, in each case, the principal amount of any such Debt, together with the principal amount of any other such Debt under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates U.S. \$75,000,000 (or the equivalent thereof at the time of determination) or more in the aggregate;

(v) one or more final judgments or decrees for the payment of money of U.S. \$75,000,000 (or the equivalent thereof at the time of determination) or more in the aggregate (determined net of any amount covered by an insurance policy or policies issued by insurance companies with sufficient financial resources to perform their obligations under such policies) are rendered against the Company or any Significant Subsidiary and are not paid (whether in full or in installments in accordance with the terms of the judgment) or otherwise discharged and, in the case of each such judgment or decree, either (a) an enforcement proceeding has been commenced by any creditor upon such judgment or decree and is not dismissed within 30 days following commencement of such enforcement proceedings or (b) there is a period of 60 days following such judgment during which such judgment or decree is not discharged, waived or the execution thereof stayed;

(vi) a decree or order by a court having jurisdiction has been entered adjudging the Company or any of its Significant Subsidiaries as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization of or by the Company or any of its Significant Subsidiaries and such decree or order continues undischarged or unstayed for a period of 60 days; or a decree or order by a court having jurisdiction for the appointment of a receiver or liquidator or for the liquidation or dissolution of the Company or any of its Significant Subsidiaries, has been entered, and such decree or order continues undischarged or unstayed for a period of 60 days; provided that any Significant Subsidiary may be liquidated or dissolved if, pursuant to such liquidation or dissolution, all or substantially all of its assets are transferred to the Company or another Significant Subsidiary of the Company;

(vii) the Company or any Significant Subsidiary (i) commences a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its Debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (ii) consents to the appointment of or taking possession by a receiver, *veedor*, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for all or substantially all of the property of the Company or any Significant Subsidiary or (iii) effects any general assignment for the benefit of creditors;

(viii) any event occurs that under the laws of the Cayman Islands or Chile or any political subdivision thereof or any other country has substantially the same effect as any of the events referred to in any of clause (vi) or (vii);

(ix) the Note Guaranty ceases to be in full force and effect, other than in accordance with the terms of the Indenture, or the Guarantor denies or disaffirms its obligations under the Note Guaranty; or

(x) the Guarantor ceases to own directly or indirectly 100% of the outstanding share capital of the Company.

A Default under clause (iii) above shall not constitute an Event of Default until the Trustee or the Holders of at least 25% in principal amount of the Outstanding Notes notify the Company and the Guarantor of the Default and the Company or Guarantor does not cure such Default within 60 days after receipt of such notice.

If an Event of Default (other than an Event of Default specified in clauses (vi), (vii) and (viii) above) occurs and is continuing, the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Notes may declare all unpaid principal of and accrued and unpaid interest on all Notes to be due and payable immediately, by a notice in writing to the Company, and upon any such declaration such amounts shall become due and payable immediately. If an Event of Default specified in clause (vi), (vii) or (viii) above occurs and is continuing, then the principal of, and accrued and unpaid interest on, all Notes shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

As soon as possible, and in any event within 15 business days after the Company becomes aware of the existence of a Default or Event of Default, the Company shall deliver to the trustee an Officers' Certificate setting forth the details thereof and the action which the Company is taking or propose to take with respect thereto.

Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default shall occur and be continuing, the Trustee shall be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the Holders, unless such Holders shall have offered to the Trustee indemnity reasonably satisfactory to it. Subject to such provision for the indemnification of the Trustee, the Holders of a majority in aggregate principal amount of the Outstanding Notes shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

At any time after a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as provided in the Indenture, the Holders of a majority in principal amount of the Notes by written notice to the Company and the Trustee may rescind or annul a declaration of acceleration if (i) the Company has paid or deposited with the Trustee a sum sufficient to pay all overdue interest (including any Additional Amounts) on Outstanding Notes, all unpaid principal of the Notes that has become due otherwise than by such declaration of acceleration, interest on such overdue interest (including any Additional Amounts) as provided in the Indenture and all sums paid or advanced by the Trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and (ii) all Events of Default have been cured or waived except nonpayment of principal that has become due solely because of acceleration.

No such rescission shall affect any subsequent Default or Event of Default or impair any right consequent thereto.

15. *Trustee Dealings with the Company.*

Subject to certain limitations imposed by the Indenture, the Trustee and any Agent or co-registrar or any other agent of the Company or of the Trustee, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee, Agent, or such other agent.

16. *Currency Indemnity.*

U.S. Dollars is the sole currency of account and payment for all sums payable by the Company and the Guarantor under or in connection with the Notes, the Note Guaranty or the Indenture, including damages. The Company and the Guarantor will indemnify the Holders as provided in the Indenture in respect of the conversion of currency relating to the Notes and the Indenture.

17. *Governing Law.*

THE INTERNAL LAW OF THE STATE OF NEW YORK WILL GOVERN AND BE USED TO CONSTRUE THE INDENTURE, THIS NOTE AND THE NOTE GUARANTY WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

18. *Agent for Service, Submission to Jurisdiction; Waiver of Immunities.*

Each of the Company and the Guarantor have irrevocably submitted to the non-exclusive jurisdiction of any New York state or U.S. federal court sitting in the Borough of Manhattan in The City of New York with respect to actions brought against it as a defendant in respect of any suit, action or proceeding against the Company or the Guarantor brought by any Holder or the Trustee arising out of or based upon the Indenture or the Notes. Each of the Company and the and the Guarantor has irrevocably accepted for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts and has waived, to the fullest extent it may do so under applicable law, trial by jury and any objection which it may now or hereafter have to the laying of the venue of any such proceeding, and any claim it may now or hereafter have that any proceeding in any such court is brought in an inconvenient forum.



Each of the Company and the Guarantor irrevocably appointed Law Debenture Corporate Services (the “**Process Agent**”), with an office at 400 Madison Avenue, 4th Floor, New York, NY 10017, as its authorized agent to receive on behalf of it and its property service of copies of the summons and complaint and any other process which may be served in any suit, action or proceeding arising out of or based upon the Indenture or the Notes. If for any reason such Person shall cease to be such agent for service of process, each of the Company and the Guarantor shall forthwith appoint a new agent of recognized standing for service of process in the State of New York and deliver to the Trustee a copy of the new agent’s acceptance of that appointment within 30 days. Nothing herein shall affect the right of the Trustee, any Agent or any Holder to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against the Company and the Guarantor in any other court of competent jurisdiction.

The Company and the Guarantor irrevocably agreed that, in any proceedings anywhere (whether for an injunction, specific performance or otherwise), no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) from such proceedings, from attachment (whether in aid of execution, before judgment or otherwise) of its assets or from execution of judgment shall be claimed by it or on its behalf or with respect to its assets, except to the extent required by applicable law, any such immunity being irrevocably waived, to the fullest extent permitted by applicable law. Each of the Company and the Guarantor irrevocably agreed that, where permitted by applicable law, it and its assets are, and shall be, subject to such proceedings, attachment or execution in respect of its obligations under the Indenture or the Notes.

19. *No Recourse Against Others.*

No director, officer, employee or shareholder, as such, of the Company or the Trustee shall have any liability for any obligations of the Company under the Notes or any obligations of the Company or the Trustee, respectively, under this Indenture or the Notes or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Note, each Holder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Notes.

20. *CUSIP and ISIN Numbers.*

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Company has caused CUSIP or ISIN numbers, as applicable, to be printed on the Notes and has directed the Trustee to use CUSIP or ISIN numbers, as applicable, in notices of redemption as a convenience to Holders. No representation is made as to the accuracy of such numbers either as printed on the Notes or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

The Company shall furnish to any Holder upon written request and without charge a copy of the Indenture, which includes the form of this Note. Requests may be made to:

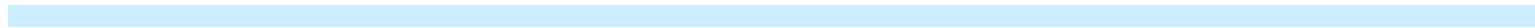
LATAM FINANCE LIMITED  
c/o LATAM Airlines Group S.A.  
Pdte Riesco 5711, 20th Floor  
Las Condes, Santiago, Chile  
Attention: Andres del Valle  
Facsimile: +56 (2) 2565-8764

[To be attached to Global Notes only]

SCHEDULE OF INCREASES AND DECREASES IN GLOBAL NOTE

The initial principal amount of this Global Note is U.S.\$[\_\_\_\_\_]. The following increases or decreases in this Global Note have been made:

Date of Exchange	Amount of decrease in Principal Amount of this Global Note	Amount of increase in Principal Amount of this Global Note	Principal amount of this Global Note following such decrease or increase	Signature of authorized signatory of Trustee or Note Custodian
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## NOTATION OF GUARANTY

For value received, the Guarantor (which term includes any successor Person under the Indenture) has unconditionally guaranteed, to the extent set forth in the Indenture and subject to the provisions in the Indenture dated as of April 11, 2017 (as amended from time to time, the “**Indenture**”), among the Company, the Guarantor and The Bank of New York Mellon, as Trustee, Registrar, Transfer Agent and Paying Agent (collectively, the “**Agents**” and each individually an “**Agent**”), the full and punctual payment (whether at Stated Maturity, upon redemption, acceleration, or otherwise) of the principal of, premium, if any, and interest on, and all other amounts payable under, each Note, and the full and punctual payment of all other amounts payable by the Company under the Indenture. The obligations of the Guarantor to the Holders of Notes and to the Trustee pursuant to the guaranty and the Indenture are expressly set forth in Article 10 of the Indenture and reference is hereby made to the Indenture for the precise terms of the guaranty.

IN WITNESS WHEREOF, the Guarantor has caused this guaranty to be duly executed.

LATAM AIRLINES GROUP S.A.  
as Guarantor

By:

Name:

Title:

FORM OF  
TRANSFER NOTICE

FOR VALUE RECEIVED, the undersigned Holder hereby sell(s), assign(s) and transfer(s) unto

Insert Taxpayer Identification No.

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Please print or typewrite name and address, including postal zip code, of assignee

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this Note and all rights hereunder, hereby irrevocably constituting and appointing

\_\_\_\_\_ attorney to transfer said Note on the books of LATAM Finance Limited with full power of substitution in the premises.

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In connection with any transfer of this Note occurring prior to the date [which is one year after the original issue date of the Notes,]<sup>1</sup> [which is on or prior to the 40th day after the Closing Date (as defined in the Indenture governing the Notes),]<sup>2</sup> the undersigned confirms that:

[Check one]

- ☐ (a) This Note is being transferred to a person whom the Holder reasonably believes is a qualified institutional buyer (as defined in Rule 144A under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), in a transaction meeting the requirement of Rule 144A;
- ☐ (b) This Note is being transferred in an offshore transaction in accordance with Rule 904 under the Securities Act;
- ☐ (c) This Note is being transferred pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available);
- ☐ (d) This Note is being transferred pursuant to an effective registration statement under the Securities Act; or
- ☐ (e) This Note is being transferred to LATAM Finance Limited.,

in each of cases (a) through (e) above, in accordance with any applicable securities laws of any State of the United States.

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<sup>1</sup> *Include in Restricted Note.*

<sup>2</sup> *Include in Regulation S Note.*

If none of the foregoing boxes is checked, the Transfer Agent shall not be obligated to register this Note in the name of any Person other than the Holder hereof unless and until the conditions to any such transfer of registration set forth herein and in Section 2.07 of the Indenture shall have been satisfied.

Date: \_\_\_\_\_

\_\_\_\_\_  
NOTICE: The signature to this assignment must correspond with the name as written upon the face of this instrument in every particular, without alteration, enlargement or any other change whatever.

FORM OF CERTIFICATE  
FOR TRANSFER FROM RESTRICTED GLOBAL  
NOTE OR CERTIFICATED NOTE BEARING  
A SECURITIES ACT LEGEND TO REGULATION S  
GLOBAL NOTE OR CERTIFICATED NOTE  
NOT BEARING A SECURITIES ACT LEGEND

The Bank of New York Mellon  
101 Barclay Street, Floor 7 East  
New York, New York 10286  
Attn: Global Finance Americas

Re: 6.875% Senior Notes Due 2024 (the “Notes”)

Reference is hereby made to the Indenture, dated April 11, 2017 (the “**Indenture**”), among LATAM Finance Limited, LATAM Airlines S.A., as Guarantor, and The Bank of New York Mellon, as Trustee, Registrar, Transfer Agent and Paying Agent. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

This letter relates to U.S. \$\_\_\_\_\_ principal amount of Notes which are held in the form of [a beneficial interest in the Restricted Global Note with the Depositary in the name of the undersigned] [a Certificated Note bearing a Securities Act Legend].

The undersigned has requested a transfer of such [beneficial interest] [Certificated Note] to a Person who shall take delivery thereof in the form of [a beneficial interest of equal principal amount in the Regulation S Global Note (ISIN No. USG53770AB22 to be held with [Euroclear]\* [Clearstream, Luxembourg] <sup>1</sup> (Common Code No. 159873072) through the Depositary] [a Certificated Note of equal principal amount not bearing a Securities Act Legend]. In connection with such transfer, the undersigned does hereby certify that such transfer has been effected in accordance with the transfer restrictions set forth in the Indenture and the Notes and pursuant to and in accordance with Rule 903 or 904 of Regulation S under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), and, accordingly, the undersigned further certifies that:

(1) the offer of the Notes was not made to a U.S. Person (as defined under Regulation S);

[(2) at the time the buy order was originated, the transferee was outside the United States or the undersigned and any Person acting on behalf of the undersigned reasonably believed that the transferee was outside the United States;] <sup>2</sup>

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<sup>1</sup> *Indicate appropriate clearing system.*

<sup>2</sup> *Insert one of the two provisions.*



- [(2) the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the undersigned nor any Person acting on behalf of the undersigned knows that the transaction was prearranged with a buyer in the United States;]<sup>3</sup>
- (3) no directed selling efforts have been made in contravention of the requirements of Rule 903(b) or 904(b) of Regulation S, as applicable;
- (4) the undersigned is not the Company, a distributor, an affiliate of either the Company or a distributor, or a Person acting on behalf of any of the foregoing; and
- (5) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act.

This certificate and the statements contained herein are made for your benefit and for the benefit of LATAM Finance Limited. Terms used in this certificate and not otherwise defined in the Indenture have the meanings set forth in Regulation S.

[INSERT NAME OF TRANSFEROR]

By: \_\_\_\_\_  
Name:  
Title:

Dated: \_\_\_\_\_, \_\_\_\_\_

cc: LATAM Finance Limited

<sup>3</sup> *Insert one of the two provisions.*

FORM OF TRANSFER CERTIFICATE  
FOR TRANSFER FROM REGULATION S GLOBAL  
NOTE OR CERTIFICATED NOTE NOT BEARING  
A SECURITIES ACT LEGEND TO RESTRICTED GLOBAL  
NOTE OR CERTIFICATED NOTE BEARING  
A SECURITIES ACT LEGEND  
(PRIOR TO 40TH DAY AFTER CLOSING DATE)

The Bank of New York Mellon  
101 Barclay Street, Floor 7 East  
New York, New York 10286  
Attn: Global Finance Americas

Re: 6.875% Senior Notes Due 2024 (the “Notes”)

Reference is hereby made to the Indenture, dated April 11, 2017 (the “**Indenture**”), among LATAM Finance Limited, LATAM Airlines Group S.A., as Guarantor, and The Bank of New York Mellon, as Trustee, Registrar, Transfer Agent and Paying Agent. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

This letter relates to U.S. \$\_\_\_\_\_ principal amount of Notes which are held in the form of [a beneficial interest in the Regulation S Global Note (ISIN No. USG53770AB22) with the Depositary in the name of the undersigned] [a Certificated Note not bearing the Securities Act Legend].

The undersigned has requested a transfer of such [beneficial interest] [Certificated Note] to a Person who shall take delivery thereof in the form of [a beneficial interest in the Restricted Global Note (CUSIP No. 51818K AB6) to be held through the Depositary] (Common Code No. 159873064) [a Certificated Note bearing the Securities Act Legend]. In connection with such transfer, the undersigned does hereby confirm that such transfer has been effected in accordance with the transfer restrictions set forth in the Indenture and the Notes and pursuant to and in accordance with Rule 144A under the U.S. Securities Act of 1933, as amended, and accordingly, the undersigned represents that:

- (1) the Notes are being transferred to a transferee that the undersigned reasonably believes is purchasing the Notes for its own account or one or more accounts with respect to which the transferee exercises sole investment discretion; and
- (2) the transferee and any such account is a “qualified institutional buyer” within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

This certificate and the statements contained herein are made for your benefit and for the benefit of LATAM Finance Limited.

[INSERT NAME OF TRANSFEROR]

By:

Name:

Title:

Dated: \_\_\_\_\_, \_\_\_\_\_

cc: LATAM Finance Limited

FORM OF CERTIFICATE FOR REMOVAL  
OF THE SECURITIES ACT LEGEND ON A CERTIFICATED NOTE

The Bank of New York Mellon  
101 Barclay Street, Floor 7 East  
New York, New York 10286  
Attn: Global Finance Americas

Re: 6.875% Senior Notes Due 2024 (the “Notes”)

Reference is hereby made to the Indenture, dated April 11, 2017 (the “**Indenture**”), among LATAM Finance Limited, LATAM Airlines Group S.A., as Guarantor, and The Bank of New York Mellon, as Trustee, Registrar, Transfer Agent and Paying Agent. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

This letter relates to U.S. \$\_\_\_\_\_ principal amount of Notes which are held in the form of [a beneficial interest in the Restricted Global Note (CUSIP No. 51818K AB6) with the Depositary] [[a] Certificated Note(s) in the name of the undersigned.] <sup>1</sup>

The undersigned has requested for the restrictive Legend on the Certificated Note(s) to be removed.

In connection with such transfer, the undersigned does hereby certify that such transfer has been effected only (i) in an offshore transaction in accordance with Rule 904 under the Securities Act, (ii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (iii) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (iii) in accordance with any applicable securities laws of any State of the United States.

This certificate and the statements contained herein are made for your benefit and for the benefit of and LATAM Finance Limited.

[NAME OF UNDERSIGNED]

By:

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Dated: \_\_\_\_\_, \_\_\_\_\_

cc: LATAM Finance Limited

<sup>1</sup> *Indicate form in which Notes are held.*

Legal Name	Place of Incorporation	Doing Business as	Owenship (%) <sup>(1)</sup>	
Transporte Aéreo S.A	Chile	LATAM Airlines Chile		100.00%
LAN Peru S.A	Peru	LATAM Airlines Peru		70.00%
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A	Ecuador	LATAM Airlines Ecuador	Voting	55.00%
			No Voting	100.00%
LAN Argentina S.A	Argentina	LATAM Airlines Argentina		99.87%
Aerovías de Integración Regional, Aires S.A	Colombia	LATAM Airlines Colombia		99.19%
TAM S.A	Brazil	LATAM Airlines Brazil <sup>(2)</sup>	Voting	48.99%
			No Voting	100.00%
Lan Cargo S.A	Chile	LATAM Airlines Cargo		90.90%

<sup>(1)</sup> Percentage of equity owned by LATAM Airlines Group S.A. directly or indirectly through subsidiaries or affiliates.

<sup>(2)</sup> TAM S.A. include its affiliate TAM Linhas Aereas S.A (“TLA”), which does business under the name “LATAM Airlines Brazil”.

I, Enrique Cueto Plaza, certify that:

1. I have reviewed this annual report on Form 20-F of LATAM Airlines Group 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 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 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: April 4, 2018

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/s/ Enrique Cueto Plaza  
Enrique Cueto Plaza  
CEO LATAM

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I, Ramiro Alfonsín Balza, certify that:

1. I have reviewed this annual report on Form 20-F of LATAM Airlines Group 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 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 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: April 4, 2018

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/s/ Ramiro Alfonsín Balza  
 Ramiro Alfonsín Balza  
 CFO LATAM

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**CERTIFICATION**

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), the undersigned officer of LATAM Airlines Group S.A. ("the Company"), hereby certifies, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2017 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 4, 2018

\_\_\_\_\_  
/s/ Ramiro Alfonsín Balza

Ramiro Alfonsín Balza  
CFO LATAM

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**CERTIFICATION**

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), the undersigned officer of LATAM Airlines Group S.A. ("the Company"), hereby certifies, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2017 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 4, 2018

\_\_\_\_\_  
/s/ Enrique Cueto Plaza

Enrique Cueto Plaza  
CEO LATAM

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