LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

CONTENTS

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

Management's 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. Lan Airlines' 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, 2010 based on the criteria established in Internal Control - "Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and, based on such criteria, Lan Airlines' management has concluded that, as of December 31, 2010, the Company's internal control over financial reporting is effective. The company's internal control over financial reporting effectiveness as of December 31, 2010 has been audited by PricewaterhouseCoopers Consultores, Auditores y Companía Limitada, an independent registered public accounting firm, as stated in their report included herein.

Enrique Cueto Plaza Chief Executive Officer	Alejandro de la Fuente Goic Chief Financial Officer

March 1, 2011

Report of Independent Registered Public Accounting Firm

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

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

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

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

Santiago - Chile
March 1, 2011

Contents of the notes to the consolidated financial statements of Lan Airlines S.A. and Subsidiaries.

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LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

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

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

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

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

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

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

				Other reserves					
	Note	Share capital ThUS$	Other equity interests ThUS$	Currency translation reserve ThUS$	Cash flow hedging reserve ThUS$	Retained earnings ThUS$	Equity attributable to owners of the parent ThUS$	Non-controlling interest ThUS$	Total net equity ThUS$
Opening balance as of January 1, 2010		453,444	2,490	(4,924)	(92,230)	740,047	1,098,827	7,099	1,105,926
Changes in equity									
Comprehensive income									
Net income	26	-	-	-	-	419,702	419,702	1,223	420,925
Other comprehensive income		-	-	667	(14,820)	-	(14,153)	(79)	(14,232)
Total comprehensive income		-	-	667	(14,820)	419,702	405,549	1,144	406,693
Transactions with shareholders									
Dividends	26	-	-	-	-	(210,406)	(210,406)	-	(210,406)
Increase (decrease) for transfers and other changes	26-36	-	2,973	-	-	(129)	2,844	(4,997)	(2,153)
Total transactions with shareholders		-	2,973	-	-	(210,535)	(207,562)	(4,997)	(212,559)
Closing balance as of December 31, 2010		453,444	5,463	(4,257)	(107,050)	949,214	1,296,814	3,246	1,300,060

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

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT – METHOD

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

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

LAN AIRLINES S.A. AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010

NOTE 1 - GENERAL INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

All the entities controlled have been included in the consolidation.

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

(1) Dissolution of company

Nigsy S.A., indirect subsidiary of Lan Chile Investments Limited

(2) Incorporation or acquisition of companies

Florida West Technical Services LLC., direct subsidiary of Prime Airport Services S.A., in April 2010, changed name to Lan Cargo Repair Station, LLC.

Aerovías de Integración Regional, Aires S.A., indirect subsidiary of Lan Pax Group S.A., in November 2010, acquired through the purchase of companies Akemi Holdings S.A. and Saipan Holdings S.A.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Preparation

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

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

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

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

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

Standards and amendments	Mandatory application: annual periods beginning on or after
IFRS 3 revised: Business Combinations	01/07/2009
Amendment to IAS 27: Consolidated and separate financial statements	01/07/2009
Amendment to IFRS 2: Share-based payment	01/01/2010
Amendment to IAS 38: Intangible assets	01/07/2010
Amendment to IAS 1: Presentation of financial statements	01/01/2010
Amendment to IAS 36: Impairment assets	01/01/2010
Amendment to IFRS 5: Non-current assets held for sale and discontinued operations	01/01/2010

Interpretation	Mandatory application: annual periods beginning on or after
IFRIC 17: Distributions to owners of non-monetary assets	01/07/2009
IFRIC 18: Transfers of assets from customers	01/07/2009
Amendment to IFRIC 9: Reassessment of embedded derivatives	01/07/2009
Amendment to IFRIC 16: Hedges of a net investment in a foreign operation	01/07/2009

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

Standards and amendments	Mandatory application: annual periods beginning on or after
Amendment to IAS 32: Classification of rights issues	01/02/2010
IAS 24 revised: Related party disclosures	01/01/2011
IFRS 9: Financial instruments	01/01/2013
Amendment to IFRS 3: Business Combinations	01/07/2010
Amendment to IFRS 7: Financial Instruments: Disclosures	01/01/2011
Amendment to IAS 1: Presentation of financial statements	01/01/2011
Amendment to IAS 27: Consolidated and separate financial statements	01/07/2010
Amendment to IAS 34: Interim financial reporting	01/01/2011

Interpretation	Mandatory application: annual periods beginning on or after
IFRIC 19: Extinguishing financial liabilities with equity instruments	01/07/2010
Amendment to IFRIC 14: Pre-payments of a minimum funding requirement	01/01/2011
Amendment to IFRIC 13: Customer loyalty programs	01/01/2011

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

2.2. Consolidation

(a) Subsidiaries

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

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

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

(b) Transactions and minority holdings

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

(c) Investees or associates

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

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

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

2.3. Foreign currency transactions

(a) Presentation and functional currencies

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

(b) Transactions and balances

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

(c) Group entities

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

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

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

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

2.4. Property, plant and equipment

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

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

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

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

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

2.5. Intangible assets

Computer software

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

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

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

2.6. Goodwill

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

2.7. Borrowing costs

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

2.8. Losses for impairment of non-financial assets

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

2.9. Financial assets

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

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

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

(b) Loans and accounts receivable

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

(c) Financial assets held to maturity

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

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

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

2.10. Derivative financial instruments and hedging activities

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

(a) Hedge of the fair value of recognized assets (fair value hedge);

(b) Hedge of an identified risk associated with a recognized liability or an expected highly-probable transaction (cash-flow hedge), or

(c) Derivatives that do not qualify for hedge accounting.

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

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

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

(a) Fair value hedges

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

(b) Cash flow hedges

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

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

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

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

(c) Derivatives not booked as a hedge

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

2.11. Inventories

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

2.12. Trade and other accounts receivable

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

2.13. Cash and cash equivalents

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

2.14. Capital

The common shares are classified as net equity.

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

2.15. Trade and other accounts payable

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

2.16. Interest-bearing loans

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

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

2.17. Deferred taxes

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

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

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

2.18. Employee benefits

(a) Personnel vacations

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

(b) Share-based compensation

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

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

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

(d) Incentives

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

2.19. Provisions

Provisions are recognised when:

(i) The Company has a present legal or implicit obligation as a result of past events.

(ii) It is probable that some payment is going to be necessary to settle an obligation, and

(iii) The amount has been reliably estimated.

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

2.20. Revenue recognition

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

(a) Rendering of services

a.1 Passenger and cargo transport

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

a.2 Frequent flyer program

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

a.3 Other revenues

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

(b) Interest income

Interest income is booked using the effective interest rate method.

(c) Dividend income

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

2.21. Leases

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

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

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

The asset acquired under a financial lease is depreciated over the shorter of its useful life and the lease term and is included in Property, plant and equipment.

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

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

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

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

2.23. Maintenance

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

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

2.24. Environmental costs

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

NOTE 3 - FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

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

(a) Market risk

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

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

(i) Fuel-price risk:

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

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

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

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

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

(*)Weighted average between collars and asset options

Positions as of December 31, 2009	Maturities				
	Q110	Q210	Q310	Q410	Total
Volume (thousands of barrels WTI)	1,404	1,371	876	738	4,389
Agreed future value (US$ per barril)(*)	84	80	79	82	81
Total (ThUS$)	117,936	109,680	69,204	60,516	355,509
Approximate percentage of hedge (of expected consumption value)	48%	49%	29%	24%	37%

(*)Weighted average between collars and asset options

Sensitivity analysis

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

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

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

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

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

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

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

(ii) Cash flow interest-rate risk:

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

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

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

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

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

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

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

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

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

(iii) Local exchange-rate risk:

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

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

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

(b) Credit risk

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

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

(i) Financial activities

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

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

The Company has no guarantees to mitigate this exposure.

(ii) Operational activities

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

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

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

Credit quality of financial assets

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

(c) Liquidity risk

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

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

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

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

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

Class of liability	Debtor Tax No.	Debtor	Debtor country	Creditor Tax No.	Creditor	Creditor country	Currency	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$	Amortization	Effective rate %	Nominal value ThUS$	Nominal rate %
Guaranteed obligations	89.862.200-2	Lan Airlines S.A.	Chile	0-E	ING	U.S.A.	US$	7,425	22,305	53,471	47,128	93,325	223,654	Quarterly	5.19%	181,029	4.69%
		Lan Airlines S.A.	Chile	0-E	CALYON	France	US$	21,045	63,352	130,785	39,186	20,916	275,284	Quarterly	4.47%	256,417	4.47%
		Lan Airlines S.A.	Chile	0-E	PEFCO	U.S.A.	US$	19,838	59,513	158,688	149,595	209,374	597,008	Quarterly	5.16%	497,692	4.60%
		Lan Airlines S.A.	Chile	0-E	BNP PARIBAS	U.S.A.	US$	22,831	68,726	184,673	186,931	385,438	848,599	Quarterly	4.49%	707,306	4.00%
		Lan Airlines S.A.	Chile	0-E	WELLS FARGO	U.S.A.	US$	5,626	16,842	44,872	44,796	135,714	247,850	Quarterly	3.64%	204,392	3.53%
		Lan Airlines S.A.	Chile	0-E	CITIBANK	U.S.A.	US$	8,984	27,039	72,767	73,806	206,771	389,367	Quarterly	3.93%	326,235	3.48%
		Lan Airlines S.A.	Chile	0-E	SANTANDER	Spain	US$	2,919	8,859	24,242	25,206	95,708	156,934	Quarterly	0.95%	148,741	0.83%
Financial leases	89.862.200-2	Lan Airlines S.A.	Chile	0-E	ING	U.S.A.	US$	3,899	11,685	30,440	25,695	11,675	83,394	Quarterly	4.08%	77,096	3.71%
		Lan Airlines S.A.	Chile	0-E	CALYON	France	US$	2,249	6,786	18,376	22,613	43,431	93,455	Quarterly	1.27%	87,337	1.27%
		Lan Airlines S.A.	Chile	0-E	CITIBANK	U.S.A.	US$	1,692	5,249	26,758	-	-	33,699	Quarterly	1.32%	32,921	1.27%
		Lan Airlines S.A.	Chile	0-E	S.CHARTERED	U.S.A.	US$	3,858	11,873	14,628	-	-	30,359	Quarterly	1.28%	29,864	1.25%
Bank loans	89.862.200-2	Lan Airlines S.A.	Chile	0-E	SANTANDER MADRID	Spain	US$	-	26,125	12,726	-	-	38,851	Semiannual	3.64%	37,500	3.55%
Bank loans	89.862.200-2	Lan Airlines S.A.	Chile	97.023.000-9	CORPBANCA	Chile	CLP	13,479	13,158	12,713	-	-	39,350	Semiannual	6.53%	36,858	6.44%
		Lan Airlines S.A.	Chile	76.645.030-K	ITAU	Chile	CLP	-	21,653	10,332	-	-	31,985	Semiannual	6.67%	29,967	6.60%
		Lan Airlines S.A.	Chile	97.006.000-6	BCI	Chile	CLP	-	38,144	18,188	-	-	56,332	Semiannual	6.71%	52,723	6.63%
		Lan Airlines S.A.	Chile	97.030.000-7	ESTADO	Chile	CLP	-	47,521	22,666	-	-	70,187	Semiannual	6.65%	65,704	6.59%
		Aires S.A.	Colombia	0-E	HELM	Colombia	COP	3,944	-	-	-	-	3,944	30 days	3.37%	3,936	3.37%
Other loans	89.862.200-2	Lan Airlines S.A.	Chile	0-E	SANTANDER MADRID	Spain	US$	586	1,587	72,962	-	-	75,135	-	3.29%	72,962	3.29%
		Lan Airlines S.A.	Chile	0-E	BOEING	U.S.A.	US$	1,862	1,207	106,665	-	-	109,734	-	2.04%	106,209	2.04%
Derivatives	89.862.200-2	Lan Airlines S.A.	Chile	-	OTHERS	-	US$	6,018	22,331	61,273	24,643	4,751	119,016	-	-	115,189	-
Non-hedging Derivatives	89.862.200-2	Lan Airlines S.A.	Chile	-	OTHERS	-	US$	1,461	4,239	9,891	5,608	-	21,199	-	-	20,703	-
Accounts payable other accounts payable		Lan Airlines S.A. and subsidiaries	Varios	-	Varios	-	US$	277,327	26,002	-	-	-	303,329	-	-	303,329	-
							CLP	28,058	-	-	-	-	28,058	-	-	28,058	
							Others	169,307	-	-	-	-	169,307	-	-	169,307	
Other accounts payable, non-currents		Lan Airlines S.A. and subsidiaries	Varios	-	Varios	-	US$	-	-	54,000	-	-	54,000	-	-	54,000	-
Accounts payable related parties		Lan Airlines S.A. and subsidiaries	Varios	96847880-k	Lufthansa Lan Technical training S.	-	-	184	-	-	-	-	184	-	-	184	-
Total								602,592	504,196	1,141,116	645,207	1,207,103	4,100,214			3,645,660	

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

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

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

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

3.2. Capital risk management

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

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

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

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

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

3.3. Estimates of fair value

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

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

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

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

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

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

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

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

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

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

NOTE 4 - ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

NOTE 5 – SEGMENTAL INFORMATION

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

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

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

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

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

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

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

NOTE 6 – CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

NOTE 7 - FINANCIAL INSTRUMENTS

7.1. Financial instruments by category

As of December 31, 2010

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

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

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

As of December 31, 2009

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

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

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

7.2. Financial instruments by currency

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

b) **Liabilities**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 9 - ACCOUNTS RECEIVABLE FROM/PAYABLE TO RELATED PARTIES

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

a) Accounts Receivable

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

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

b) Accounts payable

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

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

NOTE 10 – INVENTORIES

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

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

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

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

NOTE 11 – OTHER FINANCIAL ASSETS

The composition of other financial assets, is as follows:

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

a) Other financial assets

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

b) Hedging assets

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

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

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

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

NOTE 12 – OTHER NON FINANCIAL ASSETS

The composition of other non financial assets is as follows:

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

a) Advance payments

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

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

b) Other assets

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

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

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

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

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

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

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

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

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

NOTE 14 - INVESTMENTS IN SUBSIDIARIES

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

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

As of December 31, 2010

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

As of December 31, 2009

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

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

Significant subsidiaries detailed as of December 31, 2010

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

Summary financial information of significant subsidiaries

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

Significant subsidiaries detailed as of December 31, 2009

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

Summary financial information of significant subsidiaries

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

NOTE 15 - EQUITY ACCOUNTED INVESTMENTS

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

As of December 31, 2010

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

As of December 31, 2009

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

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

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

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

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

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

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

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

NOTE 16 - INTANGIBLE ASSETS OTHER THAN GOODWILL

Composition and movement of intangible assets

Intangible assets are as follows:

Classes of intangible assets (net)	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Computer software	45,183	34,087
Other assets	566	727
Total	45,749	34,814

Classes of intangible assets (gross)	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Computer software	83,875	63,585
Other assets	808	808
Total	84,683	64,393

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

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

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

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

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

NOTE 17 – GOODWILL

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

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

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

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

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

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

NOTE 18 - PROPERTY, PLANT AND EQUIPMENT

The composition by category of property, plant and equipment is as follows:

	Gross Book Value		Acumulated depreciation		Net Book Value	
	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Construction in progress	715,603	264,259	-	-	715,603	264,259
Land	35,538	35,538	-	-	35,538	35,538
Buildings	101,181	100,662	(21,060)	(18,696)	80,121	81,966
Plant and equipment	4,816,723	4,051,718	(1,153,587)	(820,036)	3,663,136	3,231,682
Information technology equipment	83,711	75,185	(65,112)	(60,142)	18,599	15,043
Fixed installations and accessories	52,954	45,526	(25,951)	(21,867)	27,003	23,659
Motor vehicles	3,269	2,853	(1,979)	(1,902)	1,290	951
Leasehold improvements	87,168	76,536	(43,048)	(26,250)	44,120	50,286
Other property, plants and equipment	646,236	863,620	(283,216)	(370,448)	363,020	493,172
Total	6,542,383	5,515,897	(1,593,953)	(1,319,341)	4,948,430	4,196,556

The movement in the different categories of property, plant and equipment from January 01, 2009 to December 31, 2010 is shown below:

a) As of December 31, 2009

	Construction in progress ThUS$	Land ThUS$	Buildings Net ThUS$	Plant and equipment Net ThUS$	Information technology equipment Net ThUS$	Fixed installations & accessories Net ThUS$	Motor vehicles Net ThUS$	Leasehold improvement Net ThUS$	Other property, plant and equipment Net ThUS$	Property, Plant and equipment Net ThUS$
Opening balance as of January 01, 2009	267,844	35,538	78,210	3,079,911	16,336	22,027	809	46,549	418,839	3,966,063
Additions	15,232	-	20	531,038	4,025	2,109	341	863	12,951	566,579
Disposals	(7)	-	-	(6,047)	-	(16)	(25)	-	(1)	(6,096)
Transfers to (from) non-current assets (or disposal groups) classified as Held for Sale	-	-	-	(4,029)	-	-	-	-	-	(4,029)
Asset retirements	-	-	-	(2,299)	(22)	(5)	(2)	-	(864)	(3,192)
Depreciation	-	-	(2,114)	(199,673)	(5,672)	(3,777)	(179)	(13,371)	(42,069)	(266,855)
Increases (decreases) due to exchanges differences	(49)	-	-	(2,034)	278	284	(2)	-	5	(1,518)
Other increases (decreases)	(18,761)	-	5,850	(165,185)	98	3,037	9	16,245	104,311	(54,396)
Changes, total	(3,585)	-	3,756	151,771	(1,293)	1,632	142	3,737	74,333	230,493
Closing balance as of December 31, 2009	264,259	35,538	81,966	3,231,682	15,043	23,659	951	50,286	493,172	4,196,556

b) As of December 31, 2010

	Construction in progress ThUS$	Land ThUS$	Buildings Net ThUS$	Plant and equipment Net ThUS$	Information technology equipment Net ThUS$	Fixed installations & accessories Net ThUS$	Motor vehicles Net ThUS$	Leasehold improvements Net ThUS$	Other property, plant and equipment Net ThUS$	Property, Plant and equipment Net ThUS$
Opening balance as of January 01, 2010	264,259	35,538	81,966	3,231,682	15,043	23,659	951	50,286	493,172	4,196,556
Additions	10,229	-	115	571,422	9,516	2,341	420	2,410	6,673	603,126
Acquisitions through business combinations			1,006	490	137	335	107		480	2,555
Disposals	-	-	-	(190)	-	-	(7)	-	(2)	(199)
Transfers to (from) non-current assets (or disposal groups) classified as Held for Sale	-	-	-	2,552	-	-	-	-	-	- 2,552
Retirements	-	-	-	(6,633)	(536)	(2)	(12)	-	(2,550)	(9,733)
Depreciation	-	-	(2,315)	(235,800)	(5,217)	(3,997)	(172)	(16,797)	(32,315)	(296,613)
Increases (decreases) due to exchanges differences	(62)	-	-	(857)	16	(13)	(3)	-	(27)	(946)
Other increases (decreases)	441,177	-	(651)	100,470	(360)	4,680	6	8,221	(102,411)	451,132
Changes, total	451,344	-	(1,845)	431,454	3,556	3,344	339	(6,166)	(130,152)	751,874
Closing balance as of December 31, 2010	715,603	35,538	80,121	3,663,136	18,599	27,003	1,290	44,120	363,020	4,948,430

c) Composition of the fleet

Aircraft included in the company´s property, plant and equipment:

Aircraft	Model	As of December 31, 2010	As of December 31, 2009
Boeing 737	200ADV (1)	-	2
Boeing 767	300ER	18	17
Boeing 767	300F	8	8
Boeing 767	200ER (2)	1	1
Airbus A318	100	15	15
Airbus A319	100	20	20
Airbus A320	200	24	16
Airbus A340	300	4	4
Total		90	83

(1) Leased to Sky Service S.A.
(2) Leased to Aerovías de México S.A.

Operating leases:

Aircraft	Model	As of December 31, 2010	As of December 31, 2009
Boeing 767	300ER	10	10
Boeing 767	300F	3	1
Boeing 777	Freighter	2	2
Airbus A320	200 (3)	5	2
Airbus A340	300	1	1
Boeing 737	700 (4)	9	-
Bombardier	Dash 8-200 (4)	11	-
Bombardier	Dash 8-Q400 (4)	4	-
Total		45	16
Total fleet		135	99

(3) Two aircraft leased to Aeroasis S.A.
(4) Aircraft incorporated through the business combination with Aires S.A.

d) Method used for the depreciation of property, plant and equipment:

	Method	Useful life minimum	Useful life maximum
Buildings	Straight line without residual value	20	50
Plant and equipment	Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet (*)	5	20
Information technology equipment	Straight line without residual value	5	10
Fixed installations and accessories	Straight line without residual value	10	10
Motor vehicle	Straight line without residual value	10	10
Leasehold improvements	Straight line without residual value	5	5
Other property, plants and equipment	Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet (*)	3	20

(*) Except for certain technical components, which are depreciated on the basis of cycles and flight hours.

Depreciation charged to income in the period ended December 31, 2010, included in the consolidated statement of income, amounts to ThUS$ 296,613 (ThUS$ 266,855 for the period ended December 31, 2009 and ThUS$ 222,997 for the period ended December 31, 2008). Depreciation charges for the year are recognized in Cost of Sales and Administrative Expenses in the consolidated statement of income.

e) Additional information regarding property, plant and equipment:

i) Property, plant and equipment pledged as guarantee:

In the period ended December 31, 2010 direct guarantees were added for nine aircraft, eight of them corresponding to the Airbus 320-200 fleet, and one Boeing 767-300 fleet. Additionally, the Company exercised the option to buy three Boeing 767-300 aircraft to Condor Leasing LLC.

Description of property, plant and equipment pledged as guarantee:

Creditor of guarantee	Assets committed	Fleet	As of December 31, 2010 Existing Debt ThUS$	As of December 31, 2010 Book Value ThUS$	As of December 31, 2009 Existing Debt ThUS$	As of December 31, 2009 Book Value ThUS$
Wilmington Trust Company	Aircraft and engines	Boeing 767	1,061,378	1,330,614	1,091,379	1,316,103
BNP Paribas	Aircraft and engines	Airbus A319	297,320	370,476	324,584	389,071
		Airbus A318	299,422	359,944	323,947	380,928
		Airbus A320	407,275	478,082	119,567	140,501
Calyon	Aircraft and engines	Airbus A319	108,803	178,342	123,760	176,072
		Airbus A320	58,236	172,426	80,361	176,135
		Airbus A340	89,378	234,892	121,877	259,820
Total direct guarantee			2,321,812	3,124,776	2,185,475	2,838,630

The amounts of existing debt are presented at nominal value. Book value corresponds to the carrying value of the goods provided as guarantees.

Additionally, there are indirect guarantees related to assets recorded in property, plant and equipment whose total debt at December 31, 2010 amounted to ThUS $ 227,218 (ThUS $ 281,691 at December 31, 2009). The book value of assets with indirect guarantees as of December 31, 2010 amounts to ThUS$ 328,838 (ThUS $ 453,970 as of December 31, 2009).

ii) Commitments and others

Assets fully depreciated and commitments for future purchases are as follows:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Gross book value of property, plants and equipment fully depreciated still in use (1)	57,612	53,417
Commitments for the acquisition of aircraft	12,350,000	8,880,000

(1) The amounts shown relate mainly to land support equipment, computer equipment and tools.

In December 2009, the Company signed a purchase commitment with Airbus for the purchase of another 30 aircraft of the A320 family with deliveries between 2011 and 2014. Additionally, in December 2010 the Company made another commitment to the manufacturer for the purchase of 50 new A320 family aircraft with deliveries between 2012 and 2016.

With the above, as of December 31, 2010, and as a result of different aircraft purchase contracts signed with Airbus S.A.S., there remain 87 Airbus aircraft of the A320 family to be delivered between 2011 and 2016. The approximate amount is ThUS$ 6,300,000, according to the manufacturer's price list.

As of December 31, 2010, and as a result of different aircraft purchase contracts signed with The Boeing Company, there remain 6 B767-300ER aircraft to be delivered between 2011 and 2012, 2 B777 – Freighter aircraft for delivery in 2012 and 26 B787 Dreamliner aircraft with a delivery date within the next 10 years. The approximate amount is ThUS$ 6,050,000, according to the manufacturer's price list. In addition, the Company has purchase options over 1 B777- Freighter aircraft and 15 B787 Dreamliner aircraft.

The acquisition of the aircraft is part of the strategic plan for long haul fleet. This plan also means the sale of 15 aircraft model Airbus 318 between 2011 and 2013. It is estimated that this sale will have no significant impact on results.

iii) Capitalized interest costs with respect to property, plant and equipment.

		For the year ended December 31,		
		2010	2009	2008
Average rate of capitalization of capitalized interest cost	%	4.31	4.33	5.26
Costs of capitalized interest	ThUS$	18,400	9,943	18,821

iv) Financial leases

The detail of the main financial leases is as follows:

Lessor	Aircraft	As of December 31, 2010	As of December 31, 2009
Condor Leasing LLC	Boeing 767	-	3
Bluebird Leasing LLC	Boeing 767	2	2
Eagle Leasing LLC	Boeing 767	2	2
Seagull Leasing LLC	Boeing 767	1	1
Linnet Leasing Limited	Airbus A320	4	4
Total		9	12

Leasing contracts where the lessee acts as the parent company of aircraft set a duration of 12 years and quarterly payments of obligations. Additionally, the tenant will hire and have outstanding obligations of insurance coverage for the aircraft, perform maintenance on them to update their own cost and airworthiness certificates.

Fixed assets acquired under financial leases are classified as Other fixed assets in Property, plant and equipment. As of December 31, 2010, the Company has 9 aircraft and 1 spare engine recorded as financial leases (12 aircraft and 1 spare engine as of December 31, 2009).

In the period ended December 31, 2010 the Company exercised the option to buy three Boeing 767-300 aircraft to Condor Leasing LLC. Product of the above, both aircraft were reclassified from the category Other property, plant and equipment to Plant and equipment category. Additionally, during December 2010 extending the financing period of a Boeing 767-300 for a period of three years.

The book value of assets under financial leases as of December 31, 2010 amounts to ThUS$ 319,541 (ThUS$ 458,417 as of December 31, 2009).

The minimum payments under financial leases are as follows:

As of December 31, 2010

	Gross Value ThUS$	Interest ThUS$	Present Value ThUS$
No later than one year	57,976	(3,679)	54,297
Between one and five years	127,370	(7,421)	119,949
Over five years	55,106	(1,781)	53,325
Total	240,452	(12,881)	227,571

As of December 31, 2009

	Gross Value ThUS$	Interest ThUS$	Present Value ThUS$
No later than one year	59,871	(4,846)	55,025
Between one and five years	195,102	(9,584)	185,518
Over five years	41,395	(129)	41,266
Total	296,368	(14,559)	281,809

NOTE 19 – INCOME TAXES

Deferred tax assets and liabilities are offset if there is a legal right to offset assets and liabilities for income taxes relating to the same tax authority. The balances of deferred taxes are as follows:

Concept	Assets		Liabilities	
	As of December 31, 2010	As of December 31, 2009	As of December 31, 2010	As of December 31, 2009
	ThUS$	ThUS$	ThUS$	ThUS$
Depreciation	(415)	(476)	290,254	221,712
Amortization	12,286	2,103	29,606	24,556
Provisions	8,128	2,995	23,017	5,097
Post-employment benefit obligations	622	333	(982)	(850)
Revaluation of financial instruments	-	-	(21,926)	(18,891)
Tax losses	13,229	5,013	-	-
Others	4,234	684	(7,957)	8,995
Total	38,084	10,652	312,012	240,619

Movements of deferred tax assets and liabilities from January 01, 2009 to December 31, 2010 are as follows:

a) As of December 31, 2009

	Beginning balance asset (liability)	Recognized in consolidated income	Recognized in comprehensive income	Incorporation by business combinations	Ending balance asset (liability)
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Depreciation	(166,970)	(55,218)	-	-	(222,188)
Amortization	(29,831)	7,378	-	-	(22,453)
Provisions	4,082	(6,184)	-	-	(2,102)
Post-employment benefit obligations	853	330	-	-	1,183
Revaluation of financial	61,817	(1)	(42,925)	-	18,891
Tax losses	10,182	(5,169)	-	-	5,013
Others	(34,920)	25,601	1,008	-	(8,311)
Total	(154,787)	(33,263)	(41,917)	-	(229,967)

b) As of December 31, 2010

	Beginning balance asset (liability) ThUS$	Recognized in consolidated income ThUS$	Recognized in comprehensive income ThUS$	Incorporation by business combinations ThUS$	Ending balance asset (liability) ThUS$
Depreciation	(222,188)	(68,481)	-	-	(290,669)
Amortization	(22,453)	(5,948)	-	11,081	(17,320)
Provisions	(2,102)	(17,968)	-	5,181	(14,889)
Post-employment benefit obligations	1,183	(196)	-	617	1,604
Revaluation of financial	18,891	-	3,035	-	21,926
Tax losses	5,013	(1,303)	-	9,519	13,229
Others	(8,311)	18,077	(120)	2,545	12,191
Total	(229,967)	(75,819)	2,915	28,943	(273,928)

Deferred tax assets not recognized:	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Temporary differences	2,152	2,152
Tax losses	1,662	3,629
Total Deferred tax assets not recognized	3,814	5,781

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The group did not recognize deferred income tax assets of ThUS$ 1,662 (ThUS$ 3,629 at December 31, 2009) in respect of losses amounting to ThUS$ 5,992 (ThUS$ 11,456 at December 31, 2009) that can be carried against future taxable income.

Expense (income) for deferred and current income taxes for the years ended at December 31, 2010 and 2009 respectively, are as follows:

	For the year ended December 31, 2010	2009
	ThUS$	ThUS$
Expense for current income tax		
Current tax expense	8,890	8,323
Adjustment to previous year's current tax	(3,153)	(2,177)
Other current tax expense (income)	(1,881)	5,556
Current tax expense, net, total	3,856	11,702
Expense for deferred income taxes		
Deferred expense (income) for taxes related to the creation and reversal of temporary differences	75,284	31,128
Increases (reduction) in value of deferred tax assets	1,967	1,657
Deferred tax expense, net, total	77,251	32,785
Income tax expense	81,107	44,487

Composition of income tax expense (income):

	For the year ended December 31, 2010	2009
	ThUS$	ThUS$
Current tax expense, net, foreign	1,121	2,185
Current tax expense, net, Chile	2,735	9,517
Current tax expense, net, total	3,856	11,702
Deferred tax expense, net, foreign	3,724	2,024
Deferred tax expense, net, Chile	73,527	30,761
Deferred tax expense, net, total	77,251	32,785
Income tax expense	81,107	44,487

Reconciliation of tax expense using the legal rate to the tax expense using the effective rate:

	For the year ended December 31, 2010 ThUS$	For the year ended December 31, 2009 ThUS$
Tax expense using the legal rate	85,138	46,854
Tax effect of rates in other jurisdictions	1,491	6,792
Tax effect of non-taxable operating revenues	(4,089)	(10,556)
Tax effect of disallowable expenses	849	836
Tax effect of current period tax losses not recognized	1,967	1,801
Other increases (decreases)	(4,249)	(1,240)
Total adjustments to tax expense using the legal rate	(4,031)	(2,367)
Tax expense using the effective rate	81,107	44,487

Reconciliation of legal tax rate to effective tax rate:

	For the year ended December 31, 2010 %	For the year ended December 31, 2009 %
Legal tax rate	17.00	17.00
Effect of tax rates in other jurisdictions	0.30	2.46
Effect of tax rate on non-taxable operating revenues	(0.82)	(3.83)
Effect of tax rate on disallowable expenses	0.17	0.30
Effect of tax rate on use of not-previously recognized tax losses	0.39	0.66
Other increase (decrease)	(0.84)	(0.45)
Total adjustment to the legal tax rate	(0.80)	(0.86)
Total effective tax rate	16.20	16.14

Deferred taxes related to items charged to net equity:

	For the year ended December 31, 2010 ThUS$	2009 ThUS$
Aggregate deferred taxation related to items charged to net equity	2,316	(42,425)
Total deferred taxes related to item charged to net equity	2,316	(42,425)

Effects on deferred taxes of the components of other comprehensive income:

	As of December 31, 2010		
	Amount before Taxes ThUS$	Income tax expense (income) ThUS$	Amount after Taxes ThUS$
Cash-flow hedges	17,855	(3,035)	14,820
Translation adjustment	(708)	120	(588)
		(2,915)	

	As of December 31, 2009		
	Amount before Taxes ThUS$	Income tax expense (income) ThUS$	Amount after Taxes ThUS$
Cash-flow hedges	(252,508)	42,925	(209,583)
Translation adjustment	5,929	(1,008)	4,921
		41,917	

NOTE 20 – OTHER FINANCIAL LIABILITIES

The composition of other financial liabilities is as follows:

	As of December 31, 2010 MUS$	As of December 31, 2009 MUS$
Current		
a) Bank loans	495,261	385,421
b) Other financial liabilities	5,321	2,031
c) Hedge liabilities	42,042	30,480
Total Current	542,624	417,932
Non-current		
a) Bank loans	2,450,033	2,389,521
b) Other financial liabilities	14,427	5,804
c) Hedge liabilities	97,888	47,853
Total Non-current	2,562,348	2,443,178

a) Interest bearing loans

Obligations with credit institutions and debt instruments:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Current		
Bank loans	150,915	71,124
Guaranteed obligations	283,637	245,717
Financial leases	54,297	68,076
Other loans	6,412	504
Total current	495,261	385,421
Non-current		
Bank loans	73,921	207,657
Guaranteed obligations	2,023,666	1,933,607
Financial leases	173,274	213,733
Other loans	179,172	34,524
Total non-current	2,450,033	2,389,521
Total obligations with financial institutions	2,945,294	2,774,942

All interest-bearing liabilities are recorded using the effective interest rate method. Under IFRS, the effective interest rate for loans with a fixed interest rate does not vary throughout the loan, while in the case of loans with variable interest rates, the effective rate changes on each repricing date.

Currency balances that make the interest bearing loans interest at December 31, 2010 and December 31, 2009, are as follows:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
US Dollar	2,753,788	2,546,411
Chilean Peso (*)	187,101	228,531
Other currency	4,405	-
Total	2,945,294	2,774,942

(*) The Company entered into cross currency swaps, fixing the payment of ThUS$ 128,056 of debt, in dollars.

b) Other financial liabilities

The detail of other financial liabilities as of December 31, 2010 and December 31, 2009, respectively, is as follows:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Current		
Interest rate derivative not recognized as a hedge	5,321	2,031
Total current	5,321	2,031
Non-current		
Interest rate derivative not recognized as a hedge	14,427	5,804
Total non-current	14,427	5,804
Total other financial liabilities	19,748	7,835

c) Hedging liabilities

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

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Current		
Interest accrued since last payment date swap rates	3,826	2,935
Fair value interest rate derivatives	24,522	21,580
Fair value of foreign currency derivatives	13,694	5,089
Fair value of fuel price derivatives	-	876
Total current	42,042	30,480
Non-current		
Fair value interest rate derivatives	90,666	47,853
Fair value of foreign currency derivatives	7,222	-
Total non-current	97,888	47,853
Total hedging liabilities	139,930	78,333

The foreign currency derivatives correspond to forward contracts and cross currency swaps.

Hedging operation

The fair values by type of derivative contracts held as hedging instruments are presented below:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Forward starting swaps (FSS) (1)	(54,670)	(31,928)
Interest rate options (2)	422	3,129
Interest rate Swaps (3)	(64,344)	(37,506)
Cross currency swaps (CCIRS) (4)	26,703	19,706
Fuel Collars (5)	17,782	5,329
Fuel Swap (6)	28,032	8,244
Currency forward (7)	(13,694)	677

(1) Covers the significant variations in cash flows associated with market risk implicit in the changes in the 3-month Libor interest rate for long-term loans incurred in the acquisition of aircraft to be produced from the future contract date. These contracts are recorded as cash flow hedges.
(2) Covers the significant variations in cash flows associated with market risk implicit in the changes in the 3-month Libor interest rate for long-term loans incurred in the acquisition of aircraft. These contracts are recorded as cash flow hedges.
(3) Covers the significant variations in cash flows associated with market risk implicit in the increases in the 3 and 6 months Libor interest rates for long-term loans incurred in the acquisition of aircraft and bank loans. These contracts are recorded as cash flow hedges.
(4) Covers the significant variations in cash flows associated with market risk implicit in the changes in the TAB 180 days interest rate and the dollar exchange rate. These contracts are recorded as cash flow hedges.
(5) Covers significant variations in cash flows associated with market risk implicit in the changes in the price of future fuel purchases.
(6) Covers the significant variations in cash flows associated with market risk implicit in the changes in the price of future fuel purchases.
(7) Covers investments denominated in Chilean pesos to changes in the US Dollar - Chilean Peso exchange rate, with the aim of ensuring investment in dollars.

During the periods presented, the Company only maintains cash flow hedges. In the case of fuel hedges, future fuel purchases will occur and impact results from 1 to 12 months from the consolidated statement of financial position date, whereas in the case of interest rate hedging, they will occur and will impact results over the life of the related loans, which are valid for 12 years. Regarding coverage rate and currency, the impact on outcomes will occur continuously throughout the life of the contract (3 years), while cash flows will occur quarterly. Finally, the results will impact investment hedges steadily over the life of the investment (up to 3 months), while the cash flows occur at the maturity of the investment.

During the periods presented, all hedged highly probable forecast transactions have occurred.

During the periods presented, there has been no hedge ineffectiveness recognized in the consolidated statement of income.

Since none of the coverage resulted in the recognition of a nonfinancial asset, no portion of the result of the derivatives recognized in equity was transferred to the initial value of such assets.

The amounts recognized in comprehensive income and transferred from net equity to income during the year, are as follows:

	For the year ended December 31, 2010 ThUS$	2009 ThUS$
Debit (credit) recognized in comprehensive Income during the year	(17,855)	252,508
Debit (credit) transferred from net equity to Income during the year	(35,010)	(193,534)

NOTE 21 - TRADE AND OTHER CURRENT ACCOUNTS PAYABLE

The composition of trade and other accounts payables is as follows:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Current		
a) Trade and other accounts payable	500,694	377,438
b) Accrued liabilities of the reporting date	144,877	99,159
Total trade and other accounts payable	645,571	476,597

a) Trade and other accounts payable as of December 31, 2010 and December 31, 2009 are as follows:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Trade creditors	389,568	311,441
Leasing obligations	26,474	9,441
Other accounts payable (*)	84,652	56,556
Total	500,694	377,438

(*) Includes agreement entitled "Plea Agreement" with the Department of Justice of the United States of America. See detail in note 22.

Trade and other payables by concept:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Aircraft fuel	104,404	71,881
Baording Fee	72,864	72,291
Landing fees	43,941	34,321
Handling and ground handling	39,915	25,885
Providers technical buying	29,594	24,784
Maintenance	28,658	15,821
Aircraft and engines lease	26,474	9,441
Professional service and advice	22,445	18,536
Other personal expenses	21,275	16,938
Marketing	21,041	11,624
U.S.A Department of Justice (*)	18,387	18,097
Achievement of objectives	15,263	13,228
In-flight services	11,761	10,253
Crew	8,188	6,400
Aviation insurance	5,931	4,976
Others	30,553	22,962
Total trade and other accounts payable	500,694	377,438

(*) Includes agreement entitled "Plea Agreement" with the Department of Justice of the United States of America. See detail in note 22.

b) The liabilities accrued at December 31, 2010 and December 31, 2009 , are as follows:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Aircraft and engine maintenance	26,133	29,055
Accounts payable to personnel	52,441	33,890
Accrued personnel expenses	40,974	24,576
Others accrued liabilities	25,329	11,638
Total accrued liabilities	144,877	99,159

NOTE 22 - OTHER PROVISIONS

The detail of other provisions as of December 31, 2010 and December 31, 2009 is as follows:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Current		
Provision legal claims (1)	753	970
Total other provisions, Current	753	970
Non-current		
Provision legal claims (1)	21,204	1,834
Provision for European Commision investigation (2)	10,916	25,000
Total other provisions, non-current	32,120	26,834
Total other provisions	32,873	27,804

(1) The amount represents a provision for certain demands made against the Company by former employees, regulatory agencies and others. The charge for the provision is shown in the consolidated statement of income in Administrative expenses. It is expected that the current balance as of December 31, 2010 will be applied during the next 12 months. Within other non-current provisions, provisions for legal claims relating to Aires S.A are included.

(2) Provision made for proceedings brought by the European Commission for possible breaches of free competition in the freight market.

The movement of provisions from January 01, 2009 and December 31, 2010 is as follows:

	Legal claims ThUS$	European Commission Investigation ThUS$	Total ThUS$
Opening balance as of January 01, 2009	3,561	25,000	28,561
Increase in provisions	1,607	-	1,607
Provision used	(2,679)	-	(2,679)
Exchange difference	315	-	315
Balance as of December 31, 2009	2,804	25,000	27,804

	Legal claims ThUS$	European Commission Investigation ThUS$	Total ThUS$
Opening balance as of January 01, 2010	2,804	25,000	27,804
Increase in provisions	2,872	-	2,872
Acquisition through business combination	17,174	-	17,174
Provision used	(681)	-	(681)
Reversal of not used provision	-	(14,084)	(14,084)
Exchange difference	(212)	-	(212)
Balance as of December 31, 2010	21,957	10,916	32,873

European Commission Provision:

(a) This provision was established because of the investigation begun by the Directorate General for Competition of the European Commission against more than 25 cargo airlines, including Lan Cargo S.A., as part of a global investigation begun in 2006 regarding possible unfair competition on the air cargo market. This was a joint investigation by the European and U.S.A. authorities. The start of the investigation was disclosed through a material event notice dated December 27, 2007. The U.S.A. portion of the global investigation concluded with respect to Lan Cargo S.A. and its subsidiary, Aerolíneas Brasileiras S.A. (“ABSA”) by the signature of a *Plea Agreement* with the U.S.A. Department of Justice, as disclosed in a material event notice on January 21, 2009.

(b) A significant matter report dated November 9, 2010, reported that the General Direction of Competition had issued its decision on this case (the "decision"), under which it imposed fines totaling € 799,445,000 (seven hundred and ninety nine million four hundred and forty-five thousand Euro) for infringement of European Union regulations on free competition against eleven (11) airlines, among which are Lan Airlines S.A. and Lan Cargo S.A., Air Canada, Air France, KLM, British Airways, Cargolux, Cathay Pacific, Japan Airlines, Qanta Airways, SAS and Singapore Airlines.

(c) Jointly, Lan Airlines S.A. and Lan Cargo S.A., have been fined in the amount of € 8,220,000 (approximately equivalent to ThUS$ 10,916) for such infractions, which was provisioned in the financial statements of LAN. This is a minor fine in comparison to the original decision, as there was a significant reduction in fine because Lan cooperated during the investigation.

(d) On January 25, 2011, Lan Airlines S.A. and Lan Cargo S.A. appealed the decision before the Court of Justice of the European Union. According to the above, the Company decided to make a provision for the amount of ThUS$ 10,916.

NOTE 23 – OTHER CURRENT NON-FINANCIAL LIABILITIES

Other non-financial liabilities as of December 31, 2010 and December 31, 2009 are as follows:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Deferred revenues	810,524	542,832
Dividends payable	125,435	70,387
Other sundry liabilities	3,192	3,037
Total other non-financial liabilities, current	939,151	616,256

NOTE 24 - EMPLOYEE BENEFITS

Provisions for employee benefit as of December 31, 2010 and December 31, 2009, respectively, are as follows:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Pension payments	3,164	2,588
Termination payments	1,161	1,053
Other obligations	5,332	1,914
Total provisions for employee benefits, non-current	9,657	5,555

(a) The movement in payments for termination indemnities and other obligations between January 01, 2009 and December 31, 2010 is as follows:

	ThUS$
Opening balance as of January 01, 2009	3,865
Increase (decrease) current service provision	3,705
Benefits paid	(2,015)
Balance as of December 31, 2009	5,555
Opening balance as of January 01, 2010	5,555
Increase (decrease) current service provision	4,825
Benefits paid	(723)
Balance as of December 31, 2010	9,657

(b) The provision for short-term benefits as of December 31, 2010 and December 31, 2009 respectively, is detailed below:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Profit-sharing and bonuses	52,441	29,596

The participation in profits and bonuses are annual incentives plan for achievement the objectives.

Employment expenses are detailed below:

	For the year ended December 31,		
	2010	2009	2008
	ThUS$	ThUS$	ThUS$
Salaries and wages	587,148	476,404	456,599
Short-term employee benefits	73,335	58,530	54,148
Termination benefits	11,751	17,408	13,757
Other personnel expenses	121,030	84,329	83,433
Total	793,264	636,671	607,937

NOTE 25 – OTHER NON-CURRENT ACCOUNTS PAYABLE

Other liabilities non-current as of December 31, 2010 and December 31, 2009 are as follows:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Fleet financing(JOL)	314,372	299,483
Other accounts payable (*)	54,000	72,000
Aircraft and engine maintenance	47,607	46,644
Provision for vacations and bonuses	7,949	6,212
Other sundry liabilities	1,753	2,182
Total non-current liabilities	425,681	426,521

(*) Agreement entitled "Plea Agreement" with the Department of Justice of United States of America, and its short-term part in trade payables and other payables. See details in Note 22.

NOTE 26 - EQUITY

a) Capital

The capital of the company is in the following form:

The Company's objective is to maintain an appropriate level of capitalization that enables it to ensure access to the financial markets for carrying out its medium and long-term objectives, optimizing the return for its shareholders and maintaining a solid financial position.

The capital of the Company at the end of each period amounts to ThUS$ 453,444, divided into 338,790,909 common stock of a same series, of ordinary character, no par value. There are no special series of shares and no privileges. The form of its stock certificates and their issuance, exchange, disuse, loss, replacement and other circumstances, and the transfer of the shares, is governed by the provisions of Corporations Law and its regulations.

b) Subscribed and paid shares

As of December 31, 2010 and December 31, 2009, the total number of authorized common shares is 341 million shares of no par value. Of the total shares subscribed 338,790,909 shares have been fully paid, leaving 2,209,091 shares reserved for issuance under option contracts.

c) Other equity interests

The movement of other equity interest from January 01, 2009 and December 31, 2010 is as follows:

	Stock options plans ThUS$	Other reserves ThUS$	Total ThUS$
Opening balance as of January 01, 2009	1,801	(52)	1,749
Stock option plans	1,183	-	1,183
Deferred tax	(507)	-	(507)
Legal reserves	-	65	65
Balance as of December 31, 2009	2,477	13	2,490

	Stock options plans	Other reserves	Total
	ThUS$	ThUS$	ThUS$
Opening balance as of January 01, 2010	2,477	13	2,490
Stock option plans	3,523	-	3,523
Deferred tax	(599)	-	(599)
Legal reserves	-	49	49
Balance as of December 31, 2010	5,401	62	5,463

(c.1) Reserves for stock option plans

These reserves are related to the share-based payments explained in Note 36.

(c.2) Other reserves

The balance of other sundry reserves comprises the following:

	As of December 31, 2010	As of December 31, 2009
	ThUS$	ThUS$
Reserve for the adjustment of the value of fixed assets (1)	2,620	2,620
Share issuance and placement costs (2)	(2,672)	(2,672)
Others	114	65
Total	62	13

(1) Corresponds to the technical revaluation of fixed assets authorized by the Superintendence of Securities and Insurance in 1,979, in Circular No. 1,529. The revaluation was optional and could be taken only once, the reserve is not distributable and can only be capitalized.

(2) As established in Circular 1,736 of the Superintendence of Securities and Insurance, the next extraordinary shareholders meeting to be held by the parent Company should approve that the share issuance and placement costs be deducted from the paid in capital.

d) Other reserves

The movement of other reserves from January 01, 2009 and December 31, 2010 is as follows:

	Currency translation reserve	Cash flow hedging reserve	Total
	ThUS$	ThUS$	ThUS$
Opening balance as of January 01, 2009	(6,192)	(301,813)	(308,005)
Derivatives valuation gains	-	252,508	252,508
Deferred tax	1,009	(42,925)	(41,916)
Currency translation differences	259	-	259
Balance as of December 31, 2009	(4,924)	(92,230)	(97,154)

	Currency translation reserve	Cash flow hedging reserve	Total
	ThUS$	ThUS$	ThUS$
Opening balance as of January 01, 2010	(4,924)	(92,230)	(97,154)
Derivatives valuation losses	-	(17,855)	(17,855)
Deferred tax	(137)	3,035	2,898
Currency translation differences	804	-	804
Balance as of December 31, 2010	(4,257)	(107,050)	(111,307)

(d.1) Currency translation reserve

These originate from exchange differences arising on the translation of any investment in foreign entities (or Chilean with a functional currency different to that of the parent), and from loans and other instruments in foreign currency designated as hedges for such investments. When the investment (all or part) is sold or disposed, and loss of control occurs, these reserves are shown in the consolidated statement of income as part of the loss or gain on the sale or disposal. If the sale does not involve loss of control, these reserves are transferred to non-controlling interests.

(d.2) Cash flow hedging reserve

These originate from the at fair value valuation the end of each period of the outstanding derivative contracts that have been defined as cash flow hedges. When these contracts expire, these reserves should be adjusted and the corresponding results recognized.

e) Retained earnings

The movement of retained earnings between January 01, 2009 and December 31, 2010 is as follows:

	ThUS$
Opening balance as of January 01, 2009	614,587
Result for the period	231,126
Other decreases	(1,044)
Dividends	(104,622)
Balance as of December 31, 2009	740,047
Opening balance as of January 01, 2010	740,047
Result for the period	419,702
Other decreases	(129)
Dividends	(210,406)
Balance as of December 31, 2010	949,214

f) Dividends per share

As of December 31, 2010

Description	Final dividend 2009	Interim dividend 2010	Interim dividend 2010
Date of dividend	4/29/2010	7/27/2010	12/23/2010
Amount of the dividend (ThUS$)	10,940	74,466	125,000
Number of shares among which the dividend is distributed	338,790,909	338,790,909	338,790,909
Dividend per share (US$)	0.03229	0.2198	0.36896

As of December 31, 2009

Description	Interim dividend 2009	Interim dividend 2009
Date of dividend	7/28/2009	12/29/2009
Amount of the dividend (ThUS$)	34,621	70,001
Number of shares among which the dividend is distributed	338,790,909	338,790,909
Dividend per share (US$)	0.10219	0.20662

The Company's dividend policy is that these be equal to the minimum required by law, i.e. 30% of the net income according to current regulations. This policy does not preclude the Company from distributing dividends in excess of this obligatory minimum, based on the events and circumstances that may occur during the course of the year.

At December 31, 2010 interim dividends have been declared for 47.5% of 2010 net income.

NOTE 27 - REVENUES

The detail of revenues is as follows:

	For the year ended December 31,		
	2010	2009	2008
	ThUS$	ThUS$	ThUS$
Passengers	3,109,797	2,623,608	2,820,830
Cargo	1,280,705	895,554	1,319,415
Total	4,390,502	3,519,162	4,140,245

NOTE 28 - COSTS AND EXPENSES BY NATURE

a) Costs and operating expenses

The main operating costs and administrative expenses are detailed below:

	For the year ended December 31,		
	2010	2009	2008
	ThUS$	ThUS$	ThUS$
Other rentals and landing fees	595,214	490,921	544,247
Aircraft Fuel	1,161,927	959,608	1,388,826
Comissions	173,397	143,900	190,224
Other operating expenses	506,730	387,106	413,973
Aircraft rentals	98,588	83,712	70,527
Aircraft maintenance	120,642	121,037	105,920
Passenger service	114,221	92,796	85,257
Total	2,770,719	2,279,080	2,798,974

b) Depreciation and amortization

Depreciation and amortization are detailed below:

	For the year ended December 31,		
	2010	2009	2008
	ThUS$	ThUS$	ThUS$
Depreciation (*)	327,136	295,894	249,708
Amortization	9,355	8,168	6,791
Total	336,491	304,062	256,499

(*) Includes the depreciation of property, plant and equipment and the maintenance cost of aircraft held under operating leases.

c) Personnel expenses

The costs for this item are disclosed in provisions for employee benefits (Note 24).

d) Financial costs

The detail of financial costs is as follows:

	For the year ended December 31,		
	2010	2009	2008
	ThUS$	ThUS$	ThUS$
Bank loan interest	117,405	113,827	102,768
Financial leases	5,880	4,406	10,042
Other financial instruments	31,994	34,876	12,678
Total	155,279	153,109	125,488

Costs and expenses by nature presented in this note are equivalent to the sum of cost of sales, distribution costs, and administrative expenses, other expenses by function and financing costs presented in the consolidated statement income by function.

NOTE 29 - GAINS (LOSSES) ON THE SALE OF NON-CURRENT ASSETS NOT CLASSIFIED AS HELD FOR SALE

The gains (losses) on sales of non-current assets not classified as Held for Sale as of December 31, 2010 and 2009 are as follows:

	For the year ended December 31,		
	2010	2009	2008
	ThUS$	ThUS$	ThUS$
Property, plant and equipment	1,413	4,278	2,546
Investments in companies, associates and joint businesses	-	(2)	3,664
Total	1,413	4,276	6,210

The gain (loss) on sales of the period is presented in other operating income, by function.

NOTE 30 - OTHER INCOME, BY FUNCTION

Other incomes, by function are as follows:

	For the year ended December 31,		
	2010	2009	2008
	ThUS$	ThUS$	ThUS$
Duty free	11,983	9,593	15,668
Aircraft leasing	13,130	20,696	41,417
Logistics and courier	36,778	33,132	32,161
Customs and warehousing	24,673	18,682	25,375
Tours	28,216	31,088	3,187
Other miscellaneous income	18,046	23,160	25,134
Total	132,826	136,351	142,942

NOTE 31 – FOREIGN CURRENCY AND EXHANGE RATE DIFFERENCES

a) Foreign currency

The foreign currency detail of current and non-current assets is as follows:

Current assets	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Cash and cash equivalents	**436,840**	**502,618**
Chilean peso	368,360	435,514
Euro	7,844	13,255
Argentine peso	11,230	6,105
Brazilian real	4,759	3,041
Other currency	44,647	44,703
Other current financial assets	**6,726**	**8,041**
Brazilian real	4,740	5,288
Other currency	1,986	2,753
Other current non-financial assets	**2,692**	**1,983**
Chilean peso	1,247	784
Argentine peso	419	273
Brazilian real	96	-
Other currency	930	926
Trade and other current accounts receivable	**126,648**	**103,759**
Chilean peso	28,606	52,073
Euro	8,429	5,192
Argentine peso	6,702	15,158
Brazilian real	31,329	11,190
Australian dollar	12,456	7,595
Other currency	39,126	12,551
Current accounts receivable from related entities	**21**	**9**
Chilean peso	21	9
Current tax assets	**62,455**	**50,734**
Chilean peso	16,805	11,420
Argentine peso	14,477	8,668
Brazilian real	6,735	5,575
Mexican peso	17,477	16,554
Other currency	6,961	8,517

Total current assets	**635,382**	**667,144**
Chilean peso	415,039	499,800
Euro	16,273	18,447
Argentine peso	32,828	30,204
Brazilian real	47,659	25,094
Mexican peso	17,477	16,554
Australian dollar	12,456	7,595
Other currency	93,650	69,450

Non-current assets	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Other non-current financial assets,	**4,504**	**528**
Brazilian real	1,991	46
Other currency	2,513	482
Other non-current non-financial assets	**1,681**	**4**
Argentine peso	1,681	-
Other currency	-	4
Non-current rights receivable	**7,874**	**7,181**
Chilean peso	7,864	7,179
Other currency	10	2
Investment recorded using the method of participation	**593**	**1,236**
Chilean peso	593	1,236
Deferred tax assets	**28,493**	**-**
Other currency	28,493	-
Total non-current assets	**43,595**	**8,949**
Chilean peso	8,457	8,415
Argentine peso	1,681	-
Brazilian real	1,991	46
Other currency	31,466	488

The foreign currency detail of current and non-current liabilities is as follows:

Current liabilities	Up to 90 days As of December 31, 2010 ThUS$	Up to 90 days As of December 31, 2009 ThUS$	91 days to 1 year As of December 31, 2010 ThUS$	91 days to 1 year As of December 31, 2009 ThUS$
Other current financial liabilities	**46,043**	**1,231**	**112,672**	**56,991**
Chilean peso	41,638	1,231	112,672	56,991
	4,405	-	-	-
Trade and other current accounts payable	**240,419**	**155,819**	**14,012**	**11,150**
Chilean peso	52,779	35,326	9,559	8,209
Euro	9,438	9,138	14	-
Argentine peso	43,214	33,377	3,725	2,211
Brazilian real	22,633	13,334	-	-
Other currency	112,355	64,644	714	730
Current acounts payable to related entities	**-**	**6**	**-**	**10**
Chilean peso	-	6	-	10
Current tax liabilities	**9,700**	**6,230**	**2,621**	**4,262**
Chilean peso	3,007	2,920	1,064	945
Argentine peso	240	1,223	1,202	751
Brazilian real	1,994	1,487	-	-
Other currency	4,459	600	355	2,566
Other current non-financial liabilities	**27,729**	**375**	**1,071**	**934**
Brazilian real	-	-	1,041	930
Other currency	27,729	375	30	4
Total current liabilities	**323,891**	**163,661**	**130,376**	**73,347**
Chilean peso	97,424	39,483	123,295	66,155
Euro	9,438	9,138	14	-
Argentine peso	43,454	34,600	4,927	2,962
Brazilian real	24,627	14,821	1,041	930
Other currency	148,948	65,619	1,099	3,300

Non-current liabilities	More than 1 to 3 years		More than 3 to 5 years		More than 5 years	
	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Other non-current financial liabilities	**61,477**	**170,309**	**-**	**-**	**-**	**-**
Chilean peso	61,477	170,309	-	-	-	-
Other non-current accounts payable	**7,696**	**5,776**	**71**	**1,256**	**5**	**39**
Chilean peso	6,721	5,114	71	195	5	39
Brazilian real	-	-	-	844	-	-
Other currency	975	662	-	217	-	-
Other long-term provisions	**-**	**-**	**1,554**	**-**	**-**	**-**
Brazilian real	-	-	1,401	-	-	-
Other currency	-	-	153	-	-	-
Non-current provisions for employee benefits	**3,153**	**-**	**-**	**-**	**698**	**457**
Argentine peso	-	-	-	-	698	457
Other currency	3,153	-	-	-	-	-
Total Non-current liabilities	**72,326**	**176,085**	**1,625**	**1,256**	**703**	**496**
Chilean peso	68,198	175,423	71	195	5	39
Argentine peso	-	-	-	-	698	457
Brazilian real	-	-	1,401	844	-	-
Other currency	4,128	662	153	217	-	-

General summary of foreign currency:	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Total assets	**678,977**	**676,093**
Chilean peso	423,496	508,215
Euro	16,273	18,447
Argentine peso	34,509	30,204
Brazilian real	49,650	25,140
Mexican peso	17,477	16,554
Australian dollar	12,456	7,595
Other currency	125,116	69,938
Total liabilities	**528,921**	**414,845**
Chilean peso	288,993	281,295
Euro	9,452	9,138
Argentine peso	49,079	38,019
Brazilian real	27,069	16,595
Mexican peso	-	-
Australian dollar	-	-
Other currency	154,328	69,798
Net position	**150,056**	**261,248**
Chilean peso	134,503	226,920
Euro	6,821	9,309
Argentine peso	(14,570)	(7,815)
Brazilian real	22,581	8,545
Mexican peso	17,477	16,554
Australian dollar	12,456	7,595
Other currency	(29,212)	140

b) Exchange differences

Exchange rate differences, other than those relating to financial instruments at fair value through profit and loss, generated a gain of ThUS $13,792 and a loss of ThUS $11,237 for the periods ended December 31, 2010 and December 31, 2009 respectively, recorded on the Income Statement.

Exchange rate differences shown in equity as translation reserves for the years ended December 31, 2010 and 2009 represented a gain of ThUS$ 708 and a loss of ThUS$ 1,442, respectively.

The following shows the current exchange rates for the US dollar at the end of each period:

	As of December 31, 2010	As of December 31, 2009
Chilean peso	468.01	507.10
Argentine peso	3.97	3.80
Brazilian real	1.66	1.74
Peruvian Sol	2.81	2.89
Australian dollar	0.99	1.12
Strong Bolivar	4.30	2.14
Boliviano	6.94	7.00
Uruguayan peso	19.80	19.45
Mexican peso	12.38	13.06
Colombian peso	1,905.10	2,043.07
New Zealand dollar	1.30	1.39
Euro	0.75	0.70

NOTE 32 - EARNINGS PER SHARE

Basic earnings	For the year ended December 31, 2010 ThUS$	2009 ThUS$
Earnings attributable to controlling company's equity holders (ThUS$)	419,702	231,126
Weighted average number of shares, basic	338,790,909	338,790,909
Basic earnings per share (US$)	1.23882	0.68221

Diluted earnings	For the year ended December 31, 2010 ThUS$	2009 ThUS$
Earnings attributable to controlling company's equity holders (ThUS$)	419,702	231,126
Weighted average number of shares, basic	338,790,909	338,790,909
Adjustment diluted weighted average shares		
Stock options	954,544	-
Weighted average number of shares, diluted	339,745,453	338,790,909
Diluted earnings per share (US$)	1.23534	0.68221

NOTE 33 - CONTINGENCIES

a) Lawsuits

a1) Actions brought by Lan Airlines S.A. and Subsidiaries.

Company	Court	Case No.	Origin	Stage and level of proceeding	Amounts involved ThUS$
Atlantic Aviation Investments LLC (AAI)	Supreme Court of the State of New York County of New York	07-6022920	Atlantic Aviation Investments LLC., an indirect subsidiary of Lan Airlines S.A. constituted under the laws of the state of Delaware, sued Varig Logística S.A. (“Variglog”) for the non-payment of four loans under loan agreements governed by the law of New York. These agreements provide for the acceleration of the loans in the event of sale of the original debtor, VRG Linhas Aéreas S.A.	Stage of execution in Switzerland of judgment condemning Variglog to repay the principal, interest and costs in favor of AAI. An embargo is held over the bank account of Variglog in Switzerland by AAI. Varilog is seeking recovery through the courts in Brazil.	17,100 plus interest and costs
Atlantic Aviation Investments LLC	Supreme Court of the State of New York County of New York	602286-09	Atlantic Aviation Investments LLC. Sued Matlin Patterson Global Advisers LLC, Matlin Patterson Global Opportunities Partners II LP, Matlin Patterson Global Opportunities Partners (Cayman) II LP y Volo Logistics LLC (a) as alter egos for Variglog, for failure to pay the four loans indicated in the previous note; and (b) for a default on their obligations of guarantors and other obligations under the Memorandum of Understanding signed by the parties on September 29, 2006	The court dismissed in part and upheld in part the motion to dismiss counterclaims brought by defendants in the case. The parties continue to conduct the test stage (discovery).	17,100 plus interest costs and damages

Company	Court	Case No.	Origin	Stage and level of proceeding	Amounts involved ThUS$
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A.	Distrital Tax Court N°2 (Guayaquil)	6319-4064-05	Against the regional director of the Guayaquil Internal Revenue Service for payment of VAT credit.	Delivered at first instance decision pending appeal against.	4,210
Lan Airlines S.A.	Tax Tribunal of Quito	23493-A	Against the regional director of the Quito Internal Revenue Service for payment of VAT credit.	Requested sentencing issue.	3,958
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A.	Distrital Tax Court N°2 (Guayaquil)	09504-2010-0114	Against the regional director of the Internal Revenue Service Guayaquil, to determine tax credit reduction by 2006.	Pending opening of term evidence.	4,565
Lan Argentina S.A.	15th National Court of first instance commercial, Buenos Aires.	10587/09	Request for bankruptcy of Southern Winds S.A. for various unpaid loans.	Successfully completed direct negotiations with the debtor, proceeding to desist the bankruptcy petition. Signed two agreements, one for Lan Argentina S.A. and another for LAN Airlines S.A. Recognized all debts. In the case of Lan Argentina S.A. the agreement was signed for U.S. $ 66,428 payable in 30 quotas. There is no expectation of a recovery.	66

a2) Lawsuits against Lan Airlines S.A. and Subsidiaries

Company	Court	Cause No.	Origin	Stage and level of proceeding	Amounts involved ThUS$
Aerolinhas Brasileiras S.A.	Secretary of Finance of State of Río de Janeiro	2003	The administrative authority of Río de Janeiro, Brazil, notified breach action or fine for alleged non-payment of ICMS (VAT) on import of Boeing-767 aircraft registered No. PR-ABB.	Pending resolution of the revision group to annul the fine.	3,000
Lan Argentina S.A.	Laboral, Salta, Argentina	24826/10	Labor demand initiated by a custom agent.	In order to answer demand	700
Lan Cargo S.A.	Civil Court of Asunción, Paraguay	78-362	Request of indemnification for damages interposed by his who had been general agent in Paraguay.	Pending appeal of the decision to reject one of the exceptions to lack of overt action, made by lawyers for the defendant.	437
Lan Airlines S.A. y Lan Cargo S.A.	European commission and Canada	-	Investigation of possible breaches of free Competition of cargo airlines, especially the fuel surcharge. On December 26, 2007, the Director General for Competition of the European Commission notified Lan Cargo S.A.and Lan Airlines S.A. of the instruction of a process against twenty-five cargo airlines, including Lan Cargo S.A., for alleged breaches of free competition in the European air cargot market, especially the intended fixing of a surcharge for fuel and cargo. Dated November 09, 2010 the Direction General for Competition of the European Commission notified Lan Cargo SA and Lan Airlines SA the imposition of fines in the amount of ThUS$ 10,916. This fine is being appealed by Lan Cargo SA and Lan Airlines SA We can not predict the outcome of the appeal process.	On 14 April 2008, answered the European Commission's notification. Appeal will be filed before the next day January 25, 2011.	10,916
Lan Cargo S.A. and Lan Airlines S.A.	Competent tribunal of the United States and Canada to hear class actions	-	As a consequence of the investigation into alleged breaches of free competition of cargo airlines, especially fuel surcharge	Case is in the process of discovery of evidence	Undetermined

Company	Court	Case No.	Origin	Stage and level of proceeding	Amounts involved ThUS$
Lan Logistics, Corp	Federal Court, Florida, United States	-	In mid June 2008 a demand was presented for purchase option right for sale of LanBox.	Failed against Lanlogistics, Corp. for $ 5 million, which is appealing to the court of appeals. Appeal process takes between six months to a year.	Undetermined
Aerolinhas Brasileiras S.A.	Competent court of United States for hearing class actions	-	As a consequence of the investigation into alleged breaches of free competition of cargo airlines, especially fuel surcharge	Investigation pending.	Undetermined
Aerolinhas Brasileiras S.A.	Conselho Administrativo de Defesa Econômica, Brasil	-	Investigation of alleged breaches of free competition of cargo airlines, especially fuel surcharge.	Investigation pending.	Undetermined
Lan Airlines S.A. "Brazil"	Instituto de Defesa do Consumidor de Sao Paulo	-	The Department of Consumer Protection and Defense ("PROCON") has applied a fine to Lan Airlines S.A. in the amount of R$ 1,688,240.00 equivalent to approximately ThUS$ 970. This penalty relates to the cancellation of flights to Chile as a product of the 2010 earthquake, holding that Lan Airlines S.A. did not act in accordance with the rules applicable to the facilities and offered no compensation to passengers who could not travel as a result of this extraordinary	Fine imposed by the consumer entity Sao Paulo	970

Considering the stage of process for each of the cases mentioned above and/or the improbable event of obtaining an adverse sentence, as of December 31, 2010 the Company has estimated that is not necessary to make a provision for any case, with the exception of the significant matter relating to the European Commission which was reported to the SVS. A provision of ThUS$ 10,916 has been recorded for the decision issued by the European Commission on November 9, 2010.

NOTE 34 - COMMITMENTS

(a) Loan covenants

With respect to various loans signed by the Company for the financing of Boeing 767 aircraft, which carry the guarantee of the United States Export–Import Bank, limits have been set on some of the parent Company's financial indicators on a consolidated basis. Restrictions are also in place on the Company's management in terms of its ownership and disposal of assets. These same restrictions also exist with respect to several contracts signed by its subsidiary Lan Cargo S.A. for the financing of Boeing 767 aircraft with the guarantee of the US Export–Import Bank, this time applied to both the parent Company and its subsidiary Lan Cargo S.A. Regarding the various contracts of the Company for the financing of Airbus A320 aircraft, which are guaranteed by European export credit agencies, limits have been established on some of the Company's financial indicators, together with management restrictions in terms of its ownership and asset disposals. In connection with the financing of spare engines for its fleet Boeing 767 and 777, which are guaranteed by the Export - Import Bank of the United States, restrictions have been placed on the shareholding of its guarantors and their legal successor in case of merger.

In relation to credit agreements entered into by the Company, for the present year local banks have set limits to some financial indicators of the parent company on a consolidated basis. At December 31, 2010, the Company is in compliance with these covenants.

(b) Commitments under operativing leases as lessee

Details of the main operating leases are as follows:

Lessor	Aircraft	As of December 31, 2010	As of December 31, 2009
Delaware Trust Company, National Association (CRAFT)	(*) Bombardier Dhc8-200	9	-
International Lease Finance Corporation	Boeing 767	8	8
KN Operating Limited (NAC)	(*) Bombardier Dhc8-400	4	-
Orix Aviation Systems Limited	Airbus 320	2	2
Pembroke B737-7006 Leasing Limited	(*) Boeing 737	2	-
International Lease Finance Corp. (ILFC)	(*) Boeing 737	2	-
Sunflower Aircraft Leasing Limited - AerCap	Airbus 320	2	-
Celestial Aviation Trading 35 Limited	Boeing 767	1	1
MSN 167 Leasing Limited	Airbus 340	1	1
Celestial Aviation Trading 16 Limited	Boeing 767	1	1
CIT Aerospace International	Boeing 767	1	1
Celestial Aviation Trading 39 Ltd. GECAS (WFBN)	Boeing 777	1	1
Celestial Aviation Trading 23 Ltd. GECAS (WFBN)	Boeing 777	1	1
Celestial Aviation Trading 47 Ltd. GECAS (WFBN)	Boeing 767	1	-
Celestial Aviation Trading 51 Ltd. GECAS (WFBN)	Boeing 767	1	-
AerCap (WFBN)	Airbus 320	1	-
MSN 32415, LLC - AWAS	(*) Boeing 737	1	-
JB 30244, Inc. - AWAS	(*) Boeing 737	1	-
NorthStar AvLease Ltd.	(*) Bombardier Dhc8-200	1	-
JB 30249, Inc. - AWAS	(*) Boeing 737	1	-
TIC Trust (AVMAX)	(*) Bombardier Dhc 8-200	1	-
ACS Aircraft Finance Bermuda Ltd. - Aircastle (WFBN)	(*) Boeing 737	1	-
MCAP Europe Limited - Mitsubishi (WTC)	(*) Boeing 737	1	-
Total		45	16

(*) Aircraft incorporated through the business combination with Aires S.A.

The rentals are shown in profit and loss for the period as they are incurred.

The minimum future lease payments not yet payable are the following:

	As of December 31, 2010 ThUS$	As of December 31, 2009 ThUS$
Up to a year	151,781	90,731
More than one year and five years.	440,632	273,055
More than five years	107,593	80,165
Total	700,006	443,951

The minimum lease payments charged to income are the following:

	For year ended December 31,		
	2010 ThUS$	2009 ThUS$	2008 ThUS$
Minimum operating lease payments	93,219	81,425	67,781
Total	93,219	81,425	67,781

In April 2009, the first B777-Freighter aircraft was incorporated and in May 2009 the second of these aircraft arrived. In September 2009 the leasing of the Boeing 767-300F, registration CC-CGN, will end, aircraft was returned in October 2009. In September 2010 the Company added two Airbus A320-200 aircraft for a period of six years, while in December 2010 the Company added an aircraft of the same fleet for a period of eight years. Additionally, in November and December 2010, The Company added two Boeing 767-300F aircraft, with terms of contract for seven and six years respectively.

From October 2009 lease terms were modified for 7 Boeing 767-300ER aircraft. Five aircraft were extended from three to seven years and two aircraft were reduced by two to three years.

Later, in June 2010, the term of income was extended for another Boeing 767-300ER aircraft for two years, ending in May 2013.

The operating lease agreements signed by the Company and its subsidiaries state that maintenance of the aircraft should be done according to the manufacturer's technical instructions and within the margins agreed in the leasing agreements, a cost that must be assumed by the lessee. The lessee should also contract insurance for each aircraft to cover associated risks and the amounts of these assets. Regarding rental payments, these are unrestricted and may not be netted against other accounts receivable or payable between the lessor and lessee.

(c) Oher commitments

At December 31, 2010 the Company has existing letters of credit, guarantee ballots and guarantee insurance policies as follows:

Creditor Guaranteed	Debtor	Type	Value ThUS$	Release date
Deutsche Bank A.G.	Lan Airlines S.A.	Two letters of credit	20,000	31-Jan-11
The Royal Bank of Scotland plc	Lan Airlines S.A	Two letters of credit	18,000	08-Jan-11
Dirección General de Aviación Civil de Chile	Lan Airlines S.A.	Forty-three guarantee ballots	5,833	18-Jan-11
Dirección Seccional de Aduanas de Bogota	Línea Aérea Carguera de Colombia S.A.	Two guarantee insurance policies	2,430	07-Apr-14
Washington International Insurance	Lan Airlines S.A.	Seven Letter of credit	3,040	05-Apr-11
Metropolitan Dade County	Lan Airlines S.A.	Five letters of credit	1,675	31-May-11

NOTE 35 – TRANSACTIONS WITH RELATED PARTIES

a) Transactions with related parties for the period ended December 31, 2010

Tax No.	Related parties	Relationship	Country of origin	Other information on related party	Transaction	Currency	Amount of transactions ThUS$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	Controlling Shareholder	Chile	Investments	Property rental granted	CLP	77
					Passenger services provided	CLP	13
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Building rental granted	US$	17
					Training received	US$	(363)
					Assignment of debt granted	US$	18
					Other prepayments received	US$	(467)
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	Concessionaire	Aviation rates received	CLP	(35)
					Basic consumptions received	CLP	(8)
					Aeronautical concession received	CLP	(153)
					Dividend distribution	CLP	73
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Fish farming	Passenger services provided	CLP	63
96.669.520-K	Red de Televisión Chilevisión S.A.	Other related parties	Chile	Television	Passenger services provided	CLP	65
					Publicity services received	CLP	(100)
96.894.180-1	Bancard Inversiones Ltda.	Other related parties	Chile	Professional advice	Professional advice received	CLP	(7)
Foreign	Inversora Aeronáutica Argentina	Other related parties	Argentina	Investments	Building rental received	US$	(271)
					Other services provided	US$	13

b) Transactions with related parties for the period ended December 31, 2009

Tax No.	Related parties	Relationship	Country of origin	Other information on related party	Transaction	Currency	Amount of transactions ThUS$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	Controlling Shareholder	Chile	Investments	Property rental granted	CLP	65
					Passenger services provided	CLP	15
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Building rental granted	US$	17
					Training received	US$	(1,103)
					Assignment of debt granted	US$	2
					Other prepayments provided	US$	137
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	Concessionaire	Aviation rates received	CLP	(93)
					Basic consumptions received	CLP	(11)
					Aeronautical concession received	CLP	(297)
78.005.760-2	Sociedad de Seguridad Aérea S.A.	Other related parties	Chile	Safety services	Safety service received	CLP	(575)
					Other prepayments provided	CLP	1,018
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Fish farming	Passenger services provided	CLP	29
96.669.520-K	Red de Televisión Chilevisión S.A.	Other related parties	Chile	Television	Publicity services received	CLP	(949)
					Passenger services provided	CLP	623
96.894.180-1	Bancard Inversiones Ltda.	Other related parties	Chile	Professional advice	Professional advice received	CLP	(82)
					Other prepayments received	CLP	(12)
Foreign	Inversora Aeronáutica Argentina	Other related parties	Argentina	Investments	Building rental received	US$	(386)

c) Compensation of key management

The Company has defined for these purposes that key management personnel are the executives who define the Company's policies and major guidelines and who directly affect the results of the business, considering the levels of vice-presidents, chief executives and directors.

	For the year ended December 31,	
	2010	2009
	ThUS$	ThUS$
Remuneration	7,505	6,226
Management fees	150	131
Corrections of value and non-monetary benefits	352	340
Short-term benefits	4,680	4,480
Share-based payments	3,523	1,183
Others	-	780
Total	16,210	13,140

NOTE 36 - SHARE-BASED PAYMENTS

The compensation plans implemented through the granting of options to subscribe and pay for shares, which have been granted since the last quarter of 2007, are shown in the consolidated statements of financial position in accordance with IFRS 2 “Share-based payments”, booking the effect of the fair value of the options granted as a charge to remuneration on a straight-line basis between the date of granting the options and the date on which these become vested.

During the last quarter of 2009, the original terms of the plan were amended regarding subscription and payment options. These modifications were carried out during the first quarter of 2010 and established a new term and exercise price.

The original grant and subsequent amendments have been formalized through the signing of option contracts for the subscription of shares according to the proportions shown in the accrual schedule and which are related to the permanence of the executive on those dates for exercising the options:

Percentage	Period
30%	From the October 29, 2010 and until December 31, 2011
70%	From the October 30, 2011 and until December 31, 2011

These options have been valued and booked at their fair value on the grant date, determined using the “Black-Scholes-Merton” method.

All options expire on December 31, 2011.

	Number of share options
Stock options under a share-based payment agreement balance as of January 1, 2010	1,311,000
Stock options granted	898,091
Stock options annulled	-
Stock options exercised	-
Stock options under a share-based payment agreement balance as of December 31 , 2010	2,209,091

Entry data of valuation model of options used for stock options conceded during the period.

Weighted average share price	Exercise price	Expected volatility	Life of option	Dividends expected	Risk-free interest
US$ 17.3	US$ 14.5	33.20%	1.9 years	50%	0.0348

NOTE 37 - THE ENVIRONMENT

In accordance with the General Environment Bases Law issued in Chile and its complementary regulations, there are no provisions that affect the operation of air transport services

NOTE 38 – SUBSEQUENT EVENTS

The consolidated financial statements of Lan Airlines S.A. and Subsidiaries as of December 31, 2010 have been approved in ordinary session of the Board on March 01, 2011, which was attended by the following directors:

1. Jorge Awad Mehech,
2. Darío Calderón González,
3. José Cox Donoso,
4. Ramón Eblen Kadis,
5. Bernardo Fontaine Talavera,
6. Carlos Heller Solari, and
7. Juan Gerardo Jofré Miranda.

On January 25, 2011 direct subsidiaries Lan Cargo S.A. and Inversiones Lan S.A., signed a promise of sale, as promissory sellers with Bethia S.A., as promissory purchaser, for 100% of the shares of companies Blue express Intl SA and Blue Express SA, companies dedicated to ground courier services, operating brands and certain computer programs. In the same promise, contemplates the future sale by Lan Airlines S.A. trademarks and Internet domains associated with Blue Express Intl S.A. and Blue Express S.A. along with some computer systems. The final price is subject to the completion of a due diligence process and the fulfillment of certain conditions of the promissory agreement. The price stated in the promissory agreement is ThUS$ 54,000 subject to any adjustments arising as a result of the due diligence realized on behalf of Bethia S.A.

Bethia S.A. is an entity related to Lan Airlines SA in the terms provided in Article 100 of Law 18,045 Securities Market.

On January 18, 2011 the parties of the MOU (1) and Mrs. Maria Cláudia Oliveira Amaro, Maurício Rolim Amaro, Noemy Almeida Olivera Amaro and Joao Francisco Amaro (“Amaro Family”), as the only shareholders of TEP, signed (a) an *Implementation Agreement* and (b) a binding *Exchange Offer Agreement* ("Contracts Signed") containing the final terms and conditions of the proposed partnership between LAN and TAM

(1) On August 13, 2010 LAN reported as a significant matter to the Superintendency of Securities and Insurance that LAN, Costa Verde Aeronáutica S.A. and Inversiones Mineras del Cantábrico S.A. (the last two, "Cueto subsidiaries”), TAM S.A. (“TAM”) and TAM Empreendimentos e Participacoes S.A. (“TEP”) signed a non-binding *Memorandum of Understanding* ("MOU") for which the primary terms were outlined.

Except as mentioned above, subsequent to December 31, 2010 until the date of issuance of these financial statements, the Company has no knowledge of any other subsequent events, that may significantly affect the balances or their interpretation.

NOTE 39 – BUSINESS COMBINATIONS

On November 26, 2010 Lan Pax Group S.A., a subsidiary of Lan Airlines S.A., acquired 98.942% of the Colombian company Aerovías de Integración Regional, AIRES S.A. This acquisition was made through the purchase of 100% of the shares of the Panamanian corporations AKEMI Holdings S.A. and SAIPAN Holding S.A., which owned the aforementioned percentage of AIRES S.A. The purchase price was ThUS$ 12,000.

Aerovías de Integración Regional, AIRES S.A., is a Colombian airline founded in 1980, which is currently the second largest operator within the Colombian domestic market with a market share of 22%. AIRES offers regular service to 27 domestic destinations within Colombia as well as 3 international destinations. Synergies are expected between the combination of AIRES S.A. in the Colombian market and efficiency of the business model of LAN Airlines S.A. Additionally, better performance is expected by the business of Lan Airlines S.A. (passengers and cargo) through an increase in coverage in Latin America.

The Company has measured the non-controlling interest in Aires S.A. using the proportionate share of the non-controlling interest in net identifiable assets of the acquired.

The business combination is recognized in the statement of financial position of Lan Airlines S.A. and Subsidiaries as goodwill of ThUS$ 94,224.

Summary statement of financial position

	ThUS$		ThUS$
Current assets	27,315	Current liabilities	125,193
Non-current assets	31,652	Non-current liabilities	20,327
		Equity	(86,553)
Total assets	58,967	Total liabilities & equity	58,967
Controlling interest	(82,224)		

Goodwill determination

	ThUS$
Controlling interest	82,224
Purchase price	12,000
Goodwill	94,224

In accordance with IFRS 3, the determined value of goodwill is provisional.