

-As filed with the Securities and Exchange Commission on March 29, 2017

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 20-F**

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

OR

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

For the fiscal year ended December 31, 2016

OR

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

OR

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

Commission File Number: 1-14728

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**LATAM Airlines Group S.A.**  
(Exact name of registrant as specified in its charter)

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

**Republic of Chile**  
(Jurisdiction of incorporation or organization)

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

**Gisela Escobar**  
Tel.: 56-2-2565-3944 • E-mail: [InvestorRelations@latam.com](mailto:InvestorRelations@latam.com)

**Presidente Riesco 5711, 20th Floor  
Las Condes  
Santiago, Chile**

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

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

Title of each class:

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

Name of each exchange on which registered:

**New York Stock Exchange**

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

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:  
606,407,693.

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

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

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

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

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

Large Accelerated filer ☒

Accelerated filer ☐

Non-Accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐

International Financial Reporting Standards as issued  
by the International Accounting Standards Board ☒

Other ☐

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

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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## PRESENTATION OF INFORMATION

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

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

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

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

In this annual report on Form 20-F, all references to “Chile” are references to the Republic of Chile. This annual report contains conversions of certain Chilean peso and Brazilian real amounts into U.S. dollars at specified rates solely for the convenience of the reader. These conversions should not be construed as representations that the Chilean peso and the Brazilian real amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless we specify otherwise, all references to “\$”, “US\$”, “U.S. dollars” or “dollars” are to United States dollars, references to “pesos,” “Chilean pesos” or “Ch\$” are to Chilean pesos. References to “reais,” “Brazilian reais” or “R\$” are to Brazilian reais, and references to “UF” are to *Unidades de Fomento*, a daily indexed Chilean peso-denominated monetary unit that takes into account the effect of the Chilean inflation rate. Unless we indicate otherwise, the U.S. dollar equivalent for information in Chilean pesos used in this annual report and in our audited consolidated financial statements is based on the “*dólar observado*” or “observed” exchange rate published by *Banco Central de Chile* (which we refer to as the Central Bank of Chile) on December 31, 2016, which was Ch\$669.47 = US\$1.00. The observed exchange rate on February 28, 2017, was Ch\$645.19= US\$1.00. Unless we indicate otherwise, the U.S. dollar equivalent for information in Brazilian reais used in this annual report and in our audited consolidated financial statements is based on the average “*bid and offer rate*” published by Banco Central do Brasil (which we refer to as the Central Bank of Brazil) on December 31, 2016, which was R\$3.259 = US\$1.00. The observed exchange rate on February 28, 2017 was R\$3.099 = US\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos or Brazilian reais.

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

LATAM’s audited consolidated financial statements for the periods ended December 31, 2012, 2013, 2014, 2015 and 2016 were prepared in accordance with IFRS.

This annual report contains certain terms that may be unfamiliar to some readers. You can find a glossary of these terms on page 4 of this annual report.

## FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. Such statements may include words such as “anticipate,” “could” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” or other similar expressions. Forward-looking statements, including statements about our beliefs and expectations, are not statements of historical facts. These statements are based on current plans, estimates and projections, and, therefore, you should not place undue reliance on them. There is no assurance that the expected events, trends or results will actually occur. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. These factors include, but are not limited to:

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

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

## GLOSSARY OF TERMS

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

### Capacity Measurements:

“available seat kilometers” or “ASKs”	The sum, across our network, of the number of seats made available for sale on each flight multiplied by the kilometers flown by the respective flight.
“available ton kilometers” or “ATKs”	The sum, across our network, of the number of tons available for the transportation of revenue load (cargo) on each flight multiplied by the kilometers flown by the respective flight.
“available seat kilometers equivalent” or “ASK equivalent”	The sum, across our network, of the number of seats made available for sale on each flight plus the quotient of cargo ATKs divided by 0.095, all multiplied by the kilometers flown by the respective flight.

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### **Traffic Measurements:**

“revenue passenger kilometers” or “RPKs”

The sum, across our network, of the number of passengers on each flight multiplied by the number of kilometers flown by the respective flight.

“revenue ton kilometers” or “RTKs”

The sum, across our network, of the load (cargo) in tons on each flight multiplied by the kilometers flown by the respective flight.

“traffic revenue”

Revenue from passenger and cargo operations.

### **Yield Measurements:**

“cargo yield”

Revenue from cargo operations divided by RTKs.

“passenger yield”

Revenue from passenger operations divided by RPKs.

### **Load Factors:**

“cargo load factor”

RTKs expressed as a percentage of ATKs.

“passenger load factor”

RPKs expressed as a percentage of ASKs.

### **Other:**

“Airbus A320-Family Aircraft”

The Airbus A318, Airbus A319, Airbus A320 and Airbus A321 models of aircraft.

“m<sup>2</sup>”

Square meters.

“ton”

A metric ton, equivalent to 2,204.6 pounds.

“utilization rates”

The actual number of flight hours per aircraft per operating day.

“operating expenses”

Operating expenses, which are calculated in accordance with IFRS, comprise the sum of the line items “cost of sales” plus “distribution costs” plus “administrative expenses” plus “other operating expenses,” as shown on our consolidated statement of comprehensive income. These operating expenses include: wages and benefits, fuel, depreciation and amortization, commissions to agents, aircraft rentals, other rental and landing fees, passenger services, aircraft maintenance and other operating expenses.

“MiSchDynamicDT”

Market Intelligence Schedule Dynamic Table.

“Dio Mi”

Data In Intelligence Out Market Intelligence.

“CO<sub>2</sub>”

Carbon Dioxide Gas

## PART I

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

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. Selected Financial Data

##### *LATAM's Historical Financial Information*

The summary consolidated annual financial information of LATAM as of December 31, 2016, 2015, 2014, 2013 and 2012 has been prepared in accordance with IFRS(\*). On June 22, 2012, LATAM Airlines Group was formed through the business combination of LAN and TAM. Following the combination, LAN Airlines S.A. became "LATAM Airlines Group S.A." and TAM continues to exist as a subsidiary of LATAM Airlines Group. Financial statements for LATAM fully consolidate TAM's results since June 23, 2012.

##### **LATAM's Annual Financial Information**

	2016	Year ended December 31,			2012
		2015	2014	2013	
		(in US\$ millions, except per share and capital stock data)			
<b>The Company(1)(2)</b>					
<b>Statement of Income Data:</b>					
Operating revenues					
Passenger	7,877.7	8,410.6	10,380.1	11,061.5	7,966.8
Cargo	1,110.6	1,329.4	1,713.4	1,863.0	1,743.6
Total operating revenues	<b>8,988.3</b>	<b>9,740.0</b>	<b>12,093.5</b>	<b>12,924.5</b>	<b>9,710.4</b>
Cost of sales	(6,967.0)	(7,636.7)	(9,624.5)	(10,054.2)	(7,634.5)
Gross margin	2,021.3	2,103.3	2,469.0	2,870.3	2,075.9
Other operating income(3)	538.7	385.8	377.6	341.6	220.2
Distribution costs	(747.4)	(783.3)	(957.1)	(1,025.9)	(803.6)
Administrative expenses	(873.0)	(878.0)	(980.7)	(1,136.1)	(888.7)
Other expenses	(373.7)	(324.0)	(401.0)	(408.7)	(311.8)
Other gains/(losses)	(72.6)	(55.3)	33.5	(55.4)	(45.8)
Financial income	74.9	75.1	90.5	72.8	77.5
Financial costs	(416.3)	(413.4)	(430.0)	(462.5)	(294.6)
Equity accounted earnings	0.0	0.0	(6.5)	2.0	1.0
Exchange rate differences	121.7	(467.9)	(130.2)	(482.2)	66.6
Result of indexation units	0.3	0.6	0.1	0.3	0.0
Income (loss) before income taxes	273.9	(357.1)	65.2	(283.8)	96.7
Income (loss) tax expense/benefit	(163.2)	178.4	(292.4)	20.0	(102.3)
Net (loss) income for the period	<b>110.7</b>	<b>(178.7)</b>	<b>(227.2)</b>	<b>(263.8)</b>	<b>(5.6)</b>
Income (loss) attributable to the parent company's equity holders	69.2	(219.3)	(260.0)	(281.1)	(19.1)
Income (loss) attributable to non-controlling interests	41.5	40.5	32.8	17.3	13.5
Net income (loss) for the year	<b>110.7</b>	<b>(178.7)</b>	<b>(227.2)</b>	<b>(263.8)</b>	<b>(5.6)</b>
Earnings per share					
Average number of Shares	549,559,559	545,547,819	545,547,819	487,930,977	412,267,624

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	2016	Year ended December 31,			2012
		2015	2014	2013	
		(in US\$ millions, except per share and capital stock data)			
Basic earnings (loss) per share (US\$)	0.12665	(0.40193)	(0.47656)	(0.57613)	(0.0463)
Diluted earnings (loss) per share (US\$)	0.12665	(0.40193)	(0.47656)	(0.57613)	(0.0463)

	2016	2015	At December 31,			2012
		(in US\$ millions, except per share and capital stock data)				
<b>Balance Sheet Data:</b>						
Cash, and cash equivalents	949.3	753.5	989.4	1,984.9	650.3	
Other current assets in operation	2,340.3	2,067.4	2,644.1	2,992.2	2,626.2	
Non-current assets and disposal groups held for sale	337.2	2.0	1.1	2.4	47.7	
Total current assets	<b>3,626.8</b>	<b>2,822.9</b>	<b>3,634.6</b>	<b>4,979.5</b>	<b>3,324.2</b>	
Property and equipment	10,498.1	10,938.7	10,773.1	10,982.8	11,807.1	
Other non-current assets	5,073.3	4,339.8	6,076.7	6,668.8	7,195.0	
Total non-current assets	<b>15,571.4</b>	<b>15,278.5</b>	<b>16,849.8</b>	<b>17,651.6</b>	<b>19,002.1</b>	
Total assets	19,198.2	18,101.4	20,484.4	22,631.1	22,326.3	
Total current liabilities	6,222.2	5,641.0	5,829.7	6,509.1	6,297.5	
Total non-current liabilities	8,790.7	9,522.9	10,151.0	10,795.6	10,808.1	
Total liabilities	<b>15,012.9</b>	<b>15,163.9</b>	<b>15,980.7</b>	<b>17,304.7</b>	<b>17,105.6</b>	
Issued capital	3,149.6	2,545.7	2,545.7	2,389.4	1,501.0	
Net equity attributable to the parent company’s equity holders	4,096.7	2,856.5	4,401.9	5,238.8	5,112.1	
Non-controlling interest	88.6	81.0	101.8	87.7	108.6	
Total net equity	<b>4,185.3</b>	<b>2,937.5</b>	<b>4,503.7</b>	<b>5,326.5</b>	<b>5,220.7</b>	
Shares Outstanding	<b>606,407,693</b>	<b>545,547,819</b>	<b>545,547,819</b>	<b>535,243,229</b>	<b>479,107,860</b>	

- (1) For more information on the affiliates included in this consolidated information, see Note 1 to our audited consolidated financial statements.
- (2) The addition of the items may differ from the total amount due to rounding.
- (3) Other operating income included in this Statement of Income Data is equivalent to the sum of income derived from Colation and Loyalty Program, Tours, Duty free, aircraft leasing, Maintenance, customs and warehousing operations, and other miscellaneous income. For more information, see Note 28 to our audited consolidated financial statements.

(\*)Law No. 20,780 issued on September 29, 2014, introduced modifications to the income tax system in Chile and other tax matters. On October 17, 2014 the Chilean Superintendence of Securities and Insurance (the "SVS") issued Circular No. 856, which established that the effects of the change in the income tax rates on deferred tax assets and liabilities must be recognized directly on the Balance Sheet within "Retained earnings" instead of on the Income Statement as required by IAS 12. In order to comply with IAS 12, the financial statements in this document for the period ended December 31, 2014 are different from those presented to the SVS as the modifications introduced by Law No. 20,780 have been recognized within the income statement. For more information on the reconciliation of such differences see Note 2.1 and Note 18 to our audited consolidated financial statements.

The table below presents LATAM's unaudited operating data as of and for the year ended December 31, 2012 (which includes TAM's data since June 23, 2012), and as of and for the years ended December 31, 2013, December 31, 2014, December 31, 2015 and December 31, 2016. LATAM believes this operating data is useful in reporting the operating performance of its business and may be used by certain investors in evaluating companies operating in the global air transportation sector. However, these measures may differ from similarly titled measures reported by other companies, and should not be considered in isolation or as a substitute for measures of performance in accordance with IFRS. This unaudited operating data is not included in or derived from LATAM's financial statements.



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	For the year ended and as of December 31,				
	2016	2015	2014	2013	2012
<b>Operating Data:</b>					
ASKs (million)	134,967.7	134,167.1	130,200.9	131,690.9	132,186.0
RPKs (million)	113,626.9	111,509.9	108,534.0	106,466.5	103,886.1
ATKs (million)	6,704.1	7,082.8	7,219.7	7,651.9	7,645.9
RTKs (million)	3,465.9	3,797.0	4,317.2	4,466.7	4,488.3
ASK Equivalent (million)	205,537.5	208,722.5	206,197.9	212,237.0	212,669.6

## Dividend Policy

In accordance with the *Ley sobre Sociedades Anónimas No. 18,046* (“Chilean Corporation Act”) and *Reglamento de Sociedades Anónimas* (“Regulation to the Chilean Corporation Act”) (collectively, the “Chilean Corporation Law”), we must pay annual cash dividends equal to at least 30.0% of our annual consolidated net income for the prior year, subject to limited exceptions. LATAM Airlines Group’s board of directors has the authority to declare interim dividends. Year-end dividends, if any, are declared by our shareholders at our annual meeting. For a description of our dividend policy, see “Item 8. Financial Information—Consolidated Financial Statements and Other Financial Information—Dividend Policy” and “Item 10. Additional Information—Dividend and Liquidation Rights”. LATAM did not pay dividends in 2014, 2015 or 2016. Dividend reserves of US\$20,766,199 have been set aside in 2016, to be paid in 2017.

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

## Chilean Peso Exchange Rates

The following table sets forth, for the periods indicated, the high, low, average and period-end observed exchange rate for the purchase of U.S. dollars, expressed in Chilean pesos per U.S. dollar. The rates have not been restated in constant currency units. On February 28, 2017 the observed exchange rate was Ch\$645.19 = US\$1.00.

Year Ended December 31,	Daily Observed Exchange Rate			
	High	Low	Average <sup>(1)</sup>	Period-End
	Ch\$ per US\$			
2012	519.69	469.65	486.75	478.60
2013	533.95	466.50	495.00	523.76
2014	621.41	524.61	570.01	607.38
2015	715.66	597.10	654.25	707.34
2016	730.31	645.22	676.83	669.47
2016				
October	670.88	651.65	663.92	651.65
November	679.24	650.72	666.12	675.48
December	677.11	649.40	667.17	669.47
2017				

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Year Ended December 31,	Daily Observed Exchange Rate			
	High	Low	Average(1)	Period-End
	Ch\$ per US\$			
January	673.36	648.31	661.19	648.87
February	646.97	638.35	643.21	645.19

Source: Central Bank of Chile

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

### **B. Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

### **D. Risk Factors**

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

#### **Risk Factors Relating to our Company**

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

Due to Brazilian law restrictions on foreign ownership of Brazilian airlines, LATAM does not control the voting shares or board of directors of TAM. As of February 28, 2017, the ownership structure of TAM is as follows:

- Holdco I owns 100% of the TAM common shares previously outstanding;
  - the Amaro family (the “Amaro Group”) own approximately 51% of the outstanding Holdco I voting shares through TEP Chile (a Chilean entity wholly owned by the TAM Controlling Shareholders) and LAN owns the remainder of the voting shares;
  - LATAM owns 100% of the outstanding Holdco I non-voting shares, entitling it to substantially all of the economic rights in respect of the TAM common shares held by Holdco I; and
- LATAM owns 100% of the TAM preferred shares previously outstanding.

As a result of this ownership structure:

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

LATAM Airlines Group and TEP Chile and other parties have entered into shareholders’ agreements that establish agreements and restrictions relating to corporate governance with respect to TAM. Certain specified actions require supermajority approval, which in turn means they require the prior approval of both LATAM and TEP Chile. Examples of actions requiring supermajority approval by the board of directors of Holdco I or TAM include, among others, entering into acquisitions or business collaborations, amending or approving budgets, business plans, financial statements and accounting policies, incurring indebtedness, encumbering assets, entering into certain agreements, making certain investments, modifying rights or claims, entering into settlements, appointing executives, creating security interests, issuing, redeeming or repurchasing securities and voting on matters as a shareholder of affiliates

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of TAM. Actions requiring supermajority shareholder approval of Holdco I or TAM include, among others, certain changes to the by-laws of Holdco I, TAM or TAM's affiliates or any dissolution/liquidation, corporate reorganization, payment of dividends, issuance of securities, disposal or encumbrance of certain assets, creation of security interests or entering into guarantees and agreements with related parties. For more information on the shareholders' agreements, see "Item 7. Controlling Shareholders and Related Party Transactions—Shareholders' Agreements."

*Our assets include a significant amount of goodwill.*

Our assets included US\$2,710.4 million of goodwill as of December 31, 2016, US\$2,582.5 million of which results from the combination of LAN and TAM. Under IFRS, goodwill is subject to an annual impairment test and may be required to be tested more frequently if events or circumstances indicate a potential impairment. In 2016, mainly as a result of the appreciation of the Brazilian real against the U.S. dollar, the value of our goodwill increased by 18.8% as compared with 2015. Any impairment could result in the recognition of a significant charge to earnings in our statement of income, which could materially and adversely impact our consolidated results for the period in which the impairment occurs.

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

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

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

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

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

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

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

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

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

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Changes in Chilean, Brazilian and other governmental economic policies affecting foreign exchange rates could also adversely affect our business, financial condition, results of operations and the return to our shareholders on their common shares or ADSs.

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

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

*Our business and results of operations may suffer if we fail to obtain and maintain routes, suitable airport access, slots and other operating permits.*

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

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

We operate numerous international routes, subject to bilateral agreements, and also internal flights within Chile, Peru, Brazil, Argentina, Ecuador, Colombia and other countries, subject to local route and airport access approvals. See “Item 4. Information on the Company—B. Business Overview—Regulation.”

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

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

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

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

Higher jet fuel prices could have a materially adverse effect on our business, financial condition and results of operations. Jet fuel costs have historically accounted for a significant amount of our operating expenses, and accounted for 23.0% of our operating expenses in 2016. Both the cost and availability of fuel are subject to many economic and political factors and events that we can neither control nor predict. We have entered into fuel hedging arrangements, but there can be no assurance that such arrangements will be adequate to protect us from an increase in fuel prices in the near future or in the long term. Also, while these hedging arrangements are designed to limit the effect of an increase in fuel prices, our hedging methods may also limit our ability to take advantage of any decrease in fuel prices, as was the case in 2015 and, to a lesser extent, in 2016. Although we have implemented measures to pass a portion of incremental fuel costs to our customers, our ability to lessen the impact of any increase in fuel costs using these types of mechanisms may be limited.

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

A key element of our strategy is to maintain a high daily aircraft utilization rate, which measures the number of flight hours we use our aircraft per day. High daily aircraft utilization allows us to maximize the amount of revenue we generate from our aircraft and

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absorb the fixed costs associated with our fleet and is achieved, in part, by reducing turnaround times at airports and developing schedules that enable us to increase the average hours flown per day. Our rate of aircraft utilization could be adversely affected by a number of different factors that are beyond our control, including air traffic and airport congestion, adverse weather conditions, unanticipated maintenance and delays by third-party service providers relating to matters such as fueling and ground handling. If an aircraft falls behind schedule, the resulting delays could cause a disruption in our operating performance.

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

As our fleet has grown, our reliance on Airbus and Boeing has also grown. As of December 31, 2016, LATAM Airlines Group has a fleet of 250 Airbus and 82 Boeing aircraft. Risks relating to Airbus and Boeing include:

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

The occurrence of any one or more of these factors could restrict our ability to use aircraft to generate profits, respond to increased demands, or could otherwise limit our operations and adversely affect our business.

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

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

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

We have a high degree of debt and payment obligations under our aircraft operating leases and financial debt arrangements. We require significant amounts of financing to meet our aircraft capital requirements and may require additional financing to fund our other business needs. We cannot guarantee that we will have access to or be able to arrange for financing in the future on favorable terms. Following the combination of LAN and TAM, Fitch Ratings Inc. and Standard and Poor's downgraded LATAM Airlines Group S.A.'s credit rating to levels that are below investment grade. Any further securities rating agencies downgrades could increase our financing costs. Higher financing costs could affect our ability to expand or renew our fleet, which in turn could adversely affect our business.

In addition, the majority of our property and equipment is subject to liens securing our indebtedness. In the event that we fail to make payments on secured indebtedness, creditors' enforcement of liens could limit or end our ability to use the affected property and equipment to fulfill our operational needs and thus generate revenue.

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

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

We are exposed to the risk of interest rate variations, principally in relation to the U.S. dollar London Interbank Offer Rate ("LIBOR"). Many of our operating and financial leases are denominated in U.S. dollars and bear interest at a floating rate. 36.9% of our outstanding consolidated debt as of December 31, 2016 bears interest at a floating rate after giving effect to interest rate hedging agreements. Volatility in LIBOR or other reference rates could increase our periodic interest and lease payments and have an adverse effect on our total financing costs. We may be unable to adequately adjust our prices to offset any increased financing costs, which would have an adverse effect on our revenues and our results of operations.

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

Major events affecting the aviation insurance industry (such as terrorist attacks, hijackings or airline crashes) may result in significant increases of airlines' insurance premiums or in significant decreases of insurance coverage, as occurred after the September 11, 2001 terrorist attacks. Increases in insurance costs and/or significant reductions in coverage could harm our financial condition and results of operations and increases the risk that we experience uncovered losses.

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

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

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

We depend on a limited number of suppliers for aircraft, aircraft engines and many aircraft and engine parts. As a result, we are vulnerable to any problems associated with the supply of those aircraft, parts and engines, including design defects, mechanical problems, contractual performance by the suppliers, or adverse perception by the public that would result in customer avoidance or in actions by the aviation authorities resulting in an inability to operate our aircraft.

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

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

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

A serious internal technology error or failure impacting systems hosted internally at our data centers or externally at third-party locations, or large-scale interruption in technology infrastructure we depend on, such as power, telecommunications or the internet, may disrupt our technology network with potential impact on our operations. Our technology systems and related data may also be vulnerable to a variety of sources of interruption, including natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers and other security issues. While we have in place, and continue to invest in, technology security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly so as to prevent a business disruption and its adverse financial and reputational consequences to our business.

In addition, as a part of our ordinary business operations, we collect and store sensitive data, including personal information of our passengers and employees and information of our business partners. The secure operation of the networks and systems on which this type of information is stored, processed and maintained is critical to our business operations and strategy. Unauthorized parties may attempt to gain access to our systems or information through fraud or deception. Hardware or software we develop or acquire

may contain defects that could unexpectedly compromise information security. The compromise of our technology systems resulting in the loss, disclosure, misappropriation of, or access to, customers', employees' or business partners' information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disruption to our operations and damage to our reputation, any or all of which could adversely affect our business.

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

Labor costs constitute a significant percentage of our total operating expenses (21.8% in 2016) and at times in our operating history we have experienced pressure to increase wages and benefits for our employees. A significant increase in our labor costs could result in a material reduction in our earnings.

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

As of December 31, 2016, approximately 72.9% of our employees, including administrative personnel, cabin crew, flight attendants, pilots and maintenance technicians are members of unions and have contracts and collective bargaining agreements which expire on a regular basis. Our business, financial condition and results of operations could be materially adversely affected by a failure to reach agreement with any labor union representing such employees or by an agreement with a labor union that contains terms that are not in line with our expectations or that prevent us from competing effectively with other airlines.

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

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

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

Our business is labor intensive. We employ a large number of pilots, flight attendants, maintenance technicians and other operating and administrative personnel. The airline industry has, from time to time, experienced a shortage of qualified personnel, especially pilots and maintenance technicians. In addition, as is common with most of our competitors, we may, from time to time, face considerable turnover of our employees. Should the turnover of employees, particularly pilots and maintenance technicians, sharply increase, our training costs will be significantly higher. A failure to recruit, train and retain qualified employees at a reasonable cost could materially adversely affect our business, financial condition and results of operations.

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

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

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

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

- changes in economic or other governmental policies;
- weak economic performance, including, but not limited to, low economic growth, low consumption and/or investment rates, and increased inflation rates; or
- other political or economic developments over which we have no control.

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

*We are exposed to increases in landing fees and other airport service charges that could adversely affect our margin and competitive position.*

Airlines must pay fees to airport operators for the use of airport facilities. Passenger taxes and airport charges have increased substantially in recent years. We cannot assure you that the airports in which we operate will not increase or maintain high passenger taxes and service charges in the future. Any substantial increase in airport charges could have a material adverse impact on our results of operations. In addition, any increase in passenger taxes could negatively impact demand for air travel and affect our results.

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

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

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

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

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

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

Insurance premiums may also increase due to an accident or incident affecting one of our alliance partners or other airlines.

*High levels of competition in the airline industry may adversely affect our level of operations.*

Our business, financial condition and results of operations could be adversely affected by high levels of competition within the industry, particularly the entrance of new competitors into the markets in which we operate. Airlines compete primarily over fare levels, frequency and dependability of service, brand recognition, passenger amenities (such as frequent flyer programs) and the availability and convenience of other passenger or cargo services. New and existing airlines (and companies providing ground cargo or passenger transportation) could enter our markets and compete with us on any of these bases, including by offering lower prices, more attractive services or increasing their route offerings in an effort to gain greater market share.

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

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

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

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



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In 2016, the ICAO adopted a resolution creating the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), providing a framework for a global market-based measure to stabilize carbon dioxide (“CO2”) emissions in international civil aviation (i.e., civil aviation flights that depart in one country and arrive in a different country). The CORSIA will be implemented in phases, starting with the participation of ICAO member states on a voluntary basis during a pilot phase (from 2021 through 2023), followed by a first phase (from 2024 through 2026) and a second phase (from 2027). Currently, CORSIA focuses on defining standards for monitoring, reporting and verification of emissions from air operators, as well as on defining steps to offset CO2 emissions after 2020. To the extent most of the countries in which we operate continue to be ICAO member states, in the future we may be affected by regulations adopted pursuant to the CORSIA framework.

The proliferation of national regulations and taxes on CO2 emissions in the countries that we have domestic operations, including recent environmental regulations that the airline industry is facing in Colombia, may also affect our costs of operations and our margins.

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

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

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

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

The nature of our business exposes us to litigation relating to labor, insurance and safety matters, regulatory, tax and administrative proceedings, governmental investigations, tort claims and contract disputes. Litigation is inherently costly and unpredictable, making it difficult to accurately estimate the outcome among other matters. Currently, as in the past, we are subject to proceedings or investigations of actual or potential litigation. Although we establish provisions as we deem necessary, the amounts that we reserve could vary significantly from any amounts we actually pay due to the inherent uncertainties in the estimation process. We cannot assure you that these or other legal proceedings will not materially affect our business.

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

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

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

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

## Risks Related to our Common Shares and ADSs

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

One of our major shareholder groups, the Cueto Group (the “LATAM Controlling Shareholders”), which as of February 28, 2017, beneficially owned 28.27% of our common shares, is entitled to elect three of the nine members of our board of directors and is in a position to direct our management. In addition, the LATAM Controlling Shareholders have entered into a shareholders agreement with the Amaro Group, which as of January 31, 2017, held a 3.02% of LATAM shares through TEP Chile, in addition to the indirect stake they have through the 21.88% interest they hold in Costa Verde Aeronáutica S.A., the main legal vehicle through which the Cueto Group holds LATAM shares), pursuant to which these two major shareholder groups have agreed to vote together to elect individuals to our board of directors in accordance with their direct and indirect shareholder interest in LATAM. Pursuant to a shareholders’ agreement, the LATAM Controlling Shareholders and the Amaro Group have also agreed to use their good faith efforts to reach an agreement and act jointly on all actions to be taken by our board of directors or shareholders meeting, and if unable to reach to such agreement, to follow the proposal made by our board of directors. Decisions by the Company that require supermajority votes under Chilean law are also subject to voting arrangements by the LATAM Controlling Shareholders and the Amaro Group. In addition, another major shareholder, Qatar Airways Investments (UK) Ltd., which as of January 31, 2017, held 10.03%<sup>1</sup> of our outstanding common shares, is entitled to appoint one individual to our board of directors. The interests of our major shareholders may differ from those of our other shareholders. See “Item 7. Controlling Shareholders and Related Party Transactions—A. Major Shareholders.”

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

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

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

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

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

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

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

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

(1) Qatar owns 9.99999918% of the total issued shares of LATAM.

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

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

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

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

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

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

###### **General**

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

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

LAN was founded in 1929 by the Chilean government. In 1989, the Chilean government sold 51.0% of LAN’s capital stock to Chilean investors and to the Scandinavian Airlines System. In 1994, LATAM’s current controlling shareholders, together with other major shareholders, acquired 98.7% of LAN’s stock, including the remaining shares then held by the Chilean government. In 1997, LAN became the first Latin American airline to list its shares (which trade in the form of ADRs) on the New York Stock Exchange. Over the past decade, LATAM has significantly expanded its operations in Latin America, initiating services in Peru in 1999, Argentina in 2005, Ecuador in 2009, and in Colombia in 2010 through the acquisition of Aerovias de Integracion Regional, Aires S.A. (dba “LAN Colombia”), and the combination with TAM in 2012.

LATAM Airlines Brazil is one of the leading domestic and international airlines in the Brazilian market, offering flights throughout Brazil with a strong domestic market share, international passenger services and significant cargo operations. The company was founded in 1997 (under the name CIT—Companhia de Investimentos em Transportes), for the purpose of participating in, managing and consolidating shareholdings in airlines. In 2002, its name was changed to TAM S.A. and its shares were listed on Bovespa in June 2005. From 2006 until the combination with LAN in 2012, TAM American Depositary Shares were also listed on the New York Stock Exchange.

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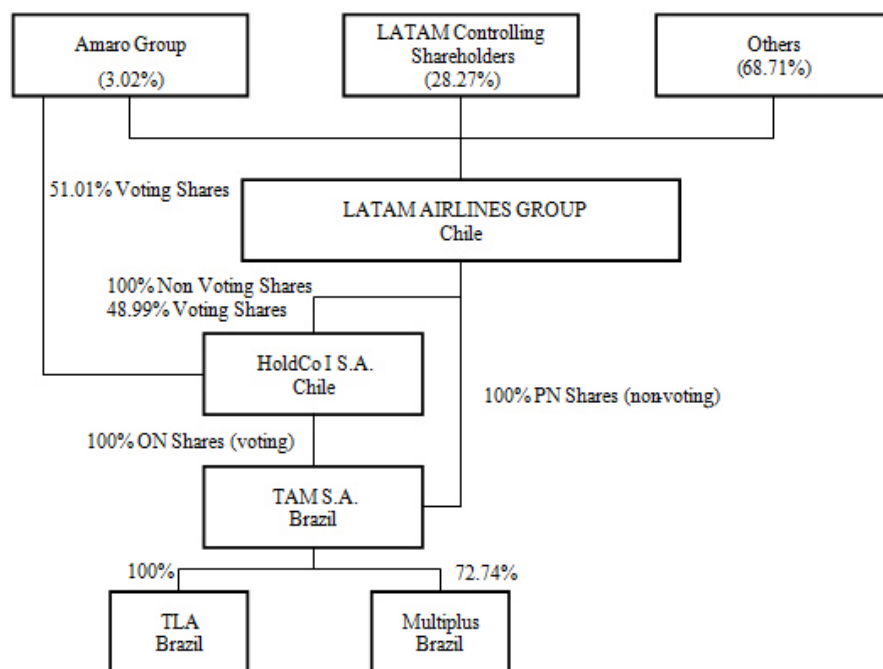
Our principal executive offices are located at Presidente Riesco 5711, 20th floor, Las Condes, Santiago, Chile and our general telephone number at this location is (56-2) 2565-2525. We have designated LATAM Airlines Group as our agent in the United States, located at 970 South Dixie Highway, Miami, Florida 33156. Our website address is [www.latamairlinesgroup.net](http://www.latamairlinesgroup.net). Information obtained on, or accessible through, this website is not incorporated by reference herein and shall not be considered part of this annual report. For more information contact Gisela Escobar, Senior Vice President, Corporate Controller and Investor Relations, at [InvestorRelations@latam.com](mailto:InvestorRelations@latam.com).

### Combination of LAN and TAM

On June 22, 2012, LAN and TAM successfully completed an exchange offer resulting in the combination of the two businesses and the creation of LATAM Airlines Group.

Following the combination, on July 18, 2012, the registration of TAM as a publicly listed company in Brazil was cancelled and TAM was delisted from Bovespa.

In order to implement this combination, the Amaro Group controlling shareholders formed four new *sociedades anónimas cerradas* with limited liability under the laws of Chile: TEP Chile, Holdco I, Holdco II and Sister Holdco. After the transaction was completed, Holdco II and Sister Holdco ceased to exist. The beneficial ownership and organizational structure of LATAM Airlines Group as of January 31, 2017 was as follows:



### Capital Expenditures

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

## B. BUSINESS OVERVIEW

### General

LATAM Airlines Group is the largest passenger and cargo airline in South America. We are also one of the largest airline groups in the world in terms of network connections, providing passenger transport services to approximately 135 destinations in 24 countries and cargo services to approximately 139 destinations in 29 countries, with a fleet of 332 aircraft and a set of bilateral

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alliances. In total, LATAM Airlines Group has near to 46,000 employees. LATAM Airlines Group and its affiliates currently provide domestic services in Brazil, Chile, Perú, Argentina, Colombia and Ecuador; we also provide intra-regional and long-haul operations. The cargo affiliate carriers of LATAM in Chile, Brazil, Colombia and Mexico carry out cargo operations through the use of belly spaces on the passenger flights and dedicated cargo operations using freight aircraft. We also offer other services, such as ground handling, courier, logistics and maintenance.

As of December 31, 2016, we provided scheduled passenger service to 16 destinations in Chile, 17 destinations in Peru, five destinations in Ecuador, 15 destinations in Argentina, 14 destinations in Colombia, 41 destinations in Brazil, 12 destinations in other Latin American countries and the Caribbean, five destinations in North America, six destinations in Europe, three destinations in the South Pacific and one destination in Africa. In addition, as of December 31, 2016, through our various code-sharing and interline agreements, we offer service to 84 destinations in North America, 46 destinations in Europe, 22 destinations in Australasia, 9 destinations in Asia and 4 destinations in Africa.

### **Competitive Strengths**

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

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

Through a successful regional expansion strategy, LATAM Airlines Group has become the leading international and domestic passenger airline group in South America, as well as the largest cargo operator in Latin America. LATAM and its affiliates have domestic passenger operations in Chile, Brazil, Peru, Argentina, Colombia and Ecuador. These six countries are among the most significant passenger markets in South America and represent approximately 96% of the domestic ASKs in the region. We are also the largest operator of intra-regional routes, connecting the main cities in South America. Furthermore, through our significant presence in the largest hubs in South America—Lima and São Paulo—we are able to offer the best connectivity between South America and the rest of the world. In addition, our cargo companies are the largest air cargo operators within, to and from Latin America, and particularly in Brazil.

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

The operations of LATAM Airlines Group are highly geographically diversified, including domestic operations in six different countries, as well as operations within South America and connecting South America with various international destinations. We believe this provides resilience to external shocks that may occur in any particular market. Furthermore, we believe that one of our distinct competitive advantages is our ability to profitably integrate our scheduled passenger and cargo operations. We take into account potential cargo services when planning passenger routes, and also serve certain dedicated cargo routes using our freighter aircraft when needed. By adding cargo revenues to our existing passenger service, we are able to increase the productivity of our assets and maximize revenue, contributing to our fixed operating expenses per flight, lowering break-even load factors and enhancing per flight profitability. Additionally, this revenue diversification helps offset seasonal revenue fluctuations and reduces the volatility of our business over time. For the year ended December 31, 2016, passenger, cargo and other revenues accounted for 82.7%, 11.7% and 5.7% of total revenues respectively.

#### *Modern Fleet and Optimized Fleet Strategy*

The average age of our fleet is approximately seven years, making it one of the most modern in Latin America and in the world. A younger fleet makes us more cost competitive because it reduces fuel consumption and maintenance costs, and enables us to enjoy a high degree of performance reliability. In addition, a modern and fuel-efficient fleet reflects our strong commitment to the environment as new aircraft incorporate the industry's latest technology, allowing for a substantial reduction in emissions, and also decreasing noise levels.

We select our aircraft based on their ability to effectively and efficiently serve our short- and long-haul flight needs, while still striving to minimize the number of different aircraft types we operate.

The Company's current fleet plans envisage a short-haul fleet formed exclusively by aircraft from the A320 family, with a focus on the A321 and A320neo. In 2016, LATAM incorporated two A320neo, a re-engined A320, becoming the first airline in Latin America to fly this model.

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For long-haul passenger flights, we operate the Boeing 767-300ER, the Boeing 787-8 and Boeing 787-9 aircraft, the Boeing 777-300ER aircraft and the Airbus A350-900 that started operation in 2016. The Boeing 787 and Airbus A350 models allow us to achieve important savings in fuel consumption, while incorporating modern technology to deliver the best travel experience for our passengers. In 2016, we incorporated five Boeing 787-9 and six Airbus 350-900 into our fleet.

LATAM continues to take a flexible approach to its fleet plan in order to better align it to market conditions. During 2016, we achieved a significant reduction in our fleet commitments for the coming years, allowing us to defer capital expenditures and continue to strengthen our Balance Sheet.

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

In May 2016 our new brand, LATAM, was officially launched. We believe that our new brand is associated with superior service, aircraft and technologically advanced operations, and is well recognized and respected in the markets in which we operate. In 2016, our operations in Chile, Argentina, Ecuador, Peru and Colombia were awarded the top prize as the “Best Airlines in South America” by the SkyTrax World Airline Awards. These awards are considered a global barometer for customer satisfaction within the industry, thanks to their exclusive reliance on the opinion of passengers.

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

In 2016 LATAM entered into two new joint business agreements: an agreement with American Airlines and an agreement with British Airways and Iberia. These agreements further strengthen our relationship with other **oneworld**® partners. Both agreements will allow LATAM to expand its network to more than 420 destinations worldwide, operating routes from South America to the United States and Canada with American Airlines and routes from South America to Europe with British Airways and Iberia. The agreements remain subject to regulatory approval in different countries. Some approvals have already been granted: in March, 2017, the administrative court of economic defense of the CADE (Administrative Council for Economic Defense) in Brazil, approved the agreement with British Airways and Iberia, representing the final stage of an evaluation process that began in June 2016. During the review, the CADE evaluated the scope of the agreement in terms of free competition and the benefits that it will bring to passengers, including improved connectivity, an expansion of the destination network and reduced prices. Both agreements have been approved in Uruguay.

### *Financial Flexibility*

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

### *Recognized Loyalty Programs*

On March 1, 2016, we announced our rebranded and improved frequent flyer programs named LATAM Pass (corresponding to the previous LAN Pass) and LATAM Fidelidade (corresponding to the former TAM Fidelidade). The change is part of the process of consolidating our new brand identity (LATAM) and the evolution of our loyalty programs.

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

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

## **Business Strategy**

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

### *Continually Strengthen Our Network*

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

### *Enhance Brand Leadership and Customer Experience*

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

### *Improving Efficiency and Cost Competitiveness*

We are continually working to maintain a competitive cost structure and further improve our effectiveness, simplify our organization and increase flexibility and speed in decision-making. As previously announced, LATAM is embarked on an important project to introduce a new travel model for its domestic passenger services in South America, in order to increase competitiveness and ensure the sustainability of the domestic business model in the long term. This model requires continued cost efforts to reduce selling and distribution expenses, increase fleet utilization and operational productivity and simplify back-office and support functions, while controlling fixed costs.

### *Organizational Strength*

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

### *Proactive Risk Management*

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

## Airline Operations and Route Network

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

	Year ended December 31,		
	2016	2015	2014
	(in US\$ millions)		
Total passenger revenues	7,877.7	8,410.6	10,380.1
Total cargo revenues	1,110.6	1,329.4	1,713.4
Total traffic revenues	8,988.3	9,740.0	12,093.5

	Year ended December 31,		
	2016	2015	2014
	(in US\$ millions)		
Peru	627.2	681.3	660.1
Argentina	1,031.0	979.3	813.5
United States	933.1	1,025.5	1,224.3
Europe	714.4	723.1	935.9
Colombia	343.0	353.0	391.7
Brazil	2,974.2	3,464.3	5,361.6
Ecuador	198.2	238.5	248.6
Chile	1,512.6	1,575.5	1,589.2
Asia Pacific and rest of Latin America	654.6	699.5	868.6
Total Operating Revenues	8,988.3	9,740.0	12,093.7

## Passenger Operations

### General

As of December 31, 2016, our passenger operations were performed through airlines in Chile, Brazil, Peru, Argentina, Colombia and Ecuador, where we operate both domestic and international services. We collect and report operating data for our passenger operations in three categories: international (connecting more than one country), Domestic operations in Spanish speaking countries or “SSC” (including Chile, Peru, Argentina, Colombia, and Ecuador), and Domestic Brazil (wholly within Brazil).

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

	Year ended and as at December 31		
	2016	2015	2014
ASKs (million) (at period end)			
International	73,541.9	69,615.9	65,574.6
SSC	23,847.1	22,072.8	21,065.8
Domestic Brazil	37,578.7	42,478.5	43,560.5
Total	134,967.7	134,167.1	130,200.9
RPKs (million)			
International	63,392.6	59,003.4	55,980.1
SSC	19,293.7	17,858.4	16,964.3
Domestic Brazil	30,940.5	34,648.1	35,589.7
Total	113,626.9	111,509.9	108,534.0
Passengers (thousands)			



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	Year ended and as at December 31		
	2016	2015	2014
International	15,107	14,156	13,630
SSC	22,829	21,540	20,735
Domestic Brazil	29,024	32,139	33,468
Total	66,960	67,835	67,833
Passenger RASK (passenger revenues/ASK, in US cents)			
International <sup>(1)</sup>	US¢5.8	US¢6.5	US¢7.6
SSC <sup>(1)</sup>	US¢6.9	US¢8.3	US¢9.1
Domestic Brazil <sup>(1)</sup>	US¢5.8	US¢5.9	US¢8.6
Combined Passenger RASK <sup>(2)</sup>	US¢5.8	US¢6.3	US¢8.0
Passenger load factor (%)			
International	86.2%	84.8%	85.4%
SSC	80.9%	80.9%	80.5%
Domestic Brazil	82.3%	81.6%	81.7%
Combined load factor	84.2%	83.1%	83.4%

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

### International Passenger Operations

Our international network combines the international operations of our Chilean, Peruvian, and Ecuadorian, Argentinean, Colombian and Brazilian affiliates. We have operated international services out of Chile since 1946 and have greatly expanded our international services, offering flights out of Peru, Ecuador, Argentina, Colombia and Brazil. As of December 31, 2016, we offer 27 international destinations in 18 countries, in addition to our domestic destinations and international flights and connections between our domestic destinations. As of 2016, we combined all of our operations under the LATAM brand.

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

During 2014, after the necessary infrastructure investments were made, we completed our move to the new Terminal 3 at Guarulhos Airport in Sao Paulo, with new slots for takeoff and landing, which has allowed us to significantly decrease our connection times. This is a key milestone in the development of our most important hub at Guarulhos airport. In addition, the group has continued to consolidate our secondary hubs in Lima and Santiago.

During 2016, we received five Boeing 787-9 Dreamliners (we have orders for nine more), which will allow us to achieve important savings on fuel consumption, while incorporating modern technology to deliver the best travel experience for our passengers and reduce our carbon footprint, as the Dreamliner produces up to 20% less CO<sub>2</sub> than similar aircraft. We also took delivery of six Airbus A350 aircraft (we have orders for 20 more). In addition, we received the first two Airbus A320neo, out of an order of 34 aircraft of this model, becoming the first airline in Latin America to fly this model.

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

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### *Market Share Information*

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

Country	Industry passenger figures	LATAM's Market Share		
	% variation 2016-2015	2016	2015	% variation
Brazil <sup>(1)</sup>	-0.3%	78.9%	78.5%	+0.4 p.p.
Chile <sup>(2)</sup>	+11.5%	61.7%	62.5%	-0.8 p.p.
Argentina <sup>(3)</sup>	+9.9%	11.9%	11.8%	+0.1 p.p.
Peru <sup>(4)</sup>	+9.8%	44.0%	43.9%	+0.1 p.p.
Colombia <sup>(5)</sup>	+12.0%	8.0%	8.0%	0.0 p.p.
Ecuador <sup>(3)</sup>	+11.5%	17.2%	18.9%	-1.7 p.p.

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

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

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

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

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

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### *Competitors in international routes*

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

<b>Country</b>	<b>Route</b>	<b>Competitors</b>
Brazil	North America	American Airlines, United Airlines, Delta Air Lines, Azul Linhas Aereas, Air Canada and Aeromexico.
	Latin America	Copa, Gol, Avianca and Aerolineas Argentinas
	Europe	TAP Portugal, Air France-KLM, Lufthansa, Alitalia, Iberia and British Airways
Chile	North America	American Airlines, Air Canada, United Airlines, Delta Air Lines and Aeromexico.
	Latin America	Copa, Sky, Avianca and Gol.
	Europe	Air France-KLM, Iberia and Alitalia
	Pacific	Qantas Airways
Argentina	North America	Aerolíneas Argentinas, American Airlines, Aeromexico, Delta Air Lines and United Airlines.
	Latin America	Aerolineas Argentinas, Gol, Copa and Avianca
Peru	North America	American Airlines, United Airlines, Avianca, Aeromexico, Delta Air Lines and Air Canada.
	Latin America	Avianca, Copa, Sky Airlines and Aerolíneas Argentinas
	Europe	Air France-KLM, Iberia, Air Europa and British Airways
Colombia	North America	Avianca, American Airlines, JetBlue Airways, United Airlines, Aeromexico and Delta Air Lines.
	Latin America	Avianca, Copa, Aerolineas Argentinas and VivaColombia
Ecuador	North America	American Airlines, Tame, Delta Air Lines, United Airlines, Aeromexico and JetBlue Airways.
	Latin America	Copa, Avianca, Tame and Avior Airlines
	Europe	Air France-KLM and Iberia

### *Domestic Passenger Operations*

As of December 31, 2016, domestic passenger services within Chile, Brazil, Peru, Ecuador, Argentina and Colombia were operated by LATAM Airlines Chile, LATAM Airlines Brazil, LATAM Airlines Peru, LATAM Airlines Ecuador, LATAM Airlines Argentina and LATAM Airlines Colombia, respectively.

### *Business Model for Domestic Operations*

In November 2016, the group announced an important project to revamp the business model of our domestic services offering in the six domestic markets where the group operates in South America. The purpose of this change is to increase our competitiveness

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and ensure the long-term sustainability of our domestic business model. This project seeks to increase our operational efficiency, allowing us to provide more competitive fares, and contributing to the development of tourism and the growth of air travel per capita in the region. Our new domestic service model requires continuous cost reduction efforts, and we are implementing a series of initiatives to reduce cost per ASK in all domestic operations. These efforts are aimed at significantly reducing selling and distribution expenses, increasing fleet utilization and operational productivity and simplifying back-office and support functions, thereby allowing us to expand our operations while controlling fixed costs.

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

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

We will implement our new domestic strategy by country, in stages starting in the first half of 2017.

	Brazil	Chile	Argentina	Peru	Colombia	Ecuador
Destinations	41	16	15	17	14	5
Fleet	100	27	15	18	17	6
Passengers Transported (million)	29.0	7.9	2.6	6.6	4.8	1.0
Change (YoY)	(9.7%)	8.1%	7.0%	6.7%	4.4%	(8.3%)
Market share	35%(1)	76%(2)	25%(3)	62%(4)	21%(5)	31%(6)
Main competitors	Gol, Azul, Avianca Brazil	Sky Airlines	Aerolíneas Argentinas	Avianca, Peruvian Airlines, Star Peru	Avianca, Viva Colombia, Santena	Tame, Avianca

- (1) Source: ANAC Brazil's website. Market share considers RPKs.
- (2) Source: JAC Chile's website. Market share considers RPKs.
- (3) Source: Company's estimates.
- (4) Source: Ministry of Transportation Peru's website. Market share considers number of passengers carried as of November 2016.
- (5) Source: DGAC Colombia's website. Market share considers ASKs
- (6) Source: Company's estimates. Market share considers ASKs

### Passenger Alliances and Commercial Agreements

LATAM is currently a member of the global marketing alliance **oneworld**, which includes Airberlin, American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, Japan Airlines, Malaysia Airlines, Qantas, Qatar, Royal Jordanian, Sri Lankan and S7. In the aggregate, **oneworld**® members serve more than 1,000 destinations in 157 countries, operating over 13,000 daily departures.

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

Moreover, on January 14, 2016, we entered into two new joint business agreements: an agreement with American Airlines and an agreement with British Airways and Iberia. These agreements further strengthen our relationship with these **oneworld**® partners.

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The agreements remain subject to regulatory approval in different countries. Some approvals have already been granted: on March, 2017, the administrative court of economic defense of the CADE (Administrative Council for Economic Defense) in Brazil, approved the agreement with British Airways and Iberia, representing the final stage of an evaluation process that began in June 2016. During the review, the CADE evaluated the scope of the agreement in terms of free competition and the benefits that it will bring to passengers, including improved connectivity, an expansion of the destination network and reduced prices. Both agreements have been approved in Uruguay.

### *Passenger Marketing and Sales*

Our long-haul marketing strategy emphasizes attributes valued by our international customers: reliable, high-quality service centered on comfort and entertainment for long-haul travel. We also highlight our extensive network, which covers the most important destinations in South America and the Caribbean and provides frequent service to major overseas gateways such as New York, Los Angeles, Miami, Orlando, Washington, DC, London, Madrid, Paris, Frankfurt, Milan, Barcelona and Sydney. In a continuing effort to strengthen our network, during 2016 we launched three new direct routes: Sao Paulo—Johannesburg, Lima—Barcelona and Santiago—Melbourne (the last being our longest flight).

Our short-haul operations are designed to fit our customers' needs: punctuality, reliability, frequency, modern aircraft and efficient operations. To deliver this value proposition, we have been increasing our fleet and frequencies with more point-to-point flights, improved punctuality, and streamlined processes including Internet sales, web and mobile check-in and airport self-check-in.

We strive to deliver our promise to our customers. Therefore, we constantly monitor customer satisfaction with in-flight surveys and research, and measure our performance against the highest standards. This commitment to excellence is reflected in the numerous prizes and recognitions earned by the Company, including Skytrax's "2016, Best Airline in South America" and "2016, Best Airline to South America" by Global Travelers.

### *Branding*

Our new brand, "LATAM", was officially launched in May 2016. The new brand brings together all the passenger and cargo airline operations of the LATAM Airlines Group carriers: with the new brand, we will continue the legacy of leadership started decades ago by LAN, TAM and their respective affiliate carriers.

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

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

Since the launch of our new brand, we have made significant progress on its implementation, making our brand visible to our passengers. The new brand has been adopted at 15 airports, and we now offer a new single website for all of our different points of sale. The LATAM brand has also been applied to 43 aircraft, representing approximately 13% of our fleet. We also launched new uniforms for our crew, adopting the Company's colors of indigo and coral while providing elegance and comfort for our crew.

During 2016, LATAM Airlines Brazil was the official airline sponsor of the Rio 2016 Olympic Games, reinforcing our brand positioning as a leader in the region through our presence in one of the most important sport events worldwide.

### *Distribution Channels*

We are committed to being the preferred choice of our customers, placing the passenger at the center of our decision making. Our distribution structure is divided into direct and indirect distribution channels, both focused on improving their respective platforms to allow for easy interaction for our client in sales and services alike. Direct channels owned by LATAM are comprised of city ticket offices, contact-centers and e-Business (including website, mobile and smart business), and accounted for approximately 52% of total passengers in 2016. These direct channels support sales and service, both before and after the flight.

The e-Business channel is an integral part of our commercial, marketing and service efforts, and during 2016 our Internet-related sales achieved a better channel mix with an increase of 0.5 percentage points out of our total sales. The Company will continue to improve our e-Business platforms to support expected future growth.

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

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Our city ticket offices support the growth of our operations, providing a sales channel. Our contact centers are a multi-service channel providing support in six languages (Spanish, English, Portuguese, French, German and Italian).

Indirect channels currently include travel agencies, general sales agencies, direct channels from other airlines and online agencies, and accounted for a 48% of total passengers in 2016.

### **Frequent Flyer Programs**

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

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

We continued working on the homologation of our programs' features and benefits. Among other improvements, our initiatives include cross-level recognition of all members, for example, by allowing LATAM Pass members to upgrade on TAM flights and LATAM Fidelidade members to upgrade on LAN flights, in addition to having the same services at the airport.

During 2017 LATAM Pass and LATAM Fidelidade will continue their harmonization efforts and will offer new cross benefits for their members, with the goal of remaining or becoming the leading loyalty program in all of LATAM's home markets. Moreover, beginning on April 22, 2017, LATAM's frequent flyer program will change the way our members earn kilometers from the current system (based on the distance flown) to a new method based on the price paid for the ticket.

#### *LATAM Pass*

As of December 31, 2016, LATAM Pass had 13 million members, an increase of 17% compared to 2015.

LATAM Pass members earn LATAM Pass kilometers in their accounts based on distance flown, class of ticket purchased and their status level, as well as by purchasing the services of other partners in the LATAM Pass program. Customers can redeem kilometers for free tickets as well as for other products in an online catalogue. Under our current frequent flyer program, our passengers are grouped into four different elite levels based on their flying behavior: Gold, Platinum, Black and Black Signature. These different groups determine which benefits customers are eligible to receive, including kilometers earnings bonuses, free upgrades on a space-available basis, VIP lounge access, and preferred boarding and check-in. These categories have their equivalent in the **oneworld®** alliance: Ruby for Gold, Sapphire for Platinum, and Emerald for both Black and Black Signature.

In 2016 LATAM Pass had increases of 32 % in award tickets redeemed, and 9% in non-flight products redeemed. LATAM Pass has highly rated partners, including other airlines, hotels, car rental agencies, retailers, and credit card issuers from the main financial institutions in Chile, Peru, Ecuador, Argentina, Uruguay, the United States and Colombia, including Banco Santander in Chile and Banco de Bogotá and Occidente (both members of Grupo Aval) in Colombia. These commercial agreements give our customers the opportunity to earn additional kilometers for using their services.

In the non-banking segment, LATAM Pass continues to leverage its members' purchase behavior to partner with leading players in its markets and become the most attractive loyalty program. In recent years, LATAM Pass has expanded into new industries, such as retail, supermarkets, automotive, real estate, drugstores and health care centers.

In the past few years, we have implemented a number of marketing initiatives to increase customer engagement and activity with the program in all of its markets. In 2016, membership in LATAM Pass continued growing, expanding by 10% in Chile, 14% in Perú, 38% in Argentina, 6% in Ecuador, 14% in Colombia and 6% in the United States.

#### *LATAM Fidelidade*

LATAM Fidelidade was the first loyalty program launched by a Brazilian airline and represents a key element of LATAM's marketing strategy. LATAM believes LATAM Fidelidade, like LATAM Pass, is one of the most flexible loyalty programs in the market because it imposes no restrictions on flight availability or on the number of seats available when members redeem accumulated points. LATAM Fidelidade currently has more than 13.2 million members, which represents an increase of 14% compared to 2015. Members of LATAM Fidelidade, like those of LATAM Pass, receive benefits and increased points for kilometers flown depending on their elite level, allowing them to accrue redeemable points for free travel more quickly. LATAM Fidelidade customers are classified in the same four elite levels as LATAM Pass: Gold, Platinum, Black and Black Signature.

## Multiplus

In 2009, TAM launched Multiplus, a company designed to create a broader network in which LATAM Airlines Brazil's customers can earn points through the LATAM Fidelidade program. Multiplus is a coalition of loyalty programs that permits the accrual of points that can be redeemed for products and services offered by many different partner companies, in addition to LATAM Airlines Brazil. We believe this expanded network acts as a sales channel for LATAM Airlines Brazil, helping to capture and retain customers and increase sales. Multiplus is attractive to our less-frequent flyers because it allows them to accrue loyalty points in many ways besides flying. In 2016, non-air accrual reached 15% of the total points. At the end of 2016, Multiplus had more than 400 partners and approximately 16.5 million participants that can accrue Multiplus points directly (through LATAM Fidelidade, co-branded cards, apps, retail partners, etc.) and indirectly (by transferring points from a partner program).

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

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

Aiming to increase the value created to Multiplus and LATAM shareholders, and to improve the alignment of interests between Multiplus and TLA, on May 4, 2015, the companies approved a new amendment to the Operating Agreement, effective on that date. This amendment provides that the cost for each 10,000 points redeemed on TLA air tickets shall be approximately 3% less than Multiplus's current prices paid for those 10,000 points. Furthermore, the amendment establishes that from December 1, 2015, fixed prices for air tickets will come into force with objective rules for annual price adjustments for the purchase of air tickets, paid by Multiplus to TLA. The fixed prices of each are determined by both companies as a function of the market (domestic and international), fare class, demand, season, distance and flight origin/destination.

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

On December 14, 2015, Multiplus' Board of Directors approved a management proposal for the establishment of a limited liability company, with the name of "Multiplus Corretora de Seguros Ltda.", for the purpose of developing an insurance brokerage business. This project is in line with Multiplus' main objectives of providing a differentiated experience for its participants, offering a new source for accrual of points and generating value to its shareholders.

On July 5, 2016, Multiplus S.A. and Banco Itaucard S/A ("Itaucard") signed a Commercial Partnership Contract for the offering, promotion, distribution and sale of co-branded credit cards ("Multiplus cards"), throughout Brazil's national territory. The partnership's key objective is to offer its network members a product which permits the direct accumulation of Multiplus Points by means of conversion and differentiated bonuses.

On July 12, 2016, Multiplus S.A. signed a partnership with the Expedia Affiliate Network, making 270,000 hotel options available to members, allowing them to accumulate Multiplus points when making their reservations.

On August 25, 2016, "Multiplus Corretora de Seguros Ltda." started operations as "Pontus Corretora". Pontus Corretora debuted with two types of insurance policies offered with different partners: residential insurance, in partnership with Seguradora Porto Seguro, and travel insurance through Assist Card. Pontus Corretora offers a totally original digital experience, with flexibility, innovation and excellent products from the main insurance companies in the market.

On December 27, 2016, Multiplus announced that it is expanding its "Points + Cash" offering to allow the redemption of points for non-air products and services. This allows members who do not have sufficient accumulated points to redeem with network partners to top-up their points with a cash payment. The objective is to ensure the availability of attractive offers for all Multiplus members, with constant incentives for them to increasingly use and experience the loyalty network.

## Cargo Operations

Our Cargo division operates internationally and domestically through our affiliates under the unified LATAM Cargo brand, which has acquired significant market recognition. Our cargo business generally operates on the same route network used by our passenger airline business. It includes approximately 138 destinations, of which around 127 are served by passenger and/or freighter aircraft and approximately 11 are served only by freighter aircraft.

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

	Year ended and as at December 31,		
	2016	2015	2014
ATKs (millions)	6,704.1	7,082.8	7,219.7
RTKs (millions)	3,465.9	3,797.0	4,317.2
Weight of cargo carried (thousands of tons)	944.3	1,008.7	1,102.2
Total cargo yield (cargo revenues/RTKs, in U.S. cents)	32.0	35.0	39.7
Total cargo load factor (%)	51.7%	53.6%	59.8%

We derive our revenues roughly equally between the transport of cargo as follows:

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

2) *Dedicated freighter fleet.* As of December 31, 2016, our dedicated freighter fleet under operation consisted of eight Boeing 767-300 freighters, each with a capacity for 58 structural tons of freight each, and two Boeing 777-200 freighters, each with a capacity of 102 structural tons of freight. In 2016 we continued our freighter fleet optimization efforts, subleasing three B767-300F aircraft and one B777-200F to a third party (reclassified from property, plant and equipment to held for sale as of December 31, 2016). Our freighter fleet program has two main focus areas: first, to support the group's belly business, improving its load factor by feeding cargo into our passenger routes, and second, to provide our customers flexibility in scheduling and destinations. With these two objectives in mind, we are complementing and enhancing our network. In Latin America, the principal origins of our cargo are Chile, Colombia, Perú, Ecuador, Brazil and Argentina, which represent a large part of our northbound traffic. This demand is mainly concentrated on a small number of product categories, such as exports of fish, sea products and fruits from Chile, asparagus from Peru, and exports of fresh flowers from Ecuador and Colombia.

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

Our largest domestic cargo operations are in Brazil, where LATAM Cargo remains the market leader there, carrying cargo for a variety of customers, including other international air carriers, freight-forwarding companies, export-oriented companies and individual consumers. In order to maintain its leadership, LATAM Cargo continues to invest in infrastructure, service and security in key cargo terminals.

The United States accounts for the majority of cargo traffic to and from Latin America. Besides being the main market for Latin American exports by air, the United States is also the main supplier of goods transported by air to Latin American countries. We have thus headquartered our international cargo operations in Miami. This geographical location is a natural gateway between Latin America and the United States. We also transport cargo to and from eight destinations in Europe: London, Madrid, Milan, Paris, Barcelona, Frankfurt, Amsterdam and Basel. The first six are served via passenger aircraft, and we also serve Amsterdam, Frankfurt and Basel through freighter operations. In October 2016 LATAM Cargo added a new operation to its belly network: Sao Paulo, Brazil – Johannesburg, South Africa, opening a gateway between Latin American markets and the African continent.

During 2016, cargo traffic decreased 8.7%, mainly due to a strong decline in Brazilian imports resulting from economic weakness and currency depreciation in Brazil. However, Latin American exports remain at healthy levels, despite a contraction in production of fresh salmon in Chile.

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



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### *Marketing and Sales*

Our cargo sales and marketing efforts are carried out directly in cities where we have a local office, or through general sales agents. In total, we have over 30 international offices. In Latin America, we have our own offices in all key markets. In the United States, we have offices in Miami, New York and Los Angeles, and work with representatives in various other cities. In Europe, we have offices in Frankfurt, Amsterdam, Madrid and Paris and use agents in other key cities. In Asia our sales efforts are conducted through general sales agents. In total, we maintain a network of more than 30 independent cargo sales agencies domestically and internationally.

Our cargo marketing strategy emphasizes the combination of our unique freighter and passenger aircraft cargo network, which offers a wide variety of reliable cargo routing possibilities with different pricing options; strong connectivity to, from and within Latin America; and a clear focus on providing high-quality service for our clients. Our offering allows our customers to ship large, bulky freight, as well as smaller, high-density cargo, fresh products, express shipments and other types of cargo.

During 2016 we focused on various aspects of our value chain to improve our customer experience. We developed a new portfolio of LATAM Cargo products with an innovative proposition aligned to the needs of customers, allowing us to deliver greater consistency and a clear service offering to the market. In line with this, we made progress in transforming the Company's internal processes to ensure they are aligned with our commitments to clients.

### *Cargo Agreements*

During 2016 we maintained our Enhanced Cargo Transfer Interline and other commercial agreements with Asian carriers such as Air China, Korean Air and Cathay Pacific, among others. Under these agreements, we receive space allocations to move our cargo from the main gateways in Asia to hubs in the United States—Los Angeles, New York and Miami—and in Europe, where we can connect with our cargo network. In exchange, we provide these airlines with space from these same hubs in the United States and Europe to all of our Latin American destinations and also provide them with westbound cargo. These agreements have allowed us to achieve greater visibility, improved support and allowed us to provide better service recovery, further expanding our network between Latin America and Asia.

### *Cargo-Related Investigations*

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

## **Fleet**

### *General*

As of December 31, 2016, we operated a fleet of 329 aircraft, comprised of 319 passenger aircraft and 10 cargo aircraft. Additionally, we subleased four cargo aircraft to third parties (one of them not included in the table below as it was reclassified from property plant and equipment held for sale).

	Number of aircraft in operation			Average term of lease remaining (years)	Average age (years)
	Total	Owned(1)	Operating Lease		
Passenger aircraft(2)					
Airbus A320-Family Aircraft					
Airbus A319-100	48	36	12	3.4	9.2
Airbus A320-200	146	93	53	2.6	8.6
Airbus A321-200	47	30	17	9.3	2.7
Airbus A320-200neo	2	1	1	9.7	0.2
Airbus A350-Family Aircraft					
Airbus A350-900	7	5	2	11.8	0.5

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<b>Boeing Aircraft</b>					
Boeing 767-300ER	37	34	3	2.6	8.5
Boeing 787-8	10	6	4	9.2	3.1
Boeing 787-9	12	4	8	10.8	1.2
Boeing 777-300ER	10	4	6	2.1	5.7
Total passenger aircraft	<b>319</b>	<b>213</b>	<b>106</b>	<b>4.8</b>	<b>7.0</b>
<b>Cargo aircraft</b>					
Boeing 767-300 Freighter (3)	11	8	3	2.0	13.1
Boeing 777-200 Freighter (4)	2		2	0.4	7.6
Total cargo aircraft	<b>13</b>	<b>8</b>	<b>5</b>	<b>1.4</b>	<b>12.2</b>
<b>Total fleet</b>	<b>332</b>	<b>221</b>	<b>111</b>	<b>4.7</b>	<b>7.2</b>

- (1) Aircraft included within property, plant and equipment.  
(2) All passenger aircraft bellies are available for cargo.  
(3) Three aircraft leased to FEDEX  
(4) Does not include two B777-200F (one currently leased to a third party), that were reclassified from property plant and equipment to held for sale.

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

	2016	2015	2014
<b>Passenger aircraft</b>			
Boeing 767-300ER	10.0	11.3	10.5
Boeing 787-8/9	11.0	11.7	10.5
Airbus A320-Family	8.9	9.5	9.8
Boeing 777-300ER	11.7	12.2	12.9
Airbus A330-200	4.4	6.2	7.0
Airbus A350-900	8.5	0.8	—
<b>Cargo aircraft</b>			
Boeing 767-300 Freighter	12.1	10.9	9.5
Boeing 777-200 Freighter	13.7	13.0	13.2

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

For short-haul domestic and regional flights, we principally operate Airbus A320-Family Aircraft. The Airbus A320-Family has been incorporated into our fleet pursuant to operating leases or has been acquired directly from Airbus pursuant to various purchase agreements since 1999. In 2016, we received our first two A320neo, re-engined A320s, which incorporate the latest technologies including new generation engines and Sharklet wing tip devices, resulting in approximately 15% in fuel savings compared with the original A320. LATAM was the first airline in the Americas, and the fifth on the world, to operate the A320neo.

For long-haul passenger and cargo flights, we operate Boeing 767-300 passenger and cargo aircraft, Boeing 787-800 and 787-900 aircraft, Boeing 777 passenger and cargo aircraft and the Airbus A350-900 passenger aircraft that started operations in 2015. LATAM is the first A350-900 operator in the Americas.

### Fleet Leasing and Financing Arrangements

LATAM's fleet financing and leasing structures include borrowing from financial institutions and leasing under financial leases, tax leases, sale-leaseback transactions and pure operating leases. As of December 31, 2016, LATAM had 332 aircraft, of which three were subleased to third parties resulting in 329 aircraft in operation. Of the aircraft in operation, 156 are operated by LAN and 163 aircraft are operated by TAM and 10 are operated by LATAM Airlines Cargo.

As of December 31, 2016, LATAM's operating fleet was comprised of 192 financial leases, 12 tax leases, 102 operating leases, and 10 aircraft as loan guarantees and 13 unencumbered aircraft. Most of LATAM's financial and tax leases are structured with a 12- year initial term. LATAM has 42 financial aircraft leases supported by the U.S. Export-Import Bank ("EXIM Bank") and 85 supported by the European Export Credit Agencies (the "ECAs"). LATAM's operating lease maturities initially range from three to 12 years.

LATAM's aircraft debt, which is comprised of financial and tax leases, is denominated in U.S. dollars and typically has quarterly amortization payments. Both the financial leases and tax leases have a bank (or group of banks) as counterparty; however, the tax leases also include third parties. 63.1% of our aircraft debt has a fixed interest rate and the balance has a floating rate based on USD LIBOR.

In order to reduce TAM's balance sheet FX exposure to the Brazilian real, as part of the integration plan following the combination with TAM, we have sought to transfer the majority of the TAM aircraft under financial leases to the LATAM level. As of December 31, 2016, we have transferred 51 aircraft to LATAM, including 13 transferred during 2016. This program has helped reduce the exposure to approximately US\$1.2 billion equivalent. See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Sources of financing" and "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Expenditures" for a description of expected sources of financing and expected expenditures on aircraft.

## **Maintenance**

### ***LATAM Maintenance***

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

### ***LATAM Line Maintenance***

Our Line Maintenance Network (the "Network") provides a full range of aircraft maintenance services to ensure our fleet operates safely and in compliance with all local and international regulations. We strive to provide the best experience to our passengers, through the highest standards of on time performance and cabin condition.

The Network serves over 190 locations, which are staffed by over 4,000 LATAM maintenance professionals. In 2016, the Network effectively carried out over 2.1 million man hours of preventive and corrective maintenance tasks on the LATAM fleet. We also rely on certified third party services in a few destinations where it is economically convenient, such as in Frankfurt (where we are served by Lufthansa Technik), Milan (served by Air France-KLM), and Johannesburg (served by South African Airways).

LATAM Maintenance has used LEAN methodology and developed computerized systems to achieve improved automation and integration processes, offering sustainable and scalable planning, productive and operational processes. We have deployed more than 600 tablets in order to:

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

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

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

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In addition, to ensure the most qualified personnel as needed for safe, accurate and on-time Line Maintenance, we seek to improve our technicians' skills through extensive training programs at our LATAM Technical Training Center and through specific training programs designed and conducted by our partnerships. Our Fleet and Engineering teams participate actively in periodic airline Fleet Reliability meetings, where we share best industry practices and updates of the latest Line Maintenance trends and top technical issues.

### *LATAM MRO*

Our two MRO ("Maintenance, repair and Operations") facilities, one in São Carlos (Brazil) and one in Santiago (Chile), are equipped and certified to service our fleet of Airbus and Boeing aircraft and provide 76% of all heavy maintenance services that LATAM demands. The services not executed internally are contracted to our extensive network of MRO partners around the globe. Both MRO facilities are FAA Part-145 certified repair stations. We occasionally perform certain heavy maintenance and component services for other airlines or OEMs. LATAM MRO is also responsible for the planning and execution of aircraft redeliveries.

In MRO São Carlos (LATAM Airlines Brazil MRO), we are prepared to service up to eight aircraft (narrow and wide body) simultaneously with a dedicated hangar for stripping and painting. In this facility we also have 22 technical component shops, including a full landing gear repair & overhaul shop, hydraulics, pneumatics, electronics (ATEC), electrical components, electroplating, composites, wheels & brakes, interiors and emergency equipment shops. This facility has a total area of 400 hectares and a hangar area of 100,000 m<sup>2</sup>, with a dedicated runway of 1,720 meters. MRO São Carlos is certified and audited by major international aeronautical authorities such as the FAA, the European Aviation Safety Agency ("EASA"), ANAC Brazil, the Chilean DGAC, the Argentinean *Administración Nacional de Aviación Civil* ("ANAC Argentina"), the Ecuadorian *Dirección General de Aviación Civil* ("DGCA"), the Paraguayan *Dirección Nacional de Aeronautica Civil* ("DINAC"), and Transport Canada ("TC"), among others, for Heavy Maintenance and Components Repair and Overhaul for the Airbus A-320 family (A318, A319, A320 and A321) and Airbus A330, Boeing 767, ATR-42/72 and the Embraer E-Jet 170/190 families. The MRO also has some minor capabilities for the repair and overhaul of Boeing 777 components. MRO São Carlos includes its own support engineering capabilities and a full technical training center.

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

During 2016, LATAM MRO effectively executed 1.2 million man-hours in more than 300 services, including C checks (114) and Special Checks (209) for the LATAM fleet, maintaining our 2015 labor production. Our shops delivered more than 50,000 components and performed 17 landing gear overhauls.

### **LATAM Safety and Security**

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

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

### **Organization of the LATAM Safety and Security Vicepresidency**

#### *Safety Management Corporate*

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

All LATAM affiliates have safety management system ("SMS") documentation that provides clear definitions of the functions and responsibilities regarding operational safety for all persons involved, from the top to the bottom of the operational structure in the airline.

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

### *Emergency Response Management Corporate*

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

### *Security Management Corporate*

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

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

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

## **Fuel Supplies**

Fuel costs comprise one of the single largest categories of our operating expenses. Over the last years, our fuel consumption and operating expenses have increased due to the significant growth in our operations. However, in 2016 due to the significant drop in the international price of crude oil, LATAM saw a drop in its jet fuel costs. In 2016, total fuel costs represented 23.0% of our total operating expenses. Our average into-wing price for 2016 (fuel price plus taxes and transportation costs, including hedge) was US\$1.70 per gallon, representing a decrease of 22.2% from the 2015 into-wing average fuel price. We can neither control nor accurately predict the volatility of fuel prices. Despite the foregoing, we believe it is possible to partially offset the price volatility risk through our hedging and fuel surcharge programs, in place in both our passenger and cargo business. For more information, see “Item 11. Quantitative and Qualitative Disclosures About Market Risk—Risk of Fluctuations in Jet Fuel Prices.”

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

	Year ended December 31, (1)		
	2016	2015	2014
Fuel consumption (thousands of gallons)	1,185,508.8	1,221,096.9	1,219,882.7
ASK equivalents (millions)	205,537.5	208,722.5	206,197.9
Fuel gallons consumed per 1,000 ASK equivalents	5.77	5.85	5.92
Total fuel costs (US\$ thousands)	2,056,643	2,651,067	4,167,030
Cost per gallon (US\$)	1.70	2.19	3.42
Total fuel costs as a percentage of total operating expenses	23.0%	27.6%	34.8%

(1) See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—LATAM Airlines Group Financial Results Discussion: Year ended December 31, 2016 compared to year ended December 31, 2015.” Total fuel costs (US\$ thousands) include Hedging gains/losses.

Our fuel supply arrangements vary by airport and are distributed among 34 providers, but are mainly concentrated in Brazil (42%), Chile (15%), the United States (11%) and Peru (11%). During 2016, we re-negotiated our fuel supply contracts in all North American, major European, and certain South American airports.

Regarding our operations in the United States, we changed our strategy related to the term of our agreements. While previously we relied only on short term agreements, in 2016 we established medium term agreements, securing our supply in a complex market.

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

- Investments in more modern and efficient aircraft, such as the Boeing 787, Airbus A350 and the Airbus A320neo. The main fleet has been fitted with winglets and sharklets, allowing an estimated 4% fuel consumption reduction.
- Weight reduction measures, such as minimizing unnecessary onboard water, using ultra-light service carts, optimizing fuel according to destination, improving the distribution of weight to have an optimal center of gravity and the improvement of freight factor (the combination of passenger and cargo services).
- Standardized operational procedures for approach and landing, as well as for minimizing the use of the auxiliary power unit when aircraft is on the ground.
- Periodically programmed engine washes, which allow more efficient combustion of fuel and reduce emissions in airport areas.

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

### **Ground Facilities and Services**

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

We also operate significant ground facilities and services at LATAM Airlines Brazil’s headquarters located at Congonhas International Airport in São Paulo, Brazil. In 2013, LATAM Airlines Brazil inaugurated two new facilities for ground handling equipment maintenance and repair (at São Paulo’s Guarulhos Airport with 9,000 m<sup>2</sup> and at Rio de Janeiro’s Galeão Airport with 4,000 m<sup>2</sup>).

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

### **Ancillary Airline Activities**

In addition to our airline operations, we generate revenues from a variety of other activities, including aircraft leases (including subleases, dry-leases, wet-leases and capacity sales to certain alliance partners) and charter flights, tours, duty-free in-flight sales, maintenance services for third parties, handling, storage and customs services, handling and activities and revenues of Multiplus and the sale of certain LATAM Pass kilometers to third parties. In 2016, LATAM generated other revenues of US\$538.7 million from ancillary activities.

### **Insurance**

We maintain insurance policies as required by law and in accordance with the terms of all aircraft financing and leasing agreements for aircraft that LATAM and its affiliates own, are responsible for or operate. The scope of these policies includes all risk coverage for aircraft hulls, including war risks and third-party legal liability for passengers, cargo, baggage and injuries to third parties on the ground. We also maintain insurance in respect of the assets against the risk of theft, fire, flood, electrical damage and similar events for equipment and buildings we own or for which we are responsible, including airport areas where we have operations. Similarly, we have contracted for vehicle insurance against the risk of robbery, theft, fire and civil liability against third parties for all vehicles we own or for which we are responsible. Our current policies, which are in force through April 1, 2017 and are renewed annually, follow the best practices adopted by the international civil aviation industry.

We have negotiated common terms for Hull All Risk, Aviation Legal Liabilities and Spares coverage, together with IAG Group (the parent of British Airways, Iberia and their affiliates and franchises), which allows us to obtain premium reductions and coverage improvements.

## **Information Technology**

### *Passenger Service Systems*

As part of our agenda of transformation of the customer experience at LATAM, we have redefined our travel experience model and will continue to redesign our passenger service systems with the aim of providing a unified experience to our customers. Since the 2012 combination of LAN and TAM, a series of projects have been implemented to communicate the unification of the companies to our customers. Intense efforts have been made to standardize processes such as passenger recognition, attention at contact centers, sales offices and airports, in-flight services, e-commerce and loyalty programs. However, many of these efforts are partial pending full unification of the two companies' processes and systems, which is still ongoing.

In 2014, we redefined our travel experience model based on the needs of our target customer, reinforcing six key elements: transparency of information, early solutions, passenger choice, digital simplicity, end-to-end rapidity, and care for our customer. In order to implement this model, during 2016 we continued the work of previous years, adopting several measures for the unification of our processes and systems:

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

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

During 2017, we expect to continue developing solutions aimed at improving our customers' experience.

### *LATAM PSS Migration and Digital Platform*

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

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

### *Maintenance*

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

### *Disaster Recovery Plan*

As of December 2016, LATAM has two data centers in Chile and one in Brazil. Design and configuration of two data centers and a Disaster Recovery Plan for LATAM was completed in 2015 and implementation and testing was done during 2016.

### **Regulation**

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

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

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

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

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

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



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

In the United States, the Aviation and Transportation Security Act requires, among other things, the implementation of certain security measures by airlines and airports, such as the requirement that all passenger bags be screened for explosives. Funding for airline and airport security required under the Aviation Security Act is provided in part by a US\$5.60 per segment passenger security fee, subject to a US\$11.20 per roundtrip cap; however, airlines are responsible for costs in excess of this fee. Implementation of the requirements of the Aviation Security Act has resulted in increased costs for airlines and their passengers. Since the events of September 11, 2001, Congress has mandated, and the TSA has implemented, numerous security procedures and requirements that have imposed and will continue to impose burdens on airlines, passengers and shippers.

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

### *Chile*

#### *Aeronautical Regulation*

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

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

#### *Route Rights*

*Domestic Routes.* Chilean airlines are not required to obtain permits in order to carry passengers or cargo on any domestic routes, but only to comply with the technical and insurance requirements established respectively by the DGAC and the JAC. There are no regulatory barriers that would prevent a foreign airline from creating a Chilean subsidiary and entering the Chilean domestic market using that subsidiary. On January 18, 2012 the Secretary of Transportation and the Secretary of Economics of Chile announced a unilateral opening of the Chilean domestic skies. This was confirmed on November 2013, and has been in force since that date.

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

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

*Airfare Pricing Policy.* Chilean airlines are permitted to establish their own domestic and international fares without government regulation. For more information, see “—Antitrust Regulation” below. In 1997, the Antitrust Commission approved and imposed a specific self-regulatory fare plan for our domestic operations in Chile consistent with the Antitrust Commission’s directive to maintain a competitive environment. According to this plan, we must file notice with the JAC of any increase or decrease in standard fares on

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routes deemed “non-competitive” by the JAC and any decrease in fares on “competitive” routes at least 20 days in advance. We must file notice with the JAC of any increase in fares on “competitive” routes at least 10 days in advance. In addition, the Chilean authorities now require that we justify any modification that we make to our fares on non-competitive routes. We must also ensure that our average yields on a non-competitive route are not higher than those on competitive routes of similar distance.

### *Argentina*

#### *Aeronautical Regulation*

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

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

#### *Route Rights*

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

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

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

*Airfare Pricing Policy.* Argentine airlines are permitted to establish their own international fares without government regulation, as long as they do not abuse any dominant market position they may enjoy. However, there are government-fixed minimum prices for domestic flights. Government-fixed maximum prices were in place until February 3, 2016, when the government eliminated the controls that limited maximum prices, while retaining the minimum prices.

### *Peru*

#### *Aeronautical Regulation*

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

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

### *Route Rights*

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

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

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

## *Ecuador*

### *Aeronautical Regulation*

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

Fundamentally, the EDGAC is responsible for:

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

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

### *Route Rights*

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

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

*Airfare Pricing Policy.* On October 13, 2011, The Statutory Law of Regulation and Control of the Market Power was passed with a purpose to avoid, prevent, correct, eliminate and sanction the abuse of economic operators with market power, as well as to sanction restrictive, disloyal and agreements involving collusive practices. This Law creates a new public entity as the maximum authority of application and establishes the procedures of investigation and the applicable sanctions, which are severe. Rates are not regulated and are subject only to registration. In general, bilateral treaties regarding air transportation provide for airfares to be regulated by the regulation of the country of origin.

## *Brazil*

### *Aeronautical Regulation*

The Brazilian aviation industry is regulated and overseen by the ANAC. The ANAC reports directly to the Civil Aviation Secretary, which is subordinated by the Federal Executive Power of this country. Primarily on the basis of Law No. 11.182/2005, ANAC was created to regulate commercial aviation, air navigation, the assignment of domestic and international routes, compliance with certain insurance requirements, flight operations, including personnel, aircraft and security standards, air traffic control, in this case sharing its activities and responsibilities with the *Departamento de Controle do Espaço Aéreo* (Department of Airspace Control) (“DECEA”), which is a public secretary also subordinated to the Brazilian Defense Ministry, and airport management, in this last case sharing responsibilities with the *Empresa Brasileira de Infra-Estrutura Aeroportuária* (the Brazilian Airport Infrastructure Company, or “INFRAERO”), a public company that was created by Law No. 5862/72, and is responsible for administrating, operating and exploring Brazilian airports industrially and commercially (with the exception of Guarulhos International Airport, Viracopos International Airport and Brasília International Airport, which were privatized in 2012 and are administrated by concession agreement).

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

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

### *Route Rights*

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

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

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

### *Colombia*

#### *Aeronautical Regulation*

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

#### *Route Rights*

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

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

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

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

#### *Antitrust Regulation*

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

Since October 1997, LATAM and LATAM Chile follow a self-regulatory plan, which was modified and approved by the Tribunal de la Libre Competencia (the Competition Court) in July 2005, and further in September 2011. In February 2010, the Fiscalía Nacional Económica (the National Economic Prosecutor's Office) finalized the investigation initiated in 2007 regarding our compliance with this self-regulatory plan and no further observations were made.

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

#### *Chile*

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

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

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

### *Brazil*

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

## **C. ORGANIZATIONAL STRUCTURE**

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

As of January 31, 2017 we held a 100% stake in Transporte Aéreo S.A. through direct and indirect interests, a 70% stake in LAN Peru through direct and indirect interests, a 55.00% stake of the voting shares of LAN Ecuador and a 100% of the non-voting shares of Holdco Ecuador S.A., who has 45.00% of the voting shares of LAN Ecuador, a 95% indirect stake in LAN Argentina, a 99.19% indirect stake in LAN Colombia and a 100.00% stake of the non-voting shares of TAM, and 48.99% of the voting shares and 100% of the non-voting of Holdco I S.A., who has 100.00% of the voting shares of TAM. Following changes in Brazilian law, which now permit foreign persons to own up to 49% of the voting capital of Brazilian airlines, on April 20, 2016, we increased our ownership of the voting shares of Holdco I S.A. to 48.99%. For a description of the 2012 combination with TAM, including TAM's operating structure, see "Item 4. Information on the Company—A. History and Development of the Company—Combination of LAN and TAM."

Our cargo operations are carried out by our affiliates under the new brand LATAM Cargo. Our cargo operations are complemented by the operations of certain related companies, such as Aero Transportes Mas de Carga S.A. de C.V. ("MasAir") in Mexico, Aerolinhas Brasileiras S.A. ("ABSA") in Brazil and Linea Aérea Carguera de Colombia S.A. ("LANCO") in Colombia. As of January 31, 2016, we indirectly held 100% of the non-voting shares and 24.99% of the voting shares of MasAir, 100% of the non-voting shares and 20% of the voting shares of ABSA, and a 90% stake in LANCO through direct and indirect participations. TAM S.A. has 100% of the non-voting shares and 100% of the voting shares of ABSA. Following the combination between LAN and TAM, we have coordinated the operations of ABSA and TAM Cargo in Brazil. In the cargo business, we market ourselves primarily under the LATAM Cargo brand internationally.

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

### **Chile**

#### **Headquarters**

Our main facilities are located on approximately five acres of land that we own near the Comodoro Arturo Merino Benítez International Airport. The complex includes approximately 150,695 square feet of office space, 32,292 square feet of conference space and training facilities, 9,688 square feet of dining facilities and mock-up cabins used for crew instruction.

In addition, we occupy 17,715 square feet for our executive offices in a more central location of Santiago, Chile. This space includes five floors owned by LATAM in one building and 16 leased floors in an adjacent building. We also own one additional floor of 11,840 square feet at the Arrau Building in Santiago, Chile.



## **Maintenance Base**

Our 877,258 square foot maintenance base is located on a site that we own inside Comodoro Arturo Merino Benítez International Airport. This facility contains our aircraft hangar, warehouses, workshops and offices, as well as a 559,720 square feet aircraft parking area capable of accommodating up to seventeen short-haul aircraft. We have a 53,820 square foot office building plus a 10,000 square foot office and workshop space. We also lease from the DGAC 193,750 square feet of space inside the Comodoro Arturo Merino Benítez International Airport for operational and service purposes. Our lease has a duration of 14 years.

## **Other Facilities**

We own sixteen acres of land and a building on the west side of the Comodoro Arturo Merino Benítez International Airport that houses a flight-training center. This facility features three full-flight simulators for Boeing 767, Airbus A320 and Boeing 737 aircraft.

Fast Air Almacenes de Carga S.A. ("Fast Air"), one of our affiliates that operates import customs warehouses, utilizes an import warehouse and office building at the Comodoro Arturo Merino Benítez International Airport. This 172,000 square foot building was developed in conjunction with two other operators. We have leased these facilities since 2004 and we will continue to operate there until March 2017. During April 2017, we will transfer our operations to a 5,600 m<sup>2</sup> warehouses located at Comodoro Arturo Merino Benítez International Airport.

## **Brazil**

### **Headquarters**

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

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

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

### **Base Maintenance**

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

### **Headquarters of the Presidency**

Completed in 2013, the Headquarters of the Presidency has an area of 5,066 m<sup>2</sup>, space for 641 workstations. The headquarters is located at the Tower Bridge Building in the Brooklin region of São Paulo.

### **Other Facilities**

In São Paulo, LATAM Airlines Brazil has other facilities, including: Uniform Building, used for storage and delivery of uniforms; a Call Center Building with 3,199 m<sup>2</sup>, distributed over 5 floors (plus a ground floor and a basement) that currently holds about 400 workstations and support rooms (meetings / training / dining room / coordination) of the operations of Call Center Reservations, Talk to People and LATAM Cargo Brazil back office.

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



## New Facilities

TAM completed several infrastructure projects in Brazil during 2016. The main highlights are:

1. New Cargo Warehouses in Fortaleza and Rio de Janeiro: total of 3,500 m<sup>2</sup>.
2. Terminal transfers in São Paulo- Viracopos and Goiânia: total of 250 m<sup>2</sup>.
3. Relocation of office areas in Rio de Janeiro and São José do Rio Preto: total of 650 m<sup>2</sup>.
4. Improvement of Hangar 3 at Congonhas: 4,060 m<sup>2</sup>.

## Other locations

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

In June 2016 we received the final occupancy permit for a new hangar at the Miami International Airport. The property has a 50,785 square feet aircraft maintenance space, sufficient to house a Boeing B777 aircraft, in addition to a 32,440 square feet area designated for office space.

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

## ITEM 4A UNRESOLVED STAFF COMMENTS

None.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### A. Operating Results

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

The summary consolidated annual financial information as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014, has been prepared in accordance with IFRS and has been derived from our audited consolidated annual financial statements included in this annual report.

### Overview

We derive our revenues primarily from transporting passengers on our passenger aircraft, as well as from transporting cargo in the belly of our passenger aircraft and in our dedicated freighter aircraft. In 2016, 82.7% of our total revenues (including for this purpose other income from operating activities) came from passenger revenues and 11.7% came from our cargo business. The remaining 5.7% was classified as other operating income, which consists primarily of revenues generated from our coalition and loyalty program Multiplus, tour operator services, aircraft leasing, customs and warehouseing services, third-party maintenance, duty free sales and other miscellaneous income.

Our operating environment in 2016 was marked by a generally weak macroeconomic environment in Latin America, including slower GDP growth or GDP contraction. In Brazil specifically, where GDP declined by 3.5% in 2016, the macroeconomic environment was marked by political corruption issues leading to a marked decrease in business and consumer confidence levels. LATAM Airlines Group successfully managed capacity throughout its markets in order to address this challenging environment, and continued to rationalize capacity in line with demand conditions on both domestic and international operations in the Brazilian market.

### Passenger Operations

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

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Passenger demand over the past years has been affected as a result of weaker economic environments in some Latin American countries, reflected in slower GDP growth trends and depreciated currencies, and increases in competition from operators to South America and within the region.

During 2016, domestic operations of our affiliate carriers based in the Spanish speaking countries (“SSC”, which includes Chile, Peru, Argentina, Colombia and Ecuador) continued to show growth in terms of traffic and remained profitable, in spite of the economic slowdown in some countries. Our SSC business in 2016 grew at a higher pace than in 2015; we increased capacity (as measured in ASKs) by 8.0% as compared to 2015, in line with our 8.0% growth in passenger traffic (as measured in RPKs), maintaining our load factors at 80.9%. However, yields in the SSC domestic markets continue to be under pressure, due largely to the decline of fuel prices, the depreciation of local currencies, (mainly the Argentinian Peso and the Colombian Peso, which depreciated by 59.2% and 11.0% respectively, during 2016), and increased competition in certain markets. The combination of these factors resulted in a 16.5% decline in revenue per ASK in US dollars as compared to 2015.

In our domestic operations in Brazil, we continued to adjust capacity in response to a weak demand environment. LATAM Airlines Brazil reduced capacity (as measured by ASKs) by 11.5%, while passenger traffic (as measured in RPKs) decreased by 10.7%, allowing for an improvement of 0.8 percentage points in load factors, which reached a healthy 82.3%. LATAM Airlines Brazil ended the year with an increase of 6.3% in our revenues per ASK in Brazilian Reais as compared to 2015. Moreover, during the fourth quarter of 2016, revenues per ASK (RASK) increased by 34.8% as compared to the same quarter of 2015, driven by a 14.8% increase in RASK in BRL as well as by the 14.3% average appreciation of the Brazilian Real.

In our international operations, we increased our passenger capacity by adding new destinations and strengthening the use of our regional hubs, consistent with the Company’s focus on network improvements. Brazilian international demand was also adversely affected by the weak macroeconomic conditions in the country. For this reason, LATAM Airlines Brazil reduced its capacity on routes with weaker demand, specifically between Brazil and the US, with a significant recovery in unit revenues as compared to 2015, especially in the second half of the year. On the other hand, the other affiliates added capacity on healthy routes, primarily from the Spanish Speaking Countries to destinations in the US and Europe. As a result, capacity in those markets (as measured by ASKs) increased by 5.6%, while traffic (as measured in RPKs) increased 7.4%, resulting in an improvement of 1.4 percentage points in load factors, which reached 86.2%, while the revenue per ASK (RASK) declined 9.9% in US dollars. A portion of the RASK decline is related to lower fuel prices and devaluation of local currencies during 2016 as compared to 2015.

Although 2016 was a challenging year, with weakening regional economies and recession in Brazil, devalued local currencies and high inflation rates in certain countries, LATAM continues to be the best positioned airline group in Latin America to respond to these challenging conditions, as we continue to improve our margins, generate cash flow and deleverage our balance sheet, showing the resilience of our business model. Our management has been proactive in addressing these economic challenges. We continue to pursue initiatives to further reduce costs, and we also successfully restructured our fleet commitments to adapt fleet deliveries to the current demand environment in the region, reaching historically low levels of fleet commitments for 2017.

### *Cargo Operations*

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

Finally, we use cargo yield, or revenue from cargo operations divided by RTKs, to measure the average amount that our customers pay to transport one ton of cargo one kilometer.

During 2016, cargo traffic decreased 8.7%, reflecting a challenging scenario in Latin American cargo markets mainly due to a strong decline in Brazilian imports affected by recessionary conditions and currency devaluation. However, Latin American exports remain at healthy levels, notwithstanding lower production in the salmon industry in Chile. Revenues per ATK declined by 8.5% as fares continued to be pressured by the competitive landscape and low fuel prices. The Company continued its rational and disciplined approach toward freighter capacity utilization, while focused on maximizing the belly utilization of our passenger fleet. Consistent with this approach, we are currently sub-leasing three of our 767-300Fs and one of our 777-200Fs to a third party operating in a different market. Our cargo capacity decreased by 5.3% in 2016, resulting in a load factor of 51.7%.

## Cost Structure

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

As an airline, we are subject to fluctuations in costs that are outside of our control, particularly fuel prices. At the end of 2015, fuel prices were relatively low, principally due to an aggregate excess supply from exporter countries (mainly OPEC members and Russia), which offset the lower production by shale oil companies in the U.S. In 2016, fuel prices followed the same trend largely due to the agreement reached by Iran and the largest economies regarding Iran's nuclear program, ending the penalties imposed on that country's oil exports. However, the concerns and speculations regarding the actual implementation of this agreement put pressure on fuel prices toward the end of 2016. LATAM Airlines Group has a hedging policy to protect medium term liquidity risk from fuel price increases, while participating of benefits from fuel price reduction. Cost of fuel is also affected by the amount of gallons we consume, which depends on the size of our operation, the efficiency of our fleet and the impact of our efficiency programs.

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

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

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

## Results of Operations

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

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

	Year Ended December 31,				
	2016	2015	2016	2015	
	(in US\$ millions, except per share and capital stock data)		As a percentage of total operating revenues		2016/2015 % change
Consolidated Results of Income by Function					
Operating revenues					
Passenger	7,877.7	8,410.6	87.6%	86.4%	(6.3%)
Cargo	1,110.6	1,329.4	12.4%	13.6%	(16.5%)
Total operating revenues	8,988.3	9,740.0	100.0%	100.0%	(7.7%)
Cost of sales	(6,967.0)	(7,636.7)	(77.5%)	(78.4%)	(8.8%)
Gross margin	2,021.3	2,103.3	22.5%	21.6%	(3.9%)
Other operating income	538.7	385.8	6.0%	4.0%	39.6%
Distribution costs	(747.4)	(783.3)	(8.3%)	(8.0%)	(4.6%)
Administrative expenses	(873.0)	(878.0)	(9.7%)	(9.0%)	(0.6%)
Other operating expenses	(373.7)	(324.0)	(4.2%)	(3.3%)	15.4%
Financial income	74.9	75.1	0.8%	0.8%	(0.3%)
Financial costs	(416.3)	(413.4)	(4.6%)	(4.2%)	0.7%
Share of profit of investments accounted for using the equity method	0.0	0.0	0.0%	0.0%	0.0%
Foreign exchange gains/(losses)	121.7	(467.9)	1.4%	(4.8%)	(126.0%)

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	Year Ended December 31,				
	2016 (in US\$ millions, except per share and capital stock data)	2015	2016 As a percentage of total operating revenues	2015	2016/2015 % change
Result of indexation units	0.3	0.6	0.0%	0.0%	(50.0%)
Other gains/(losses)	(72.6)	(55.3)	(0.8%)	(0.6%)	31.3%
Income (loss) before income taxes	273.9	(357.1)	3.1%	(3.5%)	(17.7%)
Income (loss) tax expense	(163.2)	178.4	(1.8%)	1.8%	(16.2%)
Net income (loss) for the period	110.7	(178.7)	1.3%	(1.7%)	(38.1%)
Income (loss) for the period attributable to the parent company's equity holders	69.2	(219.3)	0.8%	(2.3%)	(131.6%)
Income (loss) for the period attributable to non-controlling interests	41.5	40.5	0.5%	0.4%	2.2%
Net income (loss) for the period	110.7	(178.7)	1.3%	(1.7%)	(38.1%)
Earnings per share					
Basic earnings per share (US\$)	0.12665	(0.40193)	n.a.	n.a.	(131.5%)
Diluted earnings per share (US\$)	0.12665	(0.40193)	n.a.	n.a.	(131.5%)

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

### *Net Income*

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

### *Operating Revenues*

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

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

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

### *Cost of Sales*

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

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

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

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

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

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

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

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

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

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

### *Other Consolidated Results*

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

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

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

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

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

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

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

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

### *Out of Period Adjustments*

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

### **LATAM Airlines Group Financial Results Discussion: Year ended December 31, 2015 compared to year ended December 31, 2014.**

The following table sets forth certain income statement data for LATAM Airlines Group, for the year ended December 31, 2015, and December 31, 2014. For certain operating data for these periods, see “Item 3. Key Information—A. Selected Financial Data.”

	Year Ended December 31,				
	2015 (in US\$ millions, except per share and capital stock data)	2014	2015 As a percentage of total operating revenues	2014	2015/2014 % change
<b>Consolidated Results of Income by Function</b>					
Operating revenues					
Passenger	8,410.6	10,380.1	86.4%	85.8%	(19.0%)
Cargo	1,329.4	1,713.4	13.6%	14.2%	(22.4%)
Total operating revenues	9,740.0	12,093.5	100.0%	100.0%	(19.5%)
Cost of sales	(7,636.7)	(9,624.5)	(78.4%)	(79.6%)	(20.7%)
Gross margin	2,103.3	2,469.0	21.6%	20.4%	(14.8%)
Other operating income	385.8	377.6	4.0%	3.1%	2.2%
Distribution costs	(783.3)	(957.1)	(8.0%)	(7.9%)	(18.2%)
Administrative expenses	(878.0)	(980.7)	(9.0%)	(8.1%)	(10.5%)
Other operating expenses	(324.0)	(401.0)	(3.3%)	(3.3%)	(19.2%)
Financial income	75.1	90.5	0.8%	0.7%	(17.0%)
Financial costs	(413.4)	(430.0)	(4.2%)	(3.6%)	(3.9%)

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	Year Ended December 31,				
	2015	2014	2015	2014	2015/2014
	(in US\$ millions, except per share and capital stock data)		As a percentage of total operating revenues		% change
Share of profit of investments accounted for using the equity method	0.0	(6.5)	0.0%	(0.1%)	100.0%
Foreign exchange gains/(losses)	(467.9)	(130.2)	(4.8%)	(1.1%)	259.4%
Result of indexation units	0.6	0.1	0.0%	0.0%	500.0%
Other gains/(losses)	(55.3)	33.5	(0.5%)	0.3%	(265.0%)
Income (loss) before income taxes	(357.1)	65.2	(3.4%)	0.4%	(647.6%)
Income (loss) tax expense	178.4	(292.4)	1.8%	(2.4%)	39.0%
Net income (loss) for the period	(178.7)	(227.2)	(1.6%)	(2.0%)	(21.3%)
Income (loss) for the period attributable to the parent company's equity holders	(219.3)	(260.0)	(2.2%)	(2.2%)	(15.7%)
Income (loss) for the period attributable to non-controlling interests	40.5	32.8	0.4%	0.3%	23.5%
Net income (loss) for the period	(178.7)	(227.2)	(1.8%)	(1.9%)	(161.0%)
Earnings per share					
Basic earnings per share (US\$)	(0.40193)	(0.47656)	n.a.	n.a.	(15.7%)
Diluted earnings per share (US\$)	(0.40193)	(0.47656)	n.a.	n.a.	(15.7%)

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

### *Net Income / Loss*

Net loss for the year ended December 31, 2015 equaled US\$ 178.7 million, representing an improvement of US\$ 48.5 million from a net loss of US\$227.2 million in 2014. Net loss attributable to the parent company's shareholders improved to US\$ 219.3 million in 2015 from US\$260.0 million in 2014. Results for 2015 include an US\$ 80 million provision recognized during the fourth quarter of the year for aircraft redelivery costs associated with the 2016 phase-out of the Airbus A330 (for more information, see Financial Statements Note 27 (e) – Restructuring Costs). Results were also impacted by a foreign exchange loss of US\$ 467.9 million, (mainly resulting from the 49.0% depreciation of the Brazilian real between December 31, 2014 and December 31, 2015, and a US\$41.0 million charge related to the adjustment in the exchange rate of cash held in Venezuela), as compared to a foreign exchange loss of US\$130.2 million in 2014.

### *Operating Revenues*

Our total operating revenues decreased by 19.5% to US\$ 9,740.0 million for the year ended December 31, 2015, compared to revenues of US\$ 12,093.5 million in 2014. The 2015 decrease in operating revenues was attributable to a 19.0% decrease in passenger revenues, and a 22.4% decrease in cargo revenues. Passenger and cargo revenues accounted for 86.4% and 13.6% of total operating revenues (defined as revenues from passenger and cargo operations, plus other operating income) in 2015, respectively.

Our consolidated passenger revenues decreased by 19.0% to US\$8,410.6 million in 2015 from US\$10,380.1 million in 2014, largely as a result of a decrease of 21.4% in our unit revenues (RASK). Our capacity increased by 3.1%. The increase in capacity was a result of a 6.4% increase in our international operations and a 4.8% increase in our domestic Spanish-Speaking Countries operations, and was partially offset by a decrease of 2.5% in capacity in our domestic Brazil operations. Decreases in RASK reflect a decrease of 21.1% in consolidated yields, resulting from the slowdown in economic activity in the region and depreciation of local currencies, mainly in Brazil.

Cargo revenues decreased by 22.4%, to US\$1,329.4 million in 2015 from US\$1,713.4 million in 2014, as a result of a decrease of 1.9% in capacity (ATK) and a decrease of 20.9% in unit revenues (RATK). Capacity decreased in our cargo operations mainly as a result of a reduced freighter operation and the sub-lease of two additional aircraft to another company. Decreases in RATK reflect the still challenging cargo scenario in South America and in particular the weakness of the imports into the region, mainly to Brazil, which have affected our cargo yields. During 2015, cargo yields decreased by 11.8% as compared to 2014.



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### *Cost of Sales*

Cost of sales decreased by 20.7% to US\$7,636.7 million in the year ended December 31, 2015 from US\$9,624.5 million in 2014, mainly due to lower fuel expenses in the year. As a percentage of total operating revenues, cost of sales decreased from 79.6% in 2014 to 78.4% in 2015.

The table below presents cost of sales information for the fiscal year ended December 31, 2015 and 2014.

	Year Ended December 31,				2015/2014 % change
	2015 (in US\$ millions, except as otherwise stated)	2014	2015 As a percentage of total operating revenues	2014	
<b>Revenues</b>	9,740.0	12,093.5	100.0%	100.0%	(19.5%)
<b>Cost of sales</b>	(7,636.7)	(9,624.5)	(78.4%)	(79.6%)	(20.7%)
Aircraft Fuel	(2,651.1)	(4,167.0)	(27.2%)	(34.5%)	(36.4%)
Wages and Benefits	(1,553.8)	(1,751.3)	(16.0%)	(14.5%)	(11.3%)
Other Rental and Landing Fees	(1,109.8)	(1,327.2)	(11.4%)	(11.0%)	(16.4%)
Depreciation and Amortization	(934.4)	(991.3)	(9.6%)	(8.2%)	(5.7%)
Aircraft Rentals	(525.1)	(521.4)	(5.4%)	(4.3%)	0.7%
Aircraft Maintenance	(437.2)	(452.7)	(4.5%)	(3.7%)	(3.4%)
Passenger Services	(295.4)	(300.3)	(3.0%)	(2.5%)	(1.6%)
Other Costs of Sales	(129.9)	(113.3)	(1.3%)	(0.9%)	14.6%

The decrease in cost of sales was driven by largely lower aircraft fuel expenses, which decreased by 36.4% to US\$2,651.1 million in 2015 as a result of a 40.2% decrease in the full year average fuel price (excluding hedge losses). LATAM recognized a net loss of US\$239.4 million in fuel hedging in 2015, compared to a fuel hedge loss of US\$108.8 million in 2014. In 2015 the Company also recognized a US\$19.2 million hedge gain related to foreign currency contracts, which were recognized in the fuel cost line.

Depreciation and amortization decreased by US\$56.9 million, amounting to US\$934.4 million, which represents a decrease of 5.7% (despite the increase in modern owned aircraft in our fleet), mainly as a result of the phase-out of leased aircraft with the consequent decrease in maintenance depreciation and the positive impact of the depreciation of the Brazilian real in the year as compared to 2014.

Other rental and landing fees decreased by 16.4% to US\$1,109.8 million in 2015 from US\$1,327.2 million in 2014, mainly resulting from lower aeronautical rates (in dollars) as a result of the depreciation of local currencies.

Aircraft maintenance expenses decreased by 3.4%, from US\$452.7 million in 2014 to US\$437.2 million in 2015, mainly as a result of fleet renewal initiatives and reduced operations.

Aircraft rentals increased by 0.7% to US\$525.1 million in 2015 from US\$521.4 million in 2014 despite fewer leased aircraft, as a result of the incorporation of larger and more modern aircraft under operating leases (i.e. Boeing 787s), whereas returned aircraft were mainly been older and smaller models (i.e. Airbus A319, Dash8 Q400 aircraft).

Passenger service expenses decreased by 1.6%, to US\$295.4 million in 2015 compared to US\$300.3 million in 2014, despite a flat the number of passengers transported, mainly due a decrease in passenger compensations and the positive effect of the depreciation of the Brazilian real on supplier costs.

As a result of the above, gross margin (defined as operating revenue minus cost of sales) decreased by 14.8% from US\$2,469.0 million in 2014 to US\$2,103.3 million in 2015.

### *Other Consolidated Results*

Other operating income increased in 2015 by 2.2%, from US\$377.6 million in 2014 to US\$385.8 million in 2015, mainly due to an increase of US\$15.4 million in revenue from aircraft leased to third parties.



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Distribution costs decreased by 18.2% from US\$957.1 million in 2014 to US\$783.3 million in 2015, mainly as a result of lower commissions to agents (which decreased by 17.2% from US\$365.5 million to US\$302.8 million), related to lower revenues, lower sales fulfillments in some countries and depreciation of local currencies.

Administrative expenses decreased by 10.5% from US\$980.7 million in 2014 to US\$878.0 million in 2015, mainly due to a decrease of 11.3% in wages and benefits resulting from a 5.0% decline in average headcount and the positive impact of the depreciation of the Brazilian real and Chilean peso on wages denominated in those currencies.

Other operating expenses decreased by 19.2% from US\$401.0 million in 2014 to US\$324.0 million in 2015, mainly due to lower tax contingencies in 2015 as well as the reversal of certain tax contingencies established during 2014.

Financial income decreased to US\$75.1 million in the year ended December 31, 2015 from US\$90.5 million in 2014, mainly due to an increase in interest rates in Brazil and due to the depreciation of the local currency affecting the investments the Company held in Brazil and Argentina.

Financial costs (from non-financial activities) decreased by 3.9% to US\$413.4 million in 2015 from US\$430.0 million in 2014, mainly due to the recognition of US\$23 million in breakage costs related to the sale and leaseback of four of our Boeing 777 aircraft during the first quarter of 2014.

Exchange rate differences worsened, from a loss of US\$130.2 million in 2014 to a loss of US\$467.9 million in 2015, mainly resulting from the 49.0% depreciation of the Brazilian real between December 31, 2014 and December 31, 2015.

We obtained an income tax benefit for 2015 of US\$178.4 million, compared to an income tax expense of US\$292.4 million in 2014. This variation is partially explained by an accounting charge of US\$150.2 million in 2014 due to modifications made to the Chilean Tax System, consisting in a gradual increase of corporate income tax from 20% in 2014 to 27% by 2018. For more information, see “—Critical Accounting Policies—Deferred Taxes” below and Note 17 to our audited consolidated financial statements.

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

#### *General*

##### *Foreign currency transactions*

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

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

##### **(b) Transactions and balances**

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

##### **(c) Group entities**

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

- (i) The assets and liabilities of each consolidated statement of financial position are translated at the closing exchange rate on the date of the consolidated statement of financial position;
- (ii) The revenues and expenses of each results account are translated at monthly average rates; and
- (iii) All the resulting exchange differences are shown as a separate component in net equity.

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

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

### *Effects of Exchange Rate Fluctuations*

Our functional currency is the U.S. dollar in terms of the pricing of our products, composition of our balance sheet and effects on our results of operations. Most of our revenues (58% in 2016) are in U.S. dollars or in prices pegged to the U.S. dollar and a substantial portion of our expenses (56% in 2016) is denominated in dollars or pegged to the U.S. dollar, particularly fuel costs, landing and over-flight fees, aircraft rentals, insurance and aircraft components and supplies.

A substantial majority of our liabilities are denominated in U.S. dollars (70.6% as of December 31, 2016), including bank loans, certain air traffic liabilities, and certain amounts payable to our suppliers. As of December 31, 2016, 61.8% of our assets were denominated in U.S. dollars, principally aircraft, cash and cash equivalents, accounts receivable and other fixed assets. Substantially all of our commitments, including operating lease and purchase commitments for aircraft, are denominated in U.S. dollars.

Balance sheet imbalance denominated in currencies other than the functional currency of each specific entity creates a foreign exchange rate exposure that impacts our foreign exchange losses and gains due to exchange rate fluctuations. We recorded net foreign exchange losses of US\$467.9 million in 2015 and net foreign exchange gains US\$121.7 million gain in 2016, which are set forth in our consolidated statement of income under "Foreign Exchange gains/(losses)." For more information, see Notes 2.3 and 29 to our audited consolidated financial statements.

### **Critical Accounting Policies**

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

(a) Evaluation of possible losses through impairment of goodwill and intangible assets with an indefinite useful life.

As of December 31, 2016 goodwill amounted to US\$2,710.4 million (US\$2,280.6 million as of December 31, 2015), while intangible assets with an indefinite useful life comprised airport slots of US\$978.8 million (US\$817.0 million as of December 31, 2015), loyalty program assets of US\$326.3 million (US\$272.3 million as of December 31, 2015) and trade marks of US\$53.0 million at December 31, 2015.

At least once per year the Company verifies whether goodwill and intangible assets with an indefinite useful life have suffered any losses through impairment. For the purposes of this evaluation, the Company has identified two cash-generating units (CGUs): "Air transport" and "Multiplus loyalty and coalition program." The book value of goodwill assigned to each CGU as of December 31, 2016, amounted to US\$2,176.7 million and US\$533.7 million (US\$1,835.1 million and US\$445.5 million as of December 31, 2015), which included intangible assets with undefined useful life.

	Air Transport CGU		Coalition and loyalty Program Multiplus CGU	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
	(in US\$ million)			
Airport Slots	978.8	817.0	—	—
Trade marks <sup>(1)</sup>		53.0	—	—
Loyalty program	—	—	326.3	272.3

(1) At December 31, 2016, the Company has changed the estimated useful life of the brands from an indefinite useful life to a five-year period (see Note 15 to our audited consolidated financial statements).

The recoverable value of these cash-generating units (CGUs) has been determined based on calculations of their value in use. The principal assumptions used by the management include: growth rate, exchange rate, discount rate, fuel prices, and other economic assumptions. The estimation of these assumptions requires significant judgment by management, as these variables feature inherent uncertainty; however, the assumptions used are consistent with Company's internal planning. Therefore, management evaluates and updates these estimates on an annual basis, in light of conditions that affect these variables. The principal assumptions used, as well as the corresponding sensitivity analyses, are shown in Note 16 to our audited consolidated financial statements.

(b) Useful life, residual value, and impairment of property, plant, and equipment

The depreciation of assets is calculated based on a straight-line model, except for certain technical components depreciated on cycles and hours flown. Useful lives are reviewed on an annual basis according with the Company's future economic benefits associated with them.

Changes in circumstances such as: technological advances, business model, planned use of assets or capital strategy may render the useful life different to the lifespan estimated. When it is determined that the useful life of property, plant, and equipment must be reduced, as may occur in line with changes in planned usage of assets, the difference between the net book value and estimated recoverable value is depreciated, in accordance with the revised remaining useful life.

Residual values are estimated in accordance with the market value that these assets will have at the end of their useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, once a year. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.8 to our audited consolidated financial statements).

(c) Recoverability of deferred tax assets

Deferred taxes are calculated in accordance with the liability method, applied over temporary differences that arise between the fiscal base of assets and liabilities, and their book value. Deferred tax assets for tax losses are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company makes tax and financial projections to evaluate the realization of our deferred tax asset over the course of time. Additionally, these projections are tested to be consistent with those used to measure other long term assets. As of December 31, 2016 the company recognized deferred tax assets amounting to US\$384.6 million (US\$376.6 million at December 31, 2015), and had ceased to recognize deferred tax assets for tax losses amounting to US\$115.8 million (US\$15.5 million at December 31, 2015) (see Note 18 to our audited consolidated financial statements).

(d) Air tickets sold that are not actually used.

The Company treats advance sales of tickets as deferred revenue. Revenue from ticket sales is recognized in the income statement when the service is provided or when tickets expires unused, reducing corresponding deferred revenue. The Company evaluates on a monthly basis the probability that tickets will expire unused, based on the history of ticket utilization. Changes in this probability would have an impact on our revenue in the year in which the change occurs and in future years. As of December 31, 2016, deferred revenue associated with air tickets sold amounted to US\$1,535.2 million (US\$1,223.9 million as of December 31, 2015). As of December 31, 2016, we estimate that a hypothetical change of one percentage point in passenger behavior regarding to ticket usage, (that is, if during the 6 months after a sale the probability of utilization were 89% rather than 90%), would have a revenue impact of up to US\$20.0 million.

(e) Valuation of loyalty points and kilometers issued to loyalty program members, pending usage.

As of December 31, 2016 and 2015, the Company operated the following loyalty programs: LATAM Pass, LATAM Fidelidade, and Multiplus, with the objective of enhancing customer loyalty by offering points or kilometers (see Note 22 to our audited consolidated financial statements).

When kilometers and points are redeemed for products and services other than the services provided by the Company, revenue is recognized immediately; when they are redeemed for air tickets issued by LATAM Airlines Group S.A. and affiliates, revenue is deferred until the transport service is provided or the corresponding tickets expire.

Deferred revenue from loyalty programs at the closing date corresponds to the valuation of unutilized points and kilometers issued to loyalty program members, adjusted for redemption probability.

According to IFRIC-13, the value of kilometers and points that the Company estimates are not likely to be redeemed ("breakage"), is recognized proportionally during the period in which the remaining kilometers or points are expected to be redeemed. The Company uses statistical models to estimate the breakage, based on historical redemption patterns. Changes in breakage would have a significant impact on our revenue in the year in which the change occurs and in future years.

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As of December 31, 2016, deferred revenue associated with the LATAM Pass loyalty program amounted to US\$896.2 million (US\$973.3 million at December 31, 2015). As of December 31, 2016 a hypothetical change of 1% in the probability of usage would result in an impact of approximately US\$30.6 million (US\$30.0 million as of December 31, 2015). Deferred revenue associated with the LATAM Fidelidade and Multiplus loyalty programs amounted to US\$392.1 million (US\$452.3 million as of December 31, 2015). As of December 31, 2016 a hypothetical change of 2% in the probability of usage in these programs would result in an impact of approximately US\$14.6 million (US\$11.7 million as of December 31, 2015).

The fair value of kilometers is determined by the Company based on its best estimate of the price at which they have been sold in the past. As of December 31, 2016 a hypothetical change of 1% in the fair value of unused kilometers would result in an impact of approximately US\$8.4 million (US\$8.8 million as of December 31, 2015).

### (f) Required provisions and their valuation as necessary

Known contingencies are recognized when the Company has an effective legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. The Company applies professional judgment, experience, and knowledge to use available information to determine these values, in light of the specific characteristics of known risks. This process facilitates the early assessment and valuation of potential risks in individual cases or in the development of contingencies.

### (g) Investment in subsidiary (TAM)

Management has applied its judgment in determining that LATAM Airlines Group S.A. controls TAM S.A. and its affiliates, for accounting purposes, and has therefore consolidated the financial statements of TAM S.A. and its affiliates.

The grounds for this decision are that LATAM issued ordinary shares in exchange for the majority of circulating ordinary and preferential shares in TAM, entitling LATAM to substantially all economic benefits generated by TAM, and thus exposing it to substantially all risks relating to the operations of TAM. This exchange aligns the economic interests of LATAM and all of its shareholders, including the controlling shareholders of TAM, thus insuring that the shareholders and directors of TAM shall have no incentive to exercise their rights in a manner that would be beneficial to TAM but detrimental to LATAM. Furthermore, all significant actions necessary for the operation of the airlines require affirmative votes by the controlling shareholders of both LATAM and TAM.

Since the integration of LAN and TAM, the most critical airline operations in Brazil have been managed by the CEO of TAM while global activities have been managed by the CEO of LATAM, who is in charge of the operation of the LATAM Group as a whole and reports to the LATAM Board. The CEO of TAM functionally reports to the CEO of LATAM.

The CEO of LATAM also evaluates the performance of LATAM Group executives including the CEO of TAM and, together with the LATAM Board, determines compensation. Although Brazilian law currently imposes restrictions on the percentages of voting rights that may be held by foreign investors, LATAM believes that the economic basis of these agreements meets the requirements of accounting standards in force, and that the consolidation of the operations of LAN and LATAM is appropriate.

These estimates were made based on the best information available relating to the matters analyzed. In any case, it is possible that events that may take place in the future could lead to their modification in future reporting periods, which would be made in a prospective manner.

## Recently Issued Accounting Pronouncements

(a) Accounting pronouncements with implementation effective from January 1, 2016:		Date of issue	Mandatory Application: Annual periods beginning on or after
(i) Standards and amendments			
Amendment to IFRS 11: Joint arrangements.	Accounting for acquisitions of interests in joint operations	May 2014	January 1, 2016
Amendment to IAS 16: Property, plant and equipment, and IAS 38: Intangible assets.	Clarification of acceptable methods of depreciation and amortization	May 2014	January 1, 2016

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Amendment to IAS 27: Separate financial statements.	Equity Method in Separate Financial Statements	August 2014	January 1, 2016
Amendment IAS 1: Presentation of Financial Statements.	Disclosure initiative	December 2014	January 1, 2016
Amendment to IFRS 10: Consolidated financial statements, IFRS 12: Disclosure of interests in other entities and IAS 28: Investments in associates and joint ventures.	Investment Entities: Applying the consolidation exception	December 2014	January 1, 2016
Improvements to International Financial Reporting Standards (2012-2014 cycle):		September 2014	January 1, 2016
IFRS 5 Non-current assets held for sale and discontinued operations.	Changes in methods of disposal.		
IFRS 7 Financial instruments: Disclosures.	Servicing contracts. Applicability of the amendments to IFRS 7 to condensed interim financial statements		
IAS 19 Employee benefits.	Discount rate: regional market issue.		
IAS 34 Interim financial reporting.	Disclosure of information 'elsewhere in the interim financial report'.		

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

(b) Accounting pronouncements not yet in force for financial years beginning on January 1, 2016 and for which early adoption has not been effected :

		Date of issue	Mandatory Application: Annual periods beginning on or after
(i) Standards and amendments			
Amendment to IAS 7: Statement of Cash Flows.	Disclosure initiative	January 2016	January 1, 2017
Amendment to IAS 12: Income Taxes.	Recognition of Deferred Tax Assets for Unrealised Losses	January 2016	January 1, 2017
IFRS 9: Financial instruments.	Disclosure initiative	December 2009	January 1, 2018
Amendment to IFRS 9: Financial instruments.	Novation of derivatives and continuation of hedge accounting	November 2013	January 1, 2018
IFRS 15: Revenue from contracts with customers (1).	Implementation	May 2014	January 1, 2018
Amendment to IFRS 15: Revenue from contracts with customers.	Clarifications	April 2016	January 1, 2018
Amendment to IFRS 2: Share-based payments	classification and measurement of share-based payment transactions	June 2016	January 1, 2018
Amendment to IFRS 4: Insurance contracts.	Pendiente Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 2016	January 1, 2018
Amendment to IFRS 40: Investment property	Transfers of investment property	December 2016	January 1, 2018
IFRS 16: Leases (2).	Disclosure initiative	January 2016	January 1, 2019
Amendment to IFRS 10: Consolidated financial statements and IAS 28 Investments in associates and joint ventures.	Sale or contribution of assets between an Investor and its associate or joint venture	September 2014	To be determined

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(b) Accounting pronouncements not yet in force for financial years beginning on January 1, 2016 and for which early adoption has not been effected :		Date of issue	Mandatory Application: Annual periods beginning on or after
(ii) Improvements			
Improvements to International Financial Reporting Standards (2012-2014 cycle):		December 2016	
IFRS 1: First-time adoption of international financial reporting standards.	Deletion of short-term exemptions for first-time adopters		January 1, 2018
IFRS 12 Disclosure of interests in other entities.	Clarification of the scope of the Standard		January 1, 2017
IAS 28 investments in associates and joint ventures.	Measuring an associate or joint venture at fair value		January 1, 2018
(iii) Interpretations			
IFRIC 22: Foreign currency transactions and advance consideration	Disclosure initiative	December 2016	January 1, 2018

- (1) The Company's management believes that the adoption of the standards, amendments and interpretations described above but not yet effective would not have had a significant impact on the Company's consolidated financial statements in the year of their first application, except for IFRS 15 and IFRS 16. IFRS 15 – "Revenue from Contracts with Customers" supersedes the standard for revenue recognition currently used by the Company, i.e. IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 supersedes the following standards and interpretations: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers; and SIC-31 Revenue—Barter Transactions Involving Advertising Services. We are currently evaluating how the adoption of the revenue recognition standard will impact our Consolidated Financial Statements. Interpretations are on-going and could have a material impact on our implementation. We currently believe the adoption will not have a significant impact on passenger and cargo revenue recognition. However, the impact on revenue and liability for our frequent flyer program is still being analyzed.
- (2) IFRS 16 – "Leases" adds important changes in the accounting for lessees by introducing a similar treatment to financial leases for all operating leases with a term of more than 12 months. This means, in general terms, that an asset should be recognized for the right to use the underlying leased assets and a liability representing its present value of payments associated with the agreement. Monthly lease payments will be replaced by asset depreciation and a financial cost on the income statement. We are currently evaluating how the adoption of the leases recognition standard will impact our Consolidated Financial Statements. Interpretations are on-going and could have a material impact on our implementation. Currently, we expect that the adoption of the new lease standard will have a material impact on our consolidated balance sheet due to the recognition of right-of-use assets and lease liabilities principally for certain leases currently accounted for as operating leases.

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

### IFRS/Non-IFRS Reconciliation

We use "Cost per ASK-equivalent" and "Cost per ASK-equivalent excluding fuel price variations" in analyzing operating expenses on a per unit basis. "ASKs" (available seat kilometers) measures the number of seats of capacity available for the transportation of passengers multiplied by the kilometers flown. "ASK-equivalent" includes capacity for both passenger and cargo equivalent tons multiplied by the kilometers flown. The figure is obtained by adding passenger ASKs and the quotient of cargo ATKs (available ton kilometers) divided by 0.095. To obtain our unit costs, which are used by our management in the analysis of our results, we divide our "total costs" by our total ASK-equivalents. "Total costs" are calculated by starting with operating expenses as defined under IFRS and making certain adjustments for interest costs and other revenues. The cost component is further adjusted to obtain "costs per ASK-equivalents excluding fuel price variations," in order to remove the impact of changes in fuel prices for the year. "Cost per ASK-equivalent" and "Cost per ASK-equivalent excluding fuel price variations" do not have a standardized meaning, and as such may not be comparable to similarly titled measures provided by other companies. These metrics should not be considered in isolation or as a substitute for operating expenses or as indicators of performance or cash flows or as a measure of liquidity.

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The table below reconciles our operating expenses (as defined by IFRS) for 2016, 2015 and 2014 to costs used in the calculation of “Cost per ASK-equivalent” and “Cost per ASK-equivalent excluding fuel price variations” for such periods.

	2016	2015	2014
<b>Cost per ASK-equivalent</b>			
Operating expenses (US\$ thousands)	8,959,185	9,611,907	11,957,780
+ Interest expense (US\$ thousands)	416,336	413,357	430,034
– Interest income (US\$ thousands)	74,949	75,080	90,500
Divided by system’s ASK-equivalents (million)	205,537.5	208,722.5	206,197.9
= Cost per ASK equivalent (US\$ cents)	4.52	4.77	5.96
<b>Cost per ASK-equivalent excluding fuel price variations</b>			
Operating expenses (US\$ thousands)	8,959,185	9,611,907	11,957,780
+ Interest expense (US\$ thousands)	416,336	413,357	430,034
– Interest income (US\$ thousands)	74,949	75,080	90,500
– Aircraft fuel (US\$ thousands)	2,056,643	2,651,067	4,167,030
Divided by system’s ASK equivalents (millions)	205,537.5	208,722.5	206,197.9
= Cost per ASK-equivalent excluding fuel price variations (US\$ cents)	3.52	3.50	3.94

## Other Operating Measures

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

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

	2016	2015	2014
Passenger Revenues (US\$ million)	7,877.72	8,410.61	10,380.12
ASK (million)	134,967.69	134,167.14	130,200.94
<b>Passenger Revenues/ASK (US\$ cents)</b>	5.84	6.27	7.97
Cargo Revenues (US\$ million)	1,110.63	1,329.43	1,713.38
ATK (million)	6,704.13	7,082.76	7,219.71
<b>Cargo Revenues/ATK (US\$ cents)</b>	16.57	18.77	23.73

## Seasonality

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

## B. Liquidity and Capital Resources

LATAM's cash and cash equivalents totaled US\$949.3 million as of December 31, 2016, US\$753.5 million as of December 31, 2015 and US\$989.4 million as of December 31, 2014. Additionally, the Company had short term marketable securities totaling US\$537.0 million as of December 31, 2016, US\$606.4 million as of December 31, 2015 and US\$544.4 million as of December 31, 2014. In the aggregate, LATAM's cash and cash equivalents and marketable securities totaled US\$1,486.3 million as of December 31, 2016, US\$1,361.1 million as of December 31, 2015 and US\$1,533.8 million as of December 31, 2014.

The US\$126.4 million increase in our cash and cash equivalents and marketable securities from 2015 to 2016 is the result of a reduction in the cash flow from operation that was offset by a US\$560 million inflow from pre-delivery payments during 2016 and the subscription by Qatar Airways of a capital increase of US\$608.5 million into LATAM.

The US\$173.9 million decrease in our cash and cash equivalents and marketable securities from 2014 to 2015 is the result of positive cash flows from operations of US\$1,715.5 million used to pay financial obligations and investment commitments, and to initiatives including LATAM's liability management of its TAM notes together with the financing of its arriving fleet through the issuance of Enhanced Equipment Trust Certificates ("EETC"). In June 2015, LATAM executed a liability management transaction in which the Company redeemed US\$300.0 million senior unsecured notes issued by TAM's subsidiary, Tam Capital 2 Inc. and issued LATAM's inaugural US\$500.0 million senior unsecured notes. Additionally in June 2015, LATAM issued Enhanced Equipment Trust Certificates ("EETC") for an aggregate face amount of approximately US\$1,020.8 million to finance 17 new aircraft deliveries. LATAM recognized the EETCs as debt upon delivery of each Aircraft. At December 31, 2015 the escrow of proceeds from the issuance of the EETC amounted US\$345.1 corresponding to five aircraft received during 2016 and one to be received in 2016.

### Cash position and liquidity

The following table provides a summary of our cash flows from operating activities, investing activities and financing activities for the years ended December 31, 2016, 2015 and 2014 and our total cash position as of December 31, 2016, 2015 and 2014.

	2016	2015	2014
	(in US\$ millions)		
Net cash flows from operating activities	992.1	1,715.5	1,331.4
Net cash flow from (used in) investing activities	(443.0)	(1,739.1)	(899.1)
Net cash flows from (used in) financing activities	(396.3)	(128.4)	(1,320.2)
Effects of variation in the exchange rate on cash and cash equivalents	43.0	(83.9)	(107.6)
Cash and cash equivalents at the beginning of the year	753.5	989.4	1,984.9
Cash and cash equivalents at the end of the year	949.3	753.5	989.4

In addition to cash and marketable securities LATAM has access to short term credit lines. As of December 31, 2016, LATAM had working capital uncommitted credit facilities for a total amount of US\$1,193.0 million, of which US\$830.0 million was drawn as of December 31, 2016, and committed credit lines in the form of a revolving credit facility ("RCF") for an amount of US\$325.0 million, of which \$0 was drawn. The Company's plan is to maintain the RCF undrawn, in line with maintaining adequate levels of liquidity considering the current volatile market conditions. The RCF is secured by spare parts, engines, and aircraft.

### Net cash flows from operating activities

Cash from operations is derived primarily from providing air passenger and cargo transportation to customers. Operating cash outflows are primarily related to expenses of airline operations, including fuel consumption. Net cash inflows from operating activities in 2016 decreased US\$723.3 million, or 42.2%, from US\$1,715.5 million, mainly due to changes in working capital.

The main impacts on working capital were the reduction in prepayments of credit card receivables in Brazil in the amount of US\$255.4 and the US\$ 108.0 million related to the non-payment in 2015 of the performance bonuses of 2014. Other impacts include the appreciation of the Brazilian Real contingencies, and contingencies reflected the payment of a guarantee to continue certain legal proceedings at the tax courts in Brazil.

Net cash inflows from operating activities in 2015 increased US\$384.1 million, or 28.8%, from US\$1,331.4 million, mainly driven by a significant reduction in operating costs due to lower fuel prices, as well as by the Company's ongoing cost savings initiatives. Net cash from operations was negatively affected by fuel hedging, hedging margin guarantees and other guarantees by US\$ 184.6 million (for more information see to Note 6 – Cash and Cash Equivalents of our audited consolidated financial statements).



## Net cash flow used in investing activities

Net cash used in investing activities in 2016 decreased US\$1,296.1 million from US\$1,739.1 million in 2015 to US\$443.0 million in 2016, due to a reduction in purchases of property, plant and equipment. This reduction resulted mainly from a US\$559.5 million inflow from pre delivery payments during 2016, as opposed to an outflow of US\$128.4 million during 2015. In addition, during 2016, there was a net inflow of US\$263.0 million from sale and purchase of debt instruments of other entities, in contrast to an outflow of US\$184.7 million during 2015.

Net cash used in investing activities in 2015 increased US\$840.0 million from US\$899.1 million in 2014 to US\$1,739.1 million in 2015, due primarily to a one-time impact related to the sale and leaseback of four B777 aircraft recognized during 2014 as an asset sale of US\$510.5 million. Capital expenditures for aircraft increased US\$127.0 million in 2015 compared to 2014, including costs to acquire eight narrow body aircraft and four wide body aircraft, compared to nine narrow body aircraft and three wide body aircraft in 2014.

## Net cash flows used in financing activities

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

In 2015, net cash used in financing activities totaled US\$128.4 million, a decrease of US\$1,191.8 million from the US\$1,320.2 million in cash used in financing activities in 2014. This reduction reflects the conclusion of the liability restructuring and reduction plan executed during the same period in 2014, whereby the Company reduced its financial obligations by approximately US\$ 1,049.0 million.

## Sources of financing

### *Long term*

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

From time to time in the past, we have considered, and may consider in the future, other forms of financing including securitization of ticket receivables or the securitization of fleet and engines or the issuance of additional debt or equity securities.

### *Short term*

We have generally been able to arrange for short-term loans with local Chilean and international banks when we have needed to finance working capital expenditures or increase our liquidity. As of December 31, 2016, we maintained US\$ 1,518 million in short-term credit lines with both local and foreign banks, including US\$325 million of committed credit lines of which \$0 was drawn as of December 31, 2016.

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

## Capital expenditures

Our capital expenditures are related to the acquisition of aircraft, aircraft-related equipment, IT equipment, support infrastructure and the funding of pre-delivery deposits. LATAM’s capital expenditures totaled US\$694.4 million in 2016, US\$1,569.7 million in 2015 and US\$1,440.4 million in 2014, and purchases of intangible assets totaled US\$88.6 million in 2016, US\$52.5 million in 2015 and US\$55.8 million in 2014. See “—Sources of financing” above.

The following chart sets forth the Company's estimated capital expenditures for 2017, 2018 and 2019 calendar years:

	2017	Estimated capital expenditures by year, as of December 31, 2016		
		2018	2019	2020
		(in US\$ millions)		
Fleet Commitments (1)	469	555	1,589	1,503
PDPs (2)	135	269	(41)	(18)
Other expenditures (3)	524	504	530	531

- (1) The amount of Fleet Commitments presented includes all the committed deliveries with estimates regarding (i) changes in scheduled delivery dates; (ii) conversion of certain aircraft types and (iii) aircraft of which we do not expect to take delivery, regardless of the financing the aircraft will have upon arrival, thus representing the sum of aircraft capex and future sale and leasebacks.
- (2) Represents pre-delivery payments made by LATAM, or inflows received by LATAM after the delivery of the aircraft is made.
- (3) Other Expenditures include expenditures on spare engines and parts, maintenance of on balance fleet, projects and others, plus purchases of intangible assets.

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

LATAM has registered the trademarks "LATAM," "LATAM Airlines Chile," "LATAM Airlines Peru," "LATAM Airlines Argentina" and "LATAM Airlines Ecuador" with the trademark office in Chile, Peru, Argentina and Ecuador, respectively. We license certain brands, logos and trade dress under the alliance agreement with oneworld® related to LATAM's alliance. As long as LATAM is a member of oneworld®, it will have the right to continue to use current logos on its aircraft.

TAM holds or has filed registration applications for 216 trademarks before the Instituto Nacional da Propriedade Industrial ("INPI"), the body with jurisdiction for registering trademarks and patents in Brazil, and 100 trademarks before the bodies with jurisdiction for registering trademarks in other countries in which TAM operates. Currently, TAM is aware of one opposition filed by a third party challenging one of these applications.

### D. Trend Information

For 2017, LATAM expects total passenger ASK growth to be between 0% and 2%. International passenger ASK growth for full year 2017 is expected to be between 0% and 2%. LATAM Airlines Brazil's domestic passenger ASKs in the Brazilian market are expected to decrease between 2% and 0%. ASKs in Spanish-speaking countries are expected to increase by approximately 4% to 6%.

Regarding cargo operations, LATAM expects cargo ATKs to decrease between 12% and 10% for full year 2017, driven by the withdrawals of two of four Boeing 777s-200F, which are currently classified as held for sale, and, two Boeing 767-300F, during 2017.

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In a context of increasing competitive pressures from different players across the region, including low cost operators, it is our goal to continue to increase the efficiency of our operations, allowing us to provide the best and most convenient options for our customers with the distinctive customer experience LATAM passengers expect. In this context, LATAM has undertaken an important project to introduce a new travel model for domestic operations in the six domestic markets where we operate in South America, in order to address the changing dynamics of customers and the industry. The main objective of this project is to increase our competitiveness and ensure the sustainability of our domestic operations business model in the long term. For more information on this new travel model, see “Item 4. Information on the Company—B. Business Overview—Passenger Operations—Business Model for Domestic Operations”.

Over the last year, we have implemented significant changes with the objective of transforming LATAM into a simpler, leaner and more efficient group. We have made these changes amidst a challenging and volatile macroeconomic scenario in the region. At the same time, the Company continues to strengthen its network, taking advantage of specific opportunities for profitable growth in LATAM’s South American Spanish-speaking markets (SSC, which include Chile, Peru, Argentina, Colombia and Ecuador). During 2016, we inaugurated new routes connecting our Lima hub with secondary cities (mainly in Argentina), as well as launched a new flight from Lima to Washington, DC. In addition, in October 2016 we launched the route between São Paulo and Johannesburg, becoming the first airline in Latin America to connect our region with a country in the African continent. We have also announced the launch of our longest non-stop flight (between Santiago, Chile and Melbourne, Australia), starting in October 2017.

During 2016, we also announced joint business agreements with American Airlines and British Airways and Iberia, subject to regulatory approval in different countries, which will allow our passengers access to a wider network, more flight options with better connection times, more competitive fares to destinations not served by LATAM, increased potential for developing new routes and adding more direct flights to new destinations, as well as to destinations already served by LATAM, among other initiatives.

In response to the macroeconomic slowdown in South America and the resulting deceleration in growth of demand for air travel, we are currently working on rightsizing our fleet, targeting a decrease of US\$2.0 to US\$3.0 billion in our expected fleet assets for 2018 through postponements, cancellations, redeliveries and asset sales. During 2016, the Company achieved a total asset reduction of US\$ 2.2 billion and expects to continue with further adjustments for the upcoming years.

Regarding fuel, we will continue to use fuel hedging programs and fuel surcharge mechanisms in both our passenger and cargo businesses to help minimize the impact of short-term movements in crude oil prices. LATAM has hedged approximately 33%, 45% and 19% of its estimated fuel consumption for the first, second and third quarters of 2017 respectively.

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

As of December 31, 2016 the Company had 102 aircraft (of which 19 are obligations of TAM and 83 are obligations of LATAM) and 10 aircraft engines under operating leases. These operating leases provide us with flexibility to adjust our fleet to any demand volatility that may affect the airline industry and therefore we consider such arrangements to be of great value to our strategy and financial performance. The total future lease payments related to our operating leases as of December 31, 2016 was US\$ 3,255 million, for all remaining periods through maturity (the latest of which expires in 2028). See “—F. Long Term Indebtedness—Tabular Disclosure of Contractual Obligations.”

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

LATAM operates 12 aircraft under tax leasing structures. These methods involve the creation of special purpose entities that acquire aircraft with bank and third-party financing. Under IFRS, these aircraft are shown in the consolidated statement of financial position as part of “Property, plant and equipment” and the corresponding debt is shown as a liability. Of LATAM’s total tax leases, nine TAM tax leases are classified as operating leases for accounting purposes as of December 31, 2016.

As of December 31, 2016, we are not aware of any event, lawsuit, commitment, trend or uncertainty that may result in, or is reasonably likely to result in, the termination of the operating leases. See Note 33 to our audited consolidated financial statements for a more detailed discussion of these commitments.

## **F. Long Term Indebtedness**

### Long Term Indebtedness

#### Secured Debt

##### *Aircraft Debt*

1. ECA/EX-IM: Bank guaranteed bonds like Export-Import Bank of the United States (“EX-IM Bank”) and Export Credit Agency (“ECA”) guaranteed loan debt, as of December 31, 2016, was US\$ 3,269 million. In general, ECA and EX –IM financing have a 12-year repayment profiles.

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2. Enhanced Equipment Trust Certificates (“EETC”): In June 2015, LATAM issued the first EETC in Latin America for an aggregate face amount of approximately US\$ 1,021 million to finance 17 new aircraft deliveries composed by 11 Airbus A321-200, 2 Airbus A350-900 and 4 Boeing 787-9, with delivery dates from July 2015 through March 2016. The offering is comprised of Class A Certificates maturing in November 2027 and Class B Certificates maturing in November 2023. The annual interest rate for Class A and B Certificates are 4.20% and 4.50%, respectively. As of December 31, 2016, the EETC debt was US\$ 962 million.
3. Bank Commercial Loans: As of December 31, 2016, bank commercial loans debt was US\$ 1,697 million.
4. Tax Leases: LATAM has secured debt with tax leases through Japanese Leases with a call option (“JOLCO”) and Spanish Leases (“SOL”) structures. As of December 31, 2016, tax leases were US\$ 108 million.

### *Non Aircraft Debt*

1. 2013-1 Series Note: Regarding non-aircraft debt, LATAM issued a securitized bond for an amount of US\$ 450 million in November 2013 with a seven year term and a two year interest-only period (the “2013-1 Series Note”). This bond is backed by future flows of credit card sales of LATAM Airlines in the United States and Canada. The coupon is 6.0% fixed with quarterly payments. As of December 31, 2016, the 2013-1 Series Note was US\$ 368 million.
2. Bank Commercial Loans: As of December 31, 2016, bank commercial loans debt was US\$ 52 million.

### *Others*

1. Pre-Delivery Payments (“PDP”) financing: As of December 31, 2016, PDP financing outstanding amount was US\$ 214 million.
2. Revolving Credit Facility (“RCF”): In March 2016, LATAM structured a Revolving Credit Facility secured by aircraft, engines, spare parts and supplies for a total amount available of US\$ 325 million. The facility was disbursed for an initial amount of US\$ 275 million increasing up to US\$ 325 million by November, 2016. On December 2016, the facility was prepaid and remains fully available to be drawn.
3. Multiplus Shares Backed Loan (“Margin Loan”): In September 2016, TAM S.A. structured a financing amounting to US \$ 200 million with the guarantee of approximately 18% ownership of the shares of Multiplus S.A., percentage subject to adjustment depending on the value of the stock as collateral. As of December 31, 2016, the Multiplus Shares Backed Loan outstanding amount was US\$ 200 million.

## Unsecured Debt

1. LATAM 2020 Notes: On June 9, 2015 LATAM Airlines Group S.A. issued and placed on the international market an unsecured long-term bond in the amount of US\$ 500 million maturing 2020, at interest rate of 7.25% per year. As of December 31, 2016, the LATAM 2020 Notes outstanding amount was US\$ 492 million.
2. TAM Capital 2017 Notes: As of December 31, 2016, TAM has a senior note outstanding US\$ 300 million due in 2017, with a fixed interest rate of 7.375% payable semi-annually, issued by TAM Capital Inc. and guaranteed on a senior unsecured basis by TAM S.A. and TAM Linhas Aereas. These notes are listed on the Euro MTF market of the Luxembourg Stock Exchange. On December 18, 2007, TAM completed an exchange offer pursuant to which 99.2% of the holders exchanged these notes for new notes that are registered under the Securities Act and otherwise have identical terms. As of December 31, 2016, the TAM Capital 2017 Notes outstanding amount was US\$ 304 million.
3. TAM Capital 2021 Notes: As of December 31, 2016, TAM has a senior note outstanding US\$ 500 million due in 2021, with a fixed interest rate of 8.375% payable semi-annually, issued by TAM Capital 3 Inc. and guaranteed on a senior unsecured basis by TAM S.A. and TAM Linhas Aereas. As of December 31, 2016, the TAM Capital 2021 Notes outstanding amount was US\$ 513 million.
4. Commercial Bank Loans: As of December 31, 2016, unsecured Bank Commercial loans debt was US\$ 426 million.

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As of December 31, 2016, the average interest rate of our debt was 4.01%. Out of the total debt, 63.1% accrues interest at a fixed rate (either through a stated fixed interest rate or through the use of interest rate swap agreements) or is subject to interest rate caps.

As of December 31, 2016, LATAM had US\$ 1,773 million in current debt liabilities. Of this amount, US\$ 228 million consisted of short-term debt, which represents 13% of our total current debt liabilities.

Various EX-IM Bank loans signed by LATAM for the financing of Boeing 767, 767 freighter, 777 freighter and 787 aircraft contain financial covenants and other restrictions, including restrictions in shareholder composition and disposal of assets. As of December 31, 2016, we also had purchase obligations totaling US\$ 7.0 billion, with deliveries between 2017 and 2022, as set forth below:

- Airbus A320-Family, passenger aircraft deliveries: 54
- Wide-body passenger aircraft deliveries (which include the Airbus A350 900XWB, the Airbus A350 1000XWB, the Boeing 787-8, and the Boeing 787-9): 28

### *Tabular Disclosure of Contractual Obligations*

The following table sets forth our material expected obligations and commitments as of December 31, 2016:

(US\$ in millions)	Payments due by period, as of December 31, 2016				
	Total(2)	Less than 1 year	1-3 years	3-5 years	More than 5 years
Financial debt obligations(1)	US\$ 8,714	US\$ 1,773	US\$ 2,241	US\$ 2,544	US\$2,156
Operating lease obligations	US\$ 3,255	US\$ 533	US\$ 838	US\$ 621	US\$1,263
Fleet Commitments(3)	US\$ 6,966	US\$ 469	US\$ 2,144	US\$ 4,002	US\$ 351
<b>TOTAL</b>	<b>US\$ 18,935</b>	<b>US\$ 2,775</b>	<b>US\$ 5,223</b>	<b>US\$ 7,167</b>	<b>US\$ 3,770</b>

- (1) Financial debt obligations reflect principal payments on outstanding debt obligations, including aircraft debt, senior notes issued by LAN and TAM, long-term and short-term bank loans and PDP financing.
- (2) The amount presented reflects LATAM's estimates regarding (i) changes in scheduled delivery dates; (ii) conversion of certain aircraft types and (iii) aircraft of which we do not expect to take delivery. For the amounts of material obligations and commitments as of December 31, 2016, please see Note 16 to our audited consolidated financial statements.
- (3) Fleet commitments represent the capex equivalent of purchasing all fleet arrivals.

### *2016 Fleet Acquisitions*

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

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

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

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

- Seven A321 231 and one A320neo passenger aircraft, financed through sale and leaseback transactions.
- Four A321 231 passenger aircraft, financed through the EETC facility.
- One A320neo passenger aircraft, financed through commercial loans.

Narrow body aircraft financed through sale and leaseback transactions have lease terms of 12 years. These leases are denominated in U.S. dollars and have monthly payments. Aircraft financed through EETC are under the terms described above. The A320neo passenger aircraft financed through commercial loans has a Senior and Junior tranche, which have terms of 12 and 7 years, respectively.

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

### **2015 Fleet Acquisitions**

During 2015, LATAM completed the acquisition of the following wide body aircraft:

- Four Boeing 7879 passenger aircraft, financed through operating leases.
- Three Boeing 7879 and 1 Airbus 350-900 passenger aircraft, financed through the EETC facility.

The four Boeing 787-9 aircraft financed through operating lease transactions have lease terms of 12 years. These leases are denominated in U.S. dollars and have monthly payments. Aircraft financed through EETC are under the terms described above.

During 2015, LATAM completed the acquisition of the following narrow body aircraft:

- One A321 231 passenger aircraft, financed through a commercial loan.
- Seven A321 231 passenger aircraft, financed through sale and leaseback transactions.
- Seven A321 231 passenger aircraft, financed through the EETC facility.

The aircraft financed under commercial financing is part of the 2014 facility under a 12-year floating rate amortizing loan. Narrow body aircraft financed through sale and leaseback transactions have lease terms of 12 years. These leases are denominated in U.S. dollars and have monthly payments. Finally, aircraft financed through EETC are under the terms described above.

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

## **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **A. Directors and Senior Management**

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

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The current board of directors was elected at the ordinary shareholders' meeting held on April 28, 2015. Its term expires in April 2017. On June 7, 2016, Mr. Ricardo J. Caballero resigned as a member of the board of directors, which elected on January 24<sup>th</sup>, 2017 Mr. Giles Agutter in his place.

The following are LATAM Airlines Group's directors:

<b>Directors</b>	<b>Position</b>
Mauricio Rolim Amaro <sup>(1)</sup>	Director / Chairman
Henri Philippe Reichstul	Director
Juan José Cueto Plaza <sup>(2)</sup>	Director
Ramón Eblen Kadis <sup>(3)</sup>	Director
Georges de Bourguignon	Director
Giles Agutter	Director
Carlos Heller Solari <sup>(4)</sup>	Director
Gerardo Jofré Miranda	Director
Francisco Luzón López	Director
<b>Senior Management</b>	<b>Position</b>
Enrique Cueto Plaza <sup>(2)</sup>	CEO LATAM
Ignacio Cueto Plaza <sup>(2)</sup>	CEO LAN
Ramiro Alfonsín	CFO LATAM
Armando Valdivieso Montes	Senior VP Commercial LATAM
Claudia Sender	President TAM
Emilio del Real Sota	Senior VP Human Resources
Juan Carlos Mencia	Senior VP Legal

- (1) Mr. Mauricio Rolim Amaro is a member of the Amaro Group, which is defined in "Item 7" as a "Major Shareholder"
- (2) Messrs. Ignacio, Juan José and Enrique Cueto Plaza are brothers. All three are members of the Cueto Group, which is defined in "Item 7" as a "Major Shareholder," and are the LATAM Controlling Shareholders.
- (3) Mr. Ramón Eblen Kadis is a member of the Eblen Group, which is defined in "Item 7" as a "Major Shareholder."
- (4) Mr. Carlos Heller Solari is a member of the Bethia Group, which is defined in "Item 7" as a "Major Shareholder."

## **Biographical Information**

Set forth below are brief biographical descriptions of LATAM Airlines Group's directors and senior management. All of LATAM's directors were elected or reelected, as the case may be, in April 28, 2015 for a two-year term, which expires in April 2017, with the exception of Mr. Giles Agutter who was elected by the Board of Directors to fill the vacancy left by Mr. Ricardo J. Caballero due to his resignation.

### *Directors*

*Mr. Mauricio Rolim Amaro*, has served as member of LATAM Airlines Group's board of directors since June 2012. He was reelected to the board of directors of LATAM in April 2015 and has served as Chairman since September 2012. Mr. Amaro has previously held various positions in the TAM Group and served as a professional pilot at TAM Linhas Aéreas S.A. and TAM Aviação Executiva S.A. Mr. Amaro has been a member of the Board of TAM S.A. since 2004, and vice-chairman of the Board since April 2007. He is also an executive officer at TAM Empreendimentos e Participações S.A. and chairman of the boards of Multiplus S.A. (subsidiary of TAM S.A.) and of TAM Aviação Executiva e Taxi Aéreo S.A. As of January 31, 2017, according to shareholder registration data in Chile, Mr. Amaro shared in the beneficial ownership of 18,342,913 common shares of LATAM Airlines Group (3.02% of LATAM Airlines Group's outstanding shares), held directly by TEP Chile S.A. and 35,292,908 common shares of LATAM Airlines Group (5.82% of LATAM Airlines Group's outstanding shares), held indirectly by TEP Chile. For more information see "Item 7. Controlling Shareholders and Related Party Transactions."

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

*Mr. Juan José Cueto Plaza*, has served on LAN's board of directors since 1994 and was reelected to the board of directors of LATAM in April 2015. Mr. Cueto currently serves as Executive Vice President of Inversiones Costa Verde S.A., a position he has held since 1990, and serves on the boards of directors of Consorcio Maderero S.A., Inversiones del Buen Retiro S.A., Costa Verde Aeronáutica S.A., Sinergia Inmobiliaria S.A., Valle Escondido S.A., Fundación Colunga and Universidad San Sebastián. Mr. Cueto is the brother of Messrs. Enrique and Ignacio Cueto Plaza, LATAM Airlines Group Executive Vice-President and LAN CEO, respectively. Mr. Cueto is a member of the Cueto Group (LATAM Airlines Group's Controlling Shareholder). As of January 31, 2017, Mr. Cueto shared in the beneficial ownership of 171,430,090 common shares of LATAM Airlines Group (28.27% of LATAM Airlines Group's outstanding shares) held by the Cueto Group. For more information see "Item 7. Controlling Shareholders and Related Party Transactions."

*Mr. Georges de Bourguignon*, has served on LATAM Airlines Group's board of directors since September 2012 and was reelected to the board of directors of LATAM in April 2015. Mr. de Bourguignon has been a partner and executive director of Asset Chile S.A., a Chilean investment bank, since 1993. He is currently member of the board of directors K+S Chile S.A. and Embotelladora Andina S.A. In the past he has served on several other boards of public and private companies, as well as of boards of non profit organizations. Between 1990 and 1993, he was manager of the Financial Institutions Group at Citibank S.A. in Chile, and was a professor of economics at the Catholic University of Chile. He is an economist from Catholic University of Chile and a graduate of Harvard Business School. As of January 31, 2017, Mr. de Bourguignon indirectly held 3,153 common shares of LATAM Airlines Group (0.0005%) of LATAM Airlines Group outstanding shares).

*Mr. Ramón Eblen Kadis*, has served on LAN's board of directors since June 1994 and was reelected to the board of directors of LATAM in April 2015. Mr. Eblen has served as President of Comercial Los Lagos Ltda., Inversiones Santa Blanca S.A., Inversiones Andes SpA, Granja Marina Tornagaleones S.A. and TJC Chile S.A. Mr. Eblen is a member of the Eblen Group (a major shareholder of LATAM Airlines Group). As of January 31, 2017, The Eblen Group had the beneficial ownership of 35,945,199 common shares of LATAM Airlines Group (5.93% of LATAM Airlines Group's outstanding shares). For more information see "Item 7. Controlling Shareholders and Related Party Transactions."

*Mr. Giles Agutter* is the owner and Chief Executive Officer of Southern Sky Ltd, an airline consultant company specializing in airline strategy, fleet planning, aircraft acquisition and aircraft financing. Mr. Agutter has had vast experience in advising airlines, including Qatar Airways, on significant Merger and Acquisition projects within the airline industry. Mr Agutter has a degree in Aerospace Engineering from Manchester University and he currently resides in England.

*Mr. Carlos Heller Solari*, joined the board of LAN in May 2010 and was re-elected to the Board of Directors of LATAM in April 2015. Mr. Heller has vast experience in retail, communications, transport and agriculture industries. Mr. Heller is president of Bethia S.A. ("Bethia") (parent company of Axxion S.A. and Inversiones HS SpA). He is also President of the Boards of Falabella Retail S.A., Red Televisiva Megavisión S.A., Club Hípico de Santiago S.A., Sotraser S.A., Blue Express S.A., Aero Andina S.A. and "Azul Azul S.A." concessionaire of the Corporación de Fútbol Profesional de la Universidad de Chile. He is also a member of the Board of Directors of S.A.C.I Falabella, Viña Indómita S.A., Viña Santa Alicia S.A. and Viña Dos Andes S.A. On January 31, 2017, Mr. Heller indirectly held 33,367,357 ordinary shares of LATAM Airlines Group through Axxion S.A. and Inversiones HS Spa (5.50% of the shares of LATAM Airlines Group).

*Mr. Gerardo Jofré Miranda*, joined LATAM Airlines' Board of directors on May 2010 and was reelected to the board of directors of LATAM in April 2015. Mr. Jofré is member of the board of directors of Codelco, Enel Chile and member of the Real Estate Investment Council of Santander Real Estate Funds. From 2010 to 2014 he served as president of the board of directors of Codelco. From 2005 to 2010 he served as member of the boards of directors of Endesa Chile S.A., Viña San Pedro Tarapacá S.A., D&S S.A., Inmobiliaria Titanium S.A. Construmart S.A., Inmobiliaria Playa Amarilla S.A. and Inmobiliaria Parque del Sendero S.A. and was President of Saber Más Foundation. Mr. Jofré was Director of Insurance for America for Santander Group of Spain between the years 2004 and 2005. From 1989 to 2004 he served on Santander Group in Chile, as Vice Chairman of the Group and as CEO, member of the boards of directors and Chairman of many of the Group's companies. As of January 31, 2017, Mr. Jofré held 106,843 common shares of LATAM Airlines Group (0.017% of LATAM Airlines Group's outstanding shares).

*Mr. Francisco Luzón López*, has served on LATAM Airlines Group's board of directors since September 2012 and was reelected to the board of directors of LATAM in April 2015. He has served as a consultant of the Inter-American Development Bank (BID) and he has been Teacher "Visiting Leader" of the School of Business China-Europe ("CEIBS") in Shanghai (2012-2013). He is



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currently a member of the board of La Haya Real Estate and served as Independent Director at Willis Group between June 2013 and January 2016. Between 1999 and 2012, Mr. Luzon served as Executive Vice President for Latin America of Banco Santander. In this period, he was also Worldwide Vice President of Universia S.A. Between 1991 and 1996 he was Chairman and CEO of Argentaria Bank Group. Previously, in 1987, he was appointed Director and General Manager of Banco de Vizcaya and in 1988, Counselor and General Director of Banking Group at BBV. During his career Mr. Luzon has held positions on the boards of several companies, most recently participating in the council of the global textile company Inditex-Zara from 1997 until 2012.

### *Senior Management*

*Mr. Enrique Cueto Plaza*, is LATAM Airlines Group's Chief Executive Officer ("CEO") and has been in this position since the combination between LAN and TAM in June 2012. From 1983 to 1993, Mr. Cueto was Chief Executive Officer of Fast Air, a Chilean Cargo airline. From 1993 to 1994, Mr. Cueto was a member of the board of LAN Airlines. Thereafter, Mr. Cueto held the position of CEO of LAN until June 2012. Mr. Cueto has in-depth knowledge of passenger and cargo airline management, both in commercial and operational aspects, gained during his 30 years in the airline industry. Mr. Cueto is an active member of the **oneworld®** Alliance Governing Board, the IATA (International Air Transport Association) Board of Governors. He is also member of the Board of the Endeavor foundation, an organization dedicated to the promotion of entrepreneurship in Chile, and president of the Latin American and Caribbean Air Transport Association (ALTA). Mr. Cueto is the brother of Messrs. Juan José and Ignacio Cueto Plaza, member of the board and LAN CEO, respectively. Mr. Cueto is also a member of the Cueto Group (LATAM Airlines Group's Controlling Shareholder). As of January 31, 2017, Mr. Cueto jointly shared in the beneficial ownership of 171,430,090 common shares of LATAM Airlines Group (28.27% of LATAM Airlines Group's outstanding shares) held by the Cueto Group. For more information see "Item 7. Controlling Shareholders and Related Party Transactions."

*Mr. Ignacio Cueto Plaza*, is LAN's CEO. His career in the airline industry extends over 30 years. In 1985, Mr. Cueto assumed the position of Vice President of Sales at Fast Air Carrier, the biggest national cargo company of that time. In 1985, Mr. Cueto assumed as Service Manager and Commercial Manager for the Miami sales office. Mr. Cueto later served on the board of directors of Ladeco (from 1994 to 1997) and LAN (from 1995 to 1997). Mr. Cueto served as President of LAN Cargo from 1995 to 1998, as Chief Executive Officer-Passenger Business from 1999 to 2005, and as President and Chief Operating Officer of LAN since 2005 until the combination with TAM in 2012. Mr. Cueto also led the establishment of the different affiliates that the Company has in South America, as well as the implementation of key alliances with other airlines. Mr. Cueto is the brother of Messrs. Juan José and Enrique Cueto Plaza, Director and LATAM's CEO, respectively. Mr. Cueto is also a member of the Cueto Group (which is a controlling shareholder of LATAM). As of January 31, 2017, Mr. Cueto shared in the beneficial ownership of 171,430,090 common shares of LATAM (28.27% of LATAM's outstanding shares) held by the Cueto Group. For more information see "Item 7. Controlling Shareholders and Related Party Transactions." Mr. Cueto is expected to leave the Company's senior management team in mid-April 2017 and is applying to become a member of LATAM's board of directors.

*Mr. Armando Valdivieso Montes*, is Senior Commercial Vice President of LATAM since 2015. After the combination between LAN and TAM in 2012, Mr. Valdivieso served as General Manager of LAN, and from 2006 until 2012 he served as the General Manager-Passenger. Between 1997 and 2005 he served as Chief Executive Officer-Cargo Business of LAN. From 1995 to 1997, Mr. Valdivieso was President of Fast Air, and from 1991 to 1994, Mr. Valdivieso served as Vice President, North America of Fast Air Miami. Mr. Valdivieso is a civil engineer and obtained an AMP (Advance Managements Program) from Harvard Business School. Mr. Valdivieso will leave the Company during August 2017 as was announced by the Company on March 16, 2017. As of January 31, 2016, Mr. Valdivieso owned 95,859 common shares of LATAM (0.016% of LATAM Airlines Group's outstanding shares).

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

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

*Mr. Ramiro Alfonsín*, is LATAM's Chief Financial Officer ("CFO"), a position he holds since July 2016. Over the past 16 years, before joining LATAM, he worked for Endesa, a leading utility company, in Spain, Italy and Chile, having served as Deputy Chief Executive Officer and Chief Financial Officer for their Latin American operations. Before joining the utility sector, he worked for 5 years in Corporate and Investment Banking in large European banks. Mr. Alfonsín holds a degree in business administration from Pontificia Universidad Católica de Argentina.

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

During 2017, the Company will implement a new organizational structure focused on four basic areas –Clients, Revenue, Operations and Fleet, and Finance– which will be the pillars of the Company's business strategy and will report directly to the CEO LATAM. The new structure will be simpler, more efficient and more functional, and will enable the Company to face an increasingly competitive environment. With this reorganization that will focus on functions instead of business units, the Company expects to optimize its internal synergies and strengthen its structure.

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The Clients area will be initially led by Claudia Sender. This area will focus on providing the client with a complete experience. The Revenues area, focused on maximizing revenues for the Company, will be initially led by Roberto Alvo Milosawlewitsch, who will be LATAM's Chief Commercial Officer. The Operations and Fleet area will be initially led by Hernan Pasman, who will be responsible for the Operations and Fleet Vice-presidency. The Finance area will preserve its existing organization and structure, and will be led by Ramiro Alfonsín, the current Chief Financial Officer of the Company

## **B. Compensation**

In 2016, the Company paid its principal executives (considering the levels of Vice Presidents, General Managers, Senior Director and Directors as defined above) a total of US\$40,194,453. After the incentives for performance paid during 2015, the Company paid its principal executives total gross remunerations of US\$55,174,744.

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

LATAM Airlines Group's directors are paid 50 UF per meeting (100 UF for the chairman of the board) and 40 UF for assistance to the subcommittee of Directors meetings. LATAM Airlines Group also provides certain benefits to its directors and executive officers, such as free and discounted airline tickets and health insurance. We do not have contracts with any of our directors to provide benefits upon termination of employment.

As set forth in further detail in the following table, in 2016 the members of our board of directors currently in office received fees and salaries in the aggregate amount of US\$282,364.

<b>Board Members</b>	<b>Fees (US\$)(1)</b>
Mauricio Rolim Amaro	27,021
Henri Philippe Reichstul	23,798
Ricardo J. Caballero	9,188
Juan José Cueto Plaza	32,950
Ramon Eblen Kadis	57,123
Georges de Bourguignon	57,115
Carlos Heller Solari	15,576
Juan Gerardo Jofre Miranda	57,123
Francisco Luzón López	2,470
Total	<u>282,364</u>

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

All of the above-mentioned directors were elected to the LATAM board of directors in April 2015.

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

## **C. Board Practices**

Our board of directors is currently comprised of nine members. The terms of each of our current directors will expire in April 2017. See "—Directors and Senior Management" above.

## Committees

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

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

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

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

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

As of December 31, 2016, all of the members of our Board of Directors' Committee, which also serves as our Audit Committee, were independent under Rule 10A-3 of the Exchange Act. As of December 31, 2016, the committee members were Mr. Gerardo Jofré Miranda, Mr. Ramón Eblen Kadis and Mr. Georges de Bourguignon. We pay each member of the committee 67 UFs per monthly assistance to meetings.

### *Other LATAM Board Committees*

LATAM's board of directors also has established four other committees to review, discuss and make recommendations to our board of directors. These include a Strategy Committee, a Leadership Committee, a Finance Committee and a Brand, Product and Frequent Flyer Program Committee. The Strategy Committee focuses on the corporate strategy, current strategic issues and the three-year plans and budgets for the main business units and functional areas and high-level competitive strategy reviews. The Leadership Committee focuses on, among other things, group culture, high-level organizational structure, appointment of the LATAM CEO and his or her other reports, corporate compensation philosophy, compensation structures and levels for the LATAM CEO and other key executives, succession or contingency planning for the LATAM CEO and performance assessment of the LATAM CEO. The Finance Committee is responsible for financial policies and strategy, capital structure, monitoring policy compliance, tax optimization strategy and the quality and reliability of financial information. Finally, the Brand and Frequent Flyer Program Committee is responsible for brand strategies and brand building initiatives for the corporate and main business unit brands, the main characteristics of products and services for each of the main business units, frequent flyer program strategy and key program features and regular audit of brand performance.

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

### *Corporate Governance Practices*

On March 31, 2014 LATAM Airlines Group filed for the first time the Company's Corporate Practices Report prepared according to General Rule N° 341, current N°385 of the Securities and Insurance Commission issued November 29, 2012. The reporting obligation stipulated in this rule is for practices in place as of December 31st of each year and the report must be presented no later than March 31st of the following year.

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

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

## D. Employees

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

Employees ending the period	As of December 31,		
	2016(1)	2015	2014
Administrative	8,010	9,118	10,077
Sales	4,235	5,022	5,246
Maintenance	4,895	5,990	6,986
Operations	15,924	16,878	17,517
Cabin crew	8,970	9,383	9,237
Cockpit crew	3,882	4,022	4,009
Total	45,916	50,413	53,072

(1) At December 31, 2016, approximately 51% of our employees worked in Brazil, 25% in Chile, 21% in other Latin American countries and 3% in the rest of the world.

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

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

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

### Long Term Incentive Compensation Program

#### 1. Compensation plan 2011

On December 21, 2016, the subscription and payment period of the 4,800,000 shares corresponding to the compensation plan approved at the Extraordinary Shareholders Meeting held on December 21, 2011 (the "2011 Compensation Plan"), expired. Of the total shares allocated to the 2011 Compensation Plan, only 10,282 shares were subscribed and paid and were placed on the market in January 2014. At the expiration date, the 2011 Compensation Plan had a balance of 4,789,718 unsubscribed and unpaid shares, which was deducted from the authorized capital of the Company.

#### 2. Compensation plan 2013

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

#### 3. Compensation plan 2016-2018

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

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

## Labor Relations

We believe we generally maintain good relations with our employees and the unions, and expect to continue to enjoy good relations with our employees and the unions in the future. We also believe that we have built a solid base among our employees that

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will support and facilitate our growth plans. We can provide no assurance, however, that our employee compensation arrangements may not be subject to change or modification after the expiration of the contracts currently in effect, or that we will not be subject to labor-related disruptions due to strikes, stoppages or walk-outs.

### *Chile*

As a general labor relations policy in Chile, we negotiate labor contracts with unions in anticipation of their scheduled expirations. As a non-negotiable clause, all collective bargaining agreements are signed for the maximum legal term, namely, four years. During 2016, we renegotiated our collective bargaining agreements with the following unions: Transporte Aéreo (LATAM Airlines Chile) Pilots' Union, LATAM maintenance union, LATAM airport union, Transporte Aéreo maintenance union and LATAM Cargo administrative union. All these collective agreements will be in force for the maximum legal term.

LATAM Cargo pilots' union, in the context of a ruled negotiation, rejected the Company's last offer, and the negotiation ended by in a unilateral extension of the collective agreement's validity for 18 months. Thus, a new negotiation process should take place during the first quarter of 2018.

### *Ecuador*

- **LATAM:** Three employee associations were formed in 2012: of pilots, other general but composed mostly by maintenance employees and other general but composed mostly by employees of airports/administration. In November 2015 the Company signed a voluntary agreement with the association of pilots, in force until July 2019.

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

- **ANDES:** In 2013 two unions of ground handling employees were formed in Andes. These groups maintain relations with the Company, but do not have the right to enter into or negotiate collective bargaining agreements under Ecuadorian law, because less than 50% of our employees eligible for membership are members of each union. Additionally, in 2015 one employees association was formed in Andes. This group also has no right to enter negotiate collective bargaining agreements under Ecuadorian law, because less than 50% of our employees eligible for membership are members of the association.

### *Argentina*

In Argentina, 75.9% percent of LATAM employees are affiliated in at least in one of nine unions.

In November 2016 we started to negotiate the annual adjustment for inflation with the seven unions. In January 2017, we reached an agreement with the unions.

In 2016 we succeeded in implementing the Company's planned changes to reduce operational labor and overhead costs, without significant protests or union intervention.

### *Colombia*

In Colombia we have 4 different unions. The company held negotiations with them, as follows: (i) with the Technicians Union (ACMA), in 2014, and it will be in force until June of 2018, (ii) With the Cabin Crew Union (ACAV), in 2014, and it will be in force until December of 2018, (iii) with the Industrial Union of Aviation Workers (SINTRATAC), held in June of 2016 and it will be in force until May of 2018, and (iv) in October 2016, an arbitration court ruled that the negotiation with the Pilots Union (ACDAC) will be in force until November 2017.

### *Peru*

LATAM Airlines Peru will begin negotiations with the pilots' union during the second quarter of 2016. Negotiations are expected to conclude with a collective agreement in June 2017. In 2017, negotiations will begin with the cabin crew's union and the aircraft technicians' union. In Peru we have in total six unions representing workers from different areas: pilots, cabin crew, aircraft technicians, flight dispatchers and airport workers. Our current collective agreements have a term of four years.

### *Brazil*

Under Brazilian law, the term of collective bargaining agreements is limited to two years. TAM's collective bargaining agreements are valid for one year (for the economic clauses) and for two years (for social clauses). TAM has historically negotiated

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collective bargaining agreements with ten unions in Brazil—one crew flight union, which represents pilots, copilots and flight attendants, and nine ground staff unions. In December 2016, TAM renegotiated collective bargaining agreements with all the unions, which included a wage increase of 7.4%, in line with the inflation rate of the last 12 months. For ground staff workers with salaries up to ten thousand dollars, the increase was R\$ 739.00.

### E. Share Ownership

As of December 31, 2016, the members of our Board of Directors and our executive officers as a group owned 47.7% of our shares. See “Item 7. Controlling Shareholders and Related Party Transactions.”

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

## ITEM 7. CONTROLLING SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

Mr. Ignacio Cueto Plaza (the CEO of LAN), Mr. Enrique Cueto Plaza (the CEO LATAM) and certain other Cueto family members and entities controlled by them, comprise the Cueto Group. As of January 31, 2017 the Cueto Group beneficially owned (as defined in Rule 13d-3 under the Securities Exchange Act) 28.27% of LATAM Airlines Group’s common shares. The Cueto Group is entitled to elect three of the nine members of our board of directors and is in a position to direct the management of the Company. In connection with our combination with TAM, members of the Cueto Group (which we also refer to collectively as the “LATAM Controlling Shareholders”) entered into a shareholder’s agreement with the Amaro Family, acting through TEP Chile, and TEP Chile entered into shareholder’s agreements with LATAM and TAM. See “—Shareholders’ Agreements.”

Following our combination with TAM, the Amaro Group is also a major shareholder of LATAM Airlines Group. Through their 100% ownership of TEP Chile and majority ownership of the voting shares of Holdco I, which in turn owns 100% of the common shares of TAM, the Amaro Group, are controlling shareholders of TAM. This is the case even though LATAM is entitled to substantially all the economic rights arising from the operations of TAM by virtue of LATAM’s ownership of 100% of Holdco I and TAM non-voting shares. Members of the Amaro Group include our chairman, Mauricio Rolim Amaro and our former director Maria Claudia Amaro. As of January 31, 2017, the Amaro Group owned 3.02%<sup>(2)</sup> of LATAM Airlines Group’s common shares. The terms of the shareholders’ agreement among the Amaro Group, LATAM and the LATAM Controlling Shareholders require the LATAM Controlling Shareholders and the Amaro Group to vote to elect individuals nominated to our board of directors in accordance with the direct and indirect shareholder interests in LATAM. See “—Shareholders’ Agreements.”

In addition to the Cueto Group and the Amaro Group, three other groups or entities are major shareholders of LATAM. As of January 31, 2017, the Eblen Group, which includes our director Ramón Eblen Cádiz, owned 5.93% of our common shares; the Bethia Group, which includes our director Carlos Heller Solari, owned 5.50% of our common shares; and Qatar Airways Investments (UK) Ltd., whose nominee Giles Agutter became one of our directors effective January 24, 2017, owned 10.03%<sup>(4)</sup> of our outstanding common shares.

The table below sets forth additional information regarding the beneficial ownership of our common shares, as of January 31, 2017, by our controlling shareholders, other major shareholders or shareholder groups, and minority shareholders.

Shareholder	Beneficial ownership (as of January 31, 2017)	
	Number of shares of common stock beneficially owned	Percentage of common stock beneficially owned
Cueto Group <sup>(1)</sup>	171,430,090	28.27%
Costa Verde Aeronautica S.A. <sup>(2) (3)</sup>	90,427,620	14.91%
Inversiones Costa Verde Aeronautica Tres SpA	35,300,000	5.82%
Inversiones Nueva Costa Verde Aeronautica Ltda.	23,578,077	3.89%
Costa Verde Aeronautica SpA	12,000,000	1.98%
Others	10,124,393	1.67%
Qatar Airways <sup>(4)</sup>	60,837,452	10.03%

	Beneficial ownership (as of January 31, 2017)	
	Number of shares of common stock beneficially owned	Percentage of common stock beneficially owned
Qatar Airways Investments (UK) Ltda.	60,837,452	10.03%
Eblen Group.	35,945,199	5.93%
Inversiones Andes SpA.	17,146,529	2.83%
Inversiones Andes II SpA	8,000,000	1.32%
Inversiones PIA SpA.	5,403,804	0.89%
Comercial las Vertientes SpA	5,394,866	0.89%
Bethia Group.	33,367,357	5.50%
Axxion S.A.	18,473,333	3.05%
Inversiones HS SpA.	14,894,024	2.45%
Amaro Group (2)(3)	18,342,913	3.02%
TEP Chile S.A.	18,342,913	3.02%
All other minority shareholders	288,484,682	47.24%
Total	606,407,693	100.00%

- (1) The ownership figures for the Cueto Group in this table exclude shares held directly by TEP Chile S.A. which are subject to the shareholders' agreements described below.
- (2) Members of the Amaro Group also hold a 21.88% interest in Costa Verde Aeronáutica S.A.
- (3) The ownership figures for the Amaro Group in this table exclude shares held by the Cueto Group which are subject to the shareholders' agreements described below.
- (4) Qatar owns 9.999999918% of the total issued shares of LATAM.

As of January 31, 2017, 4.55% of our capital stock was held in the form of ADSs. Chilean pension funds held 19.41% of our capital stock and other minority investors held 23.28% in the form of common shares. It is not practicable for us to determine the number of ADSs or common shares beneficially owned in the United States. As of January 31, 2017, we had 1,585 record holders of our common shares. It is not practicable for us to determine the portion of shares held in Chile or the number of record holders in Chile. All of our shareholders have identical voting rights.

#### Shareholders' Agreements

As described above under "Item 4. Information on the Company—A. History and Development of the Company—Combination of LAN and TAM," following the combination of LAN and TAM in June 2012, TAM S.A. continues to exist as a subsidiary of Holdco I and a subsidiary of LATAM, and LAN Airlines S.A. has been redesignated as "LATAM Airlines Group S.A."

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

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

We refer to the shareholders' agreement among the LATAM Controlling Shareholders and the Amaro Group (acting through TEP Chile), which sets forth the parties' agreement concerning the governance, management and operation of the LATAM Airlines Group, and voting and transfer of their respective LATAM Airlines Group common shares and TEP Chile's voting shares of Holdco I,



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as the “control group shareholders’ agreement.” We refer to the shareholders’ agreement between LATAM Airlines Group S.A. and TEP Chile, which sets forth agreements concerning the governance, management and operation of the LATAM Airlines Group, as the “LATAM Airlines Group-TEP shareholders’ agreement.” The control group shareholders’ agreement and the LATAM Airlines Group-TEP shareholders’ agreement set forth the parties’ agreement on the governance and management of the LATAM Airlines Group following the effective time.

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

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

Mr. Maurício Rolim Amaro was reelected to the LATAM Airlines Group board of directors in April 2014 and April 2015. If Mr. Amaro vacates this position for any reason before April 2017, TEP Chile has the right to select a replacement to complete his term. Thereafter, LATAM Airlines Group’s board of directors will appoint any of its members as the chairman of LATAM Airlines Group’s board of directors, from time to time, in accordance with the LATAM Airlines Group’s by-laws. Mrs. Maria Cláudia Oliveira Amaro was elected to the LATAM Airlines Group board of directors in June 2012, and resigned this position in September 2014. Also in September 2014, pursuant to Chilean law, Mr. Henri Philippe Reichstul was appointed by the board to fill her seat until the next general shareholders meeting. Mr. Reichstul was re-elected to the board in April 2015.

### *Management of the LATAM Airlines Group*

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

Mr. Ignacio Cueto Plaza has served as CEO of LAN (“CEO LAN”) since June 2012. The CEO LAN reports directly to the CEO LATAM and has general supervision, direction and control of the passenger and cargo operations of the LATAM Airlines Group, excluding those conducted by Holdco I, TAM and its affiliates, and the international passenger business of the LATAM Airlines Group. The CEO LAN, together with Mrs. Claudia Sender, the current CEO of TAM (“CEO TAM”), are responsible for recommending a candidate to the CEO LATAM to serve as the head of the international passenger business of the LATAM Airlines Group (including both long haul and regional operations), who shall report jointly to the CEO LAN and the CEO TAM. The key executives of the LATAM Airlines Group (other than the CEO LATAM and those in the TAM Group) will be appointed by, and will report, directly or indirectly, to the CEO LATAM. Mr. Cueto will leave the Company’s senior management team in mid-April 2017 and is applying to become a member of LATAM’s board of directors.

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

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

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

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

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

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

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

### *Management of Holdco I and TAM*

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

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

### *Supermajority Actions*

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

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

- to appoint executives other than the Holdco I CEO or the TAM Diretoria or to re-elect the then current TAM CEO or TAM CFO; and
- to approve any vote to be cast by the relevant company or its subsidiaries in its capacity as a shareholder.

Actions requiring supermajority shareholder approval include:

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

#### *Voting Agreements, Transfers and Other Arrangements*

##### *Voting Agreements*

The LATAM Controlling Shareholders and TEP Chile have agreed in the control group shareholders agreement to vote their respective LATAM Airlines Group common shares as follows:

- the parties agree to vote their LATAM Airlines Group common shares to assist the other parties in removing and replacing the directors such other parties elected to the LATAM Airlines Group board of directors;
- the parties agree to consult with one another and use their good faith efforts to reach an agreement on all actions (other than actions requiring supermajority approval under Chilean law) to be taken by the LATAM board of directors or the LATAM shareholders, and if unable to reach such agreement, to follow the proposal made by our board of directors;
- the parties agree to maintain the size of the LATAM Airlines Group board of directors at a total of nine directors and to maintain the quorum required for action by the LATAM Airlines Group board of directors at a majority of the total number of directors of the LATAM Airlines Group board of directors; and
- if, after good faith efforts to reach an agreement with respect to any action that requires supermajority approval under Chilean law and a mediation period, the parties do not reach such an agreement, then TEP Chile has agreed to vote its shares on such supermajority matter as directed by the LATAM Airlines Group controlling shareholders, which we refer to as a “directed vote.”

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

##### *Transfer Restrictions*

Pursuant to the control group shareholders’ agreement, the LATAM Controlling Shareholders and TEP Chile are subject to certain restrictions on sales, transfers and pledges of the LATAM Airlines Group common shares and (in the case of TEP Chile only) the voting shares of Holdco I beneficially owned by them. Except for a limited amount of LATAM Airlines Group common shares, neither the LATAM Airlines Group controlling shareholders nor TEP Chile were permitted to sell any of their LATAM Airlines Group common shares, and TEP Chile was not permitted to sell its voting shares of Holdco I, until June 2015. Since then, sales of

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LATAM Airlines Group common shares by either party are permitted, subject to (i) certain limitations on the volume and frequency of such sales and (ii) in the case of TEP Chile only, TEP Chile satisfying certain minimum ownership requirements. On or after December 31, 2021, TEP Chile may sell all of its LATAM Airlines Group common shares and voting shares of Holdco I as a block, subject to (x) approval of the transferee by the LATAM board of directors, (y) the condition that the sale not have an adverse effect and (z) a right of first offer in favor of the LATAM Airlines Group controlling shareholders, which we refer to collectively as “block sale provisions.” An “adverse effect” is defined in the control group shareholders agreement to mean a material adverse effect on our and Holdco I’s ability to own or receive the full benefits of ownership of TAM and its subsidiaries or the ability of TAM and its subsidiaries to operate their airline businesses worldwide. The LATAM Airlines Group controlling shareholders have agreed to transfer any voting shares of Holdco I acquired pursuant to such right of first offer to LATAM for the same consideration paid for such shares.

In addition, TEP Chile may sell all LATAM Airlines Group common shares and voting shares of Holdco I beneficially owned by it as a block, subject to satisfaction of the block sale provisions, after December 21, 2021 if a release event (as described below) occurs or if TEP Chile is required to make two or more directed votes during any 24-month period at two meetings (consecutive or not) of the shareholders of LATAM Airlines Group held at least 12 months apart and LATAM Airlines Group has not yet fully exercised its conversion option described below. A “release event” will occur if (i) a capital increase of LATAM Airlines Group occurs, (ii) TEP Chile does not fully exercise the preemptive rights granted to it under applicable law in Chile with respect to such capital increase in respect of all of its restricted LATAM Airlines Group common shares, and (iii) after such capital increase is completed, the individual designated by TEP Chile for election to the board of directors of LATAM Airlines Group with the assistance of the LATAM Airlines Group controlling shareholders is not elected to the board of directors of LATAM Airlines Group.

In addition, after December 31, 2021 and after the occurrence of the full ownership trigger date (as described below under the “—Conversion Option” section), TEP Chile may sell all or any portion of its LATAM Airlines Group common shares, subject to (x) a right of first offer in favor of the LATAM Airlines Group controlling shareholders and (y) the restrictions on sales of LATAM Airlines Group common shares more than once in a 12-month period.

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

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

### *Restriction on transfer of TAM shares*

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

### *Conversion Option*

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

On or after December 31, 2021, and after we have fully converted all of our shares of non-voting stock of Holdco I into shares of voting stock of Holdco I as permitted by Brazilian law and other applicable laws, we will have the right to purchase all of the voting shares of Holdco I held by the controlling shareholders of TAM for an amount equal to their then current tax basis in such shares and any costs incurred by them to effect such sale, which amount we refer to as the “sale consideration.” If we do not timely exercise our right to purchase these shares or if, after December 31, 2021, we have the right under applicable law in Brazil and other applicable law to fully convert all the shares of non-voting stock of Holdco I beneficially owned by us into shares of voting stock of Holdco I and such conversion would not have an adverse effect but we have not fully exercised such right within a specified period, then the controlling shareholders of TAM will have the right to put their shares of voting stock of Holdco I to us for an amount equal to the sale consideration.

### *Acquisitions of TAM Stock*

The parties have agreed that all acquisitions of TAM common shares by LATAM Airlines Group, Holdco I, TAM or any of their respective subsidiaries from and after the effective time of the combination will be made by Holdco I.

## **B. Related Party Transactions**

### **General**

We have engaged in a variety of transactions with our affiliates, including entities owned or controlled by certain of our controlling shareholders. In the ordinary course of our business we render to and receive from related companies services of various types, including aircraft leases, aircraft interchanges, freight transportation and reservation services. Such transactions, none of which is individually material, are summarized in Note 35 to our audited consolidated financial statements for the fiscal year ended December 31, 2016.

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

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

## **ITEM 8. FINANCIAL INFORMATION**

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

See "Item 3. Key Information—A. Selected Financial Data," "Item 18. Financial Statements" and pages F-1 through F-194.

### **Legal and Arbitration Proceedings**

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

In February 2006 the European Commission ("EC"), the Department of Justice of the United States ("DOJ"), the Canadian Competition Bureau ("CCB"), and Conselho Administrativo de Defesa Econômica ("CADE"), among others, initiated a global investigation of a large number of international cargo airlines (among them LAN Cargo) for possible price fixing of cargo fuel surcharges and other fees in the European and United States air cargo markets. As previously announced, LAN Cargo reached plea agreements with the DOJ and the CCB, which included the payment of fines, in relation to such investigation. On November 9, 2010, the EC imposed fines on 11 air carriers for a total amount of €799.4 million (equivalent to approximately US\$1.1 billion). The fine imposed against LAN Cargo and its parent company, LAN, totaled €8.2 million (equivalent to approximately US\$10.9 million). LAN provisioned US\$25 million during the fourth quarter of 2007 for such fines, and maintained this provision until the fine was imposed in 2010. In 2010, LAN recorded a US\$14.1 million gain (pre-tax) from the reversal of a portion of this provision. This was the lowest fine applied by the EC, which includes a significant reduction due to LAN's cooperation with the Commission during the course of the investigation. In accordance with European Union law, on January 24, 2011 this administrative decision was appealed by LAN Cargo and LAN to the General Court in Luxembourg. Any judgment by the General Court may also be appealed to the Court of Justice of the European Union. The European Court of Justice overturned the Commission's decision on December 16, 2015. On May 20 2016 the EC confirmed that they have decided not to appeal the case and to issue a new decision with the aim of correcting the faults identified in the judgement by the European Court of Justice. On 17 March 2017, the EC re-adopted its decision and imposed on LAN Cargo and its parent company, LATAM, a fine in the same amount, €8.2 million, as the original fine.

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On September 3, 2013, CADE published its decision to impose a fine of US\$51.0 million against ABSA, after an investigation, commenced in 2008, against several cargo airlines and airlines officers over allegations of anticompetitive practices regarding fuel surcharges in the air cargo business. CADE also imposed fines upon a former Director and two former employees in the amounts of US\$1.0 million and US\$510,000 respectively. On December 5, 2013 ABSA filed its application for Administrative Reconsideration before CADE. On December 19, 2014, CADE issued a new decision which reduced the fine against ABSA to US\$15,382,082 (based on an exchange rate of US\$ 1 = R\$ 3.2591). CADE also reduced the fines against ABSA's Director and employees to US\$251,616 and US\$125,800, respectively (also based on an exchange rate of US\$ 1 = R\$ 3.2591). ABSA has initiated a judicial appeal against the Union Federal seeking an additional reduction of the fine amount. In the light of said pending judicial appeal, we cannot predict the ultimate outcome of this matter at this time.

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

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

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

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

The settlement with the SEC included the issuance by the SEC of a cease-and-desist order, which is an administrative order closing the investigation whereby LATAM has accepted certain obligations and statements of fact. The order also refers to the obligations related to the monitorship agreed under the DPA with the DOJ. LATAM also agreed to pay an amount of US\$6,700,000 plus interest to the SEC. As of December 31, 2016, a balance of US\$ 4,718,894 was payable to the SEC. .

### *Legal proceedings involving TAM*

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

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

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

TAM Linhas Aereas is a plaintiff in an action filed against the Brazilian government in 1993 seeking damages for the break-up of an air transportation concession agreement that resulted in the freezing of TAM's prices from 1988 to September 1993 in order to maintain operations with the prices set by the Brazilian government during that period. The process is currently being heard before the Federal Regional Court and judgment is pending an appeal by TAM requesting clarification of the initial decision. The estimated value of the action is R\$245 million, based on a calculation made by an expert witness of the court. This sum is subject to delinquent interest since September 1993 and inflation adjustment since November 1994. Based on the opinion of TAM's legal advisors, and recent rulings handed down by the Brazilian Supreme Court of Justice in favor of airlines in similar cases (specifically, actions filed by Transbrasil and Varig), we believe that TAM's likelihood of success is probable. We have not recognized these credits in our financial statements and will only do so if and when the aforementioned decision is final.

TAM Linhas Aereas filed an ordinary claim, with a request for early judgment, in relation to a dispute concerning the legality of charging the Adicional das Tarifas Aeroportuárias ("Additional Airport Tariffs," or "ATAERO"), which are charged at a rate of 50% on the value of tariffs and airport tariffs. The total amount involved, adjusted for inflation, as of December 31, 2012 totaled R\$1,696 million.

In addition, one administrative proceeding had been filed against TAM Linhas Aéreas concerning the alleged failure to pay an Industrialized Products Tax ("IPI") and Import Tax ("II") due on imported aircraft. In response, we filed the appropriate challenges on the basis that no federal tax should be payable on the imported aircraft because it is leased aircraft. The total amount involved in this administrative proceeding is 2.794 million. Since February 2016 the administrative proceeding awaits a decision. In the opinion of our legal advisors, the chance of losing in this proceeding is possible.

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

### **Dividend Policy**

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

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

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

### **B. Significant Changes**

None.



## ITEM 9. THE OFFER AND LISTING

### A. Offer and Listing Details

The principal trading market for our common shares is the SSE. The common shares have been listed on the SSE under the symbol “LAN” since 1989, and the ADSs have been listed on the NYSE under the symbol “LFL” since November 7, 1997. The common shares also trade on the Bolsa de Valores de Valparaíso and the Bolsa Electrónica de Chile. The outstanding ADSs are identified by the CUSIP number 501723100. The following table sets forth, for the periods indicated, the high and low closing sale prices on the SSE for the common shares and the high and low closing prices on the NYSE for the common shares represented by ADSs. The information set forth in the table below reflects actual historical amounts and has not been restated in constant Chilean pesos.

Period	Ch\$ per Common Share		US\$ per ADS		R\$ per BDR	
	Low	High	Low	High	Low	High
<b>2012(1)</b>	10,481.4	14,230.5	21.89	29.11	44.86	52.79
<b>2013</b>	5,967.3	11,755.4	11.62	24.84	26.53	49.00
<b>2014</b>	6,533.3	8,791.6	10.60	16.36	25.00	38.00
<b>2015</b>						
<b>Quarters:</b>						
First	5,123.7	7,198.3	8.06	11.82	26.35	29.50
Second	4,521.3	6,163.4	6.88	10.02	21.41	29.05
Third	3,320.8	4,596.5	4.64	7.11	17.50	21.69
Fourth	3,270.2	4,150.5	4.70	6.07	18.06	24.00
<b>Annual:</b>						
Annual 2015	3,270.2	7,198.3	4.64	11.82	17.50	29.50
<b>2016</b>						
<b>Quarters:</b>						
First	3,276.4	4,730.5	4.49	7.00	19.80	23.00
Second	4,163.5	4,893.4	5.86	7.40	20.00 (2)	22.68
Third	4,350.6	5,855.8	6.53	8.96	—	—
Fourth	5,341.6	6,460.4	8.18	9.86	—	—
<b>Months:</b>						
September	5,243.1	5,499.6	7.66	8.38	—	—
October	5,341.6	6,460.4	8.22	9.86	—	—
November	5,827.4	6,393.9	8.59	9.80	—	—
December	5,549.8	6,091.8	8.18	9.40	—	—
<b>Annual:</b>						
Annual 2016	3,276.4	6,460.4	4.49	9.86	19.80	23.00



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Period	Ch\$ per Common Share		US\$ per ADS		R\$ per BDR	
	Low	High	Low	High	Low	High
2017						
<b>Months:</b>						
January	5,574.1	6,166.0	8.18	9.45	—	—
February	5,931.8	6,663.2	9.19	10.45	—	—

Source: Santiago Stock Exchange, the New York Stock Exchange and the Bovespa

- (1) From June 22, 2012, following the combination of LAN and TAM, the trading stock continues to be listed as “LFL” on the NYSE and as “LAN” on the SSE, but reflects the value of the combined operating entity, LATAM Airlines Group.
- (2) Last trade prior the discontinuation of Brazilian LATAM depositary receipts-BDRS level III was on April 29, 2016.

As of December 31, 2016, a total of 606,407,693 million common shares were outstanding, including common shares represented by ADSs.

## B. Plan of Distribution

Not applicable.

## C. Markets

### Trading

#### Chile

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

The SSE is Chile’s principal exchange and accounts for approximately 86.87% of securities traded in Chile. Approximately 12.91% of equity trading is conducted on the Chilean Electronic Stock Exchange, an electronic trading market created by banks and non-member brokerage houses. The remaining equity trading is conducted on the Valparaíso Stock Exchange.

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

## D. Selling Shareholders

Not applicable.

## E. Dilution

Not applicable.

## ITEM 10. ADDITIONAL INFORMATION

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

### A. Share Capital

Not applicable.

### B. Memorandum and Articles of Association

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

#### Organization and Register

LATAM Airlines Group is a publicly held stock corporation (*sociedad anónima abierta*) incorporated under the laws of Chile. LATAM Airlines Group was incorporated by a public deed dated December 30, 1983, an abstract of which was published in the Chilean Official Gazette (*Diario Oficial de la República de Chile*) No. 31,759 on December 31, 1983, and registered on page 20,341, No. 11,248 of the Chilean Real Estate and Commercial Registrar (*Registro de Comercio del Conservador de Bienes Raíces de Santiago*) for the year 1983. Our corporate purpose, as stated in our by-laws, is to provide a broad range of transportation and related services, as more fully set forth in Article Four thereof.

#### General

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

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

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

#### Ownership Restrictions

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

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

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

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

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

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

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

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

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

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

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

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

## Capitalization

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

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

Chilean law recognizes the right of corporations to issue common and preferred shares. To date, we have issued and are authorized by our shareholders to issue only common shares. Each share of stock is entitled to one vote. Pursuant to one employee compensation plan approved by extraordinary shareholders' meeting held on June 11, 2013, the issuance of the shares for this compensation plan has been authorized but has not been made effective, as such issuance is subject to the exercising of rights granted to certain employees that expire on November 15, 2017.

## Preemptive Rights and Increases in Share Capital

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

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

Under Chilean law, preemptive rights are freely exercisable, transferable or waived by shareholders during a 30-day period commencing upon publication of the official notice announcing the start of the preemptive rights period in the newspaper designated by the shareholders' meeting. The preemptive right of the shareholders is the pro rata amount of the shares registered in their name in the shareholders' registry of LATAM Airlines Group as of the fifth business day prior to the date of publication of the notice announcing the start of the preemptive rights period. During such 30-day period (except for shares as to which preemptive rights have been waived), Chilean companies are not permitted to offer any newly issued common shares for sale to third parties. For that 30-day

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period and an additional 30-day period, Chilean publicly held corporations are not permitted to offer any unsubscribed common shares for sale to third parties on terms that are more favorable to the purchaser than those offered to shareholders. At the end of such additional 30-day period, Chilean publicly held corporations are authorized to sell non-subscribed shares to third parties on any terms, provided they are sold on a Chilean stock exchange.

### **Directors**

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

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

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

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

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

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

The Chilean Corporation Law sets forth a number of exceptions to the foregoing rules. In the following situations, transactions with related parties may be carried out without complying with the foregoing rules: (i) if a transaction does not involve a substantial amount (if it does not exceed 1.0% of the net worth of the company and does not exceed the equivalent of 2,000 UF or approximately US\$96,554 as of the date of this annual report on Form 20-F) unless such a transaction exceeds 20,000 UF (for this calculation all similar transactions carried out within a consecutive 12-month period between the same parties or for the same subject matter, shall be deemed as a single transaction), (ii) transactions which according to the policies determined by the board of directors, are deemed to be within the ordinary course of business (the determination of such policies shall be disclosed as a material fact and made available to shareholders), and (iii) if the counterparty is an entity in which the publicly-traded company has, directly or indirectly, at least a 95.0% ownership. As per the exemption indicated in (ii) above, on December 29, 2009, the Board of Directors of LATAM Airlines Group established policies setting forth the transactions that fall within the ordinary course of business. That determination was publicly disclosed on the same day and is currently available on LATAM Airlines Group's website under the "Corporate Governance" section.

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

The Chilean Corporation Law requires that an ordinary annual meeting of shareholders be held within the first four months of each year after being called by the board of directors (generally they are held in April, but in any case following the preparation of our

financial statements, including the report of our auditors, for the previous fiscal year). LATAM Airlines Group's by-laws further provide that the ordinary annual meeting of shareholders must take place between February 1 and April 30. The shareholders at the ordinary annual meeting approve the annual financial statements, including the report of our auditors, the annual report, the dividend policy and the final dividend on the prior year's profits, elect the board of directors (in our case, every two years or earlier if a vacancy occurs) and approve any other matter that does not require an extraordinary shareholders' meeting. The most recent extraordinary meeting of our shareholders was held on August 18, 2016, and the most recent ordinary annual meeting of our shareholders was held on April 26, 2016.

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

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

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

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

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

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

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

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

- a change in our corporate form, division or merger with another entity;
- amendment to our term of existence, if any;

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

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

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

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

### **Dividend and Liquidation Rights**

In accordance with the Chilean Corporation Law, LATAM Airlines Group must distribute an annual cash dividend equal to at least 30% of its annual net income calculated in accordance with IFRS, unless otherwise decided by a unanimous vote of the holders



of all issued shares, and unless and except to the extent it has accumulated losses. If there is no net income in a given year, LATAM Airlines Group can elect but is not legally obligated to distribute dividends out of retained earnings. All outstanding common shares are entitled to share equally in all dividends declared by LATAM Airlines Group, unless the shares have not been fully paid by the shareholder after being subscribed.

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

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

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

## **Approval of Financial Statements**

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

## **Right of Dissenting Shareholders to Tender Their Shares**

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

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

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

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

- the transformation of the company into • the merger of the company with or into another company;
- the conveyance of 50% or more of the assets of the company, whether or not such sale includes the company’s liabilities;



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- the adoption or amendment of any business plan which contemplates the conveyance of assets in excess of the foregoing percentage;
- the conveyance of 50% or more of the assets of a subsidiary, if the latter represents at least 20% of our assets;
- the conveyance of shares of a subsidiary which entails the transfer of control;
- the creation of preferential rights for a class of shares or an extension, amendment or reduction to those already existing, in which case the right to withdraw only accrues to the dissenting shareholders of the class or classes of shares adversely affected;
- the correction of any formal defect in the incorporation of the company or any amendment to the company's by-laws that grants the right to withdraw;
- the granting of security interests or personal guarantees to secure or guarantee third parties' obligations exceeding 50% of the company's assets, except with regard to subsidiaries;
- resolutions of the shareholders' meeting approving the decision to make private a public corporation in case the requirements set forth in "—General" cease to be met;
- if a publicly-traded company ceases to be obligated to register its shares in the Securities Registry of the SVS, and an extraordinary shareholders' meeting agrees to de-register the shares and finalize its disclosure obligations mandated by the Corporation Law;
- if the controlling shareholder of a publicly-traded company reaches over 95% of the shares (in such case, the right must be exercised within 30 days of the date in which the threshold is reached, circumstance that must be communicated by means of a publication); and
- such other causes as may be established by the company's by-laws (no such additional resolutions currently are specified in our by-laws).

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

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

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

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

## **Registration and Transfers**

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

## C. Material Contracts

### *Boeing*

#### *Boeing 767-300 Fleet*

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

On January 30, 1998, we entered into Purchase Agreement No. 2126 with The Boeing Company (“Purchase Agreement No. 2126”) to acquire two Boeing 767-300 passenger aircraft.

On November 11, 2004, we entered into supplemental agreement No. 16 to the Purchase Agreement No. 2126 to acquire one additional Boeing 767-300 freighter aircraft and three Boeing 767-300 passenger aircraft. The estimated gross value (at list prices) of these aircraft was US\$140,000,000.

On April 28, 2005, we entered into supplemental agreement No. 20 to the Purchase Agreement No. 2126 to acquire two additional Boeing 767-300 freighter aircraft and one Boeing 767-300 passenger aircraft. The estimated gross value (at list prices) of these aircraft was US\$300,000,000.

On July 20, 2005, we entered into supplemental agreement No. 21 to the Purchase Agreement No. 2126 to acquire three Boeing 767-300 passenger aircraft. The estimated gross value (at list prices) of these aircraft was US\$410,000,000.

On March 31, 2006, we entered into supplemental agreement No. 22 to the Purchase Agreement No. 2126 to acquire three Boeing 767-300 aircraft. Furthermore, we converted two Boeing 767-300 freighter aircraft to two Boeing 767-300 passenger aircraft. The estimated gross value (at list prices) of these aircraft was US\$430,000,000.

On December 14, 2006, we entered into supplemental agreement No. 23 to the Purchase Agreement No. 2126 to acquire three additional Boeing 767-300 passenger aircraft. The estimated gross value (at list prices) of these aircraft was US\$460,000,000.

On November 10, 2008, we entered into supplemental agreement No. 24 to the Purchase Agreement No. 2126 to acquire four additional Boeing 767-300 passenger aircraft and two purchase rights for Boeing 767-300 aircraft. Two of these aircraft were delivered in 2011, while the other two aircraft had a scheduled delivery date in 2012. The estimated gross value (at list prices) of these aircraft was US\$636 million.

On March 22, 2010, we entered into supplemental agreement No. 28 to the Purchase Agreement No. 2126, whereby we agreed to accelerate the delivery of ten 787-8 aircraft, substitute four aircraft from 787-916 to 787-816 and substitute three 767-316ER to 767-316F freighter aircraft. Moreover, on November 10, 2010, we entered into supplemental agreement No. 29 to the Purchase Agreement No. 2126, whereby we agreed to accelerate the delivery of three Aircraft and substitute those three aircraft from 767-316F to 767-316ER.

On February 15, 2011, we entered into supplemental agreement No. 30 to the Purchase Agreement No. 2126 to acquire three additional Boeing 767-300 passenger aircraft. Delivery was scheduled to take place in 2012. The estimated gross value (at list prices) of these aircraft was US\$510 million.

On May 10, 2011, we entered into supplemental agreement No. 31 to the Purchase Agreement No. 2126 to acquire five additional Boeing 767-300 passenger aircraft and four purchase rights for Boeing 767-300 passenger aircraft. Delivery was scheduled to take place in 2012. The estimated gross value (at list prices) of these aircraft was US\$870 million.

On December 22, 2011 we entered into supplemental agreement No. 32 to the Purchase Agreement No. 2126 to exercise two purchase options for two additional Boeing 767-300 passenger aircraft, while the remaining purchase options were deleted. Delivery was scheduled to take place in 2012. The estimated gross value (at list prices) of these aircraft was US\$340 million.

#### *Boeing 787-8/9 Fleet*

On October 29, 2007, we entered into Purchase Agreement No. 3256 with the Boeing Company (“Purchase Agreement No. 3256”) to acquire 18 Boeing 787-8 aircraft and eight Boeing 787-9 aircraft to be delivered between 2012 and 2016. This purchase agreement provides us with the option of purchasing 15 additional aircraft to be delivered in 2017 and 2018. The estimated gross value (at list prices) of the Boeing aircraft for which we had firm commitments to take delivery under this contract is US\$3.2 billion.

On March 22, 2010, we entered into supplemental agreement No. 1 to the Purchase Agreement No. 3256 to advance the scheduled delivery date of ten Boeing 787-8 aircraft and substitute four Boeing 787-9 aircraft into four Boeing 787-8 aircraft.

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On July 8, 2010, we entered into supplemental agreement No. 2 to the Purchase Agreement No. 3256 to advance the scheduled delivery date of two Boeing 787-8 aircraft.

On August 24, 2012, we entered into supplemental agreement No. 3 to the Purchase Agreement No. 3256 to replace two Boeing 787-8 aircraft with two Boeing 787-9 aircraft with a later delivery.

On September 16, 2013, we entered into a delay settlement agreement with respect to Purchase Agreement No. 3256, whereby we agreed to update delivery dates, settle consequences of the currently known delays and convert several future deliveries of B787-8 aircraft to B787-9 aircraft. This delay settlement agreement was amended on April 22, 2015 to update delivery dates of certain aircraft.

On April 22, 2015, we entered into Supplemental Agreement No. 4 to Purchase Agreement No. 3256 to reschedule the delivery dates of four Boeing 787-8 aircraft and replace four Boeing 787-8 aircraft with four Boeing 787-9 aircraft.

On July 3, 2015, we entered into Supplemental Agreement No. 5 to Purchase Agreement No. 3256 to reschedule the delivery date of one Boeing 787-8 aircraft.

On May 27, 2016, we entered into Supplemental Agreement No. 6 to Purchase Agreement No. 3256 to (i) convert four Model 787-816 Aircraft to four Model 787-916 Aircraft, and (ii) defer of two Model 787-916 Aircraft from 1Q 2018 and 2Q 2018 to 3Q 2018 and 4Q 2018 respectively.

On December 20, 2016, we entered into Supplemental Agreement No. 7 to Purchase Agreement No. 3256 to reschedule the delivery of four Model 787-916 Aircraft and document the actual delivery months for two Model 787-916 Aircraft in 2019.

### *Boeing 777 Freighter Fleet*

On July 3, 2007, we entered into Purchase Agreement No. 3194 with the Boeing Company (“Purchase Agreement No. 3194”) to acquire two Boeing 777 freighter aircraft with scheduled deliveries dates in 2011 and 2012. The estimated gross value (at list prices) of the Boeing aircraft for which we had firm commitments to take delivery under this contract was US\$545 million.

On March 22, 2010, we entered into letter agreement 6-1162-KSW-6454R2 to the Purchase Agreement No. 3194 to transfer two purchase rights from Purchase Agreement No. 2126 to Purchase Agreement No. 3194.

On November 2, 2010, we entered into supplemental agreement No. 2 to the Purchase Agreement No. 3194, to exercise one of the two options for a Boeing 777 freighter aircraft with scheduled delivery date in 2012. The estimated gross value (at list prices) of this aircraft was US\$280 million.

On September 22, 2011, we entered into supplemental agreement No. 3 to the Purchase Agreement No. 3194 to advance the scheduled delivery date of one firm Boeing 777 freighter aircraft during 2012.

On August 9, 2012, we entered into supplemental agreement No. 4 to the Purchase Agreement No. 3194 to reflect the configuration of the aircraft covered under such Purchase Agreement.

### *Airbus A320-Family Fleet*

On March 20, 1998, we entered into the Second A320-Family Purchase Agreement with Airbus S.A.S. (“Second A320-Family Purchase Agreement”) to acquire five Airbus A320-Family Aircraft.

On November 14, 2003, we entered into amendment No. 1 to the Second A320-Family Purchase Agreement to exercise three purchase rights for Airbus 319 aircraft, among other things.

On October 4, 2005, we entered into amendment No. 2 to the Second A320-Family Purchase Agreement to acquire 25 additional Airbus 320 family aircraft and 15 purchase rights for Airbus A320-Family aircraft.

On March 6, 2007, we entered into amendment No. 3 to the Second A320-Family Purchase Agreement to exercise 15 purchase rights for 15 Airbus A320-Family Aircraft.

On December 23, 2009, we entered into amendment No. 5 to the Second A320-Family Purchase Agreement to acquire 30 additional Airbus A320-Family Aircraft. The estimated gross value (at list prices) of these aircraft was US\$2.0 billion.

According to clause 12.2 of the Second A320-Family Purchase Agreement, applicable to all subsequent amendments, in case of a failure, as defined in such agreement, a service life policy for a period of 12 years after delivery of any given aircraft shall apply.

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On May 10, 2010, we entered into amendment No. 6 to the Second A320-Family Purchase Agreement to convert the aircraft type of three aircraft and advance the scheduled delivery date of 13 aircraft.

On May 19, 2010, we entered into amendment No. 7 to the Second A320-Family Purchase Agreement to advance the scheduled delivery date of three aircraft.

On September 23, 2010, we entered into amendment No. 8 to the Second A320-Family Purchase Agreement to convert the aircraft type of one aircraft and advance the scheduled delivery date of four aircraft.

On December 21, 2010, we entered into amendment No. 9 to the Second A320-Family Purchase Agreement to acquire 50 additional Airbus A320-Family Aircraft. The estimated gross value (at list prices) of these aircraft was US\$2,600,000,000.

On June 10, 2011, we entered into amendment No. 10 to the Second A320-Family Purchase Agreement to convert the aircraft type of three aircraft, to select sharklets for some aircraft and to notify delivery dates for some aircraft.

On November 3, 2011, we entered into amendment No. 11 to the Second A320-Family Purchase Agreement to convert the aircraft type of three aircraft and defer the scheduled delivery date of four aircraft.

On November 19, 2012, we entered into amendment No. 12 to the Second A320-Family Purchase Agreement to convert the aircraft type of three aircraft, identify certain Aircraft as Sharklet Installed Aircraft and others as Sharklet Capable Aircraft, as those are defined in such Purchase Agreement, and notify the scheduled delivery month for certain aircraft.

On August 19, 2013, we entered into amendment No. 13 to the Second A320-Family Purchase Agreement to convert several A320 aircraft to A321 aircraft and to postpone the scheduled delivery dates of several aircraft.

On 31 March, 2014, we entered into amendment No. 14 to the Second A320 Family Purchase Agreement covering the rescheduling of the scheduled delivery date of one Aircraft.

On May 16, 2014, we entered into amendment No. 15 to the Second A320 Family Purchase Agreement covering the rescheduling of the scheduled delivery month of certain Aircraft.

On July 15, 2014, we entered into amendment No. 16 to the Second A320 Family Purchase Agreement covering cancellation and substitution of certain Aircraft.

On October 30, 2014, we entered into a novation agreement covering the novation of the original TAM A320/A330 Family Purchase Agreement from TAM to LATAM.

On December 11, 2014, we entered into amendment No. 17 to the Second A320 Family Purchase Agreement covering the substitution of certain Aircraft.

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

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

### *Airbus A320 NEO-Family Fleet*

On June 22, 2011, we entered into A320 NEO Purchase Agreement (“A320 NEO Purchase Agreement”) to acquire 20 Airbus 320 NEO family aircraft with scheduled delivery dates in 2017 and 2018. The estimated gross value (at list prices) of these aircraft is US\$1.7 billion.

On February 27, 2014, we entered into amendment No. 1 to the A320 NEO Purchase Agreement covering the advancement of the date by which LATAM selects the propulsion systems.

On July 15, 2014, we entered into amendment No. 2 to the A320 NEO Purchase Agreement covering the order of incremental A320 NEO Aircraft.

On December 11, 2014, we entered into amendment No. 3 to the A320 NEO Purchase Agreement covering the order of incremental A320 NEO Aircraft and A321 NEO Aircraft.

On April 15, 2016, we entered into amendment No. 4 to the A320 NEO Purchase Agreement covering the reschedule of the delivery of eight Original NEO Aircraft and the conversion of four Original NEO Aircraft into A321 NEO Aircraft.

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On April 15, 2016, we entered into amendment No. 5 to the A320 NEO Purchase Agreement to reflect the changes in the technical specifications of the aircraft to be received under this agreement.

On August 8, 2016, we entered into amendment No. 6 to the A320 NEO Purchase Agreement covering the cancellation of the delivery of four A320 NEO Aircraft.

### *Aercap Holdings N.V.*

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

### *Aircastle Holding Corporation Limited*

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

### *GE Commercial Aviation*

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

### *GE Engine Services LLC*

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

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

### *Société AIR FRANCE*

On February 22, 2010, we entered into an engine services agreement with Société AIR FRANCE for the provision of maintenance services for GE90-110BL engines, which power 2 B777 freighter fleet and 1 spare engine, for a period of eight years per engine.

### *CFM International*

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

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

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

### *PW1100G-JM Engine Maintenance Agreement*

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

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

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

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

### *International Aero Engines AG*

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

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

### *CFM International*

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

### *PAAL Gemini Company Limited – PAAL Aquila Company Limited*

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

### *Jackson Square*

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

### *SABRE Contract*

In November 2009, we entered into a master agreement with SABRE Inc., pursuant to which LATAM was granted with access and use of certain reservation systems and other SABRE software solutions. This agreement will remain in force for five years or until the expiration of all Work Orders to the agreement. In addition, on May 4, 2015, we entered into a Master Services License Agreement with SABRE Inc. Pursuant to this agreement SABRE Inc., will grant LATAM access and use of certain reservation systems. This agreement will enter into force after the expiration of Work Order No. 1 to the agreement entered in November 2009 by LATAM and SABRE Inc. and will be effective for an initial period of 10 years.

In addition, LATAM has distribution agreements in place with SABRE as well as with other distribution providers.

### *TAM Material Contracts*

#### *A320/A330 Family Purchase Agreements*

In November 2006, TAM entered into a purchase agreement with Airbus S.A.S. for the purchase of 31 A320-Family Aircraft and six A330-200 aircraft, with deliveries between 2007 and 2010.

In January 2008, TAM entered into a new purchase agreement for 20 A320-Family Aircraft and four A330-200 aircraft, with deliveries between 2007 and 2014.

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In July 2010, TAM entered a purchase agreement for 20 A320-Family Aircraft with deliveries between 2014 and 2015.

In October 2011, TAM entered into a new purchase agreement for 10 A320-Family Aircraft with deliveries between 2016 and 2017, plus 22 A320 NEO Family Aircraft with deliveries between 2016 and 2018, plus 10 options rights for A320 NEO Family Aircraft.

In January 2012, TAM entered into Amendment No. 12 to the A320/A330 Purchase Agreement to reschedule the delivery dates of certain aircraft.

In November 2012, TAM entered into Amendment No. 13 to the A320/A330 Purchase Agreement to convert the aircraft type of A320 family aircraft.

In December 2012, TAM entered into Amendment No. 14 to the A320/A330 Purchase Agreement to convert the aircraft type of an A320 family aircraft and reschedule the delivery date of such aircraft.

In February 2013, TAM entered into Amendment No. 15 to the A320/A330 Purchase Agreement to make some changes to the scheduled delivery month of certain A320 Family Aircraft.

In February 2013, TAM entered into Amendment No. 16 to the A320/A330 Purchase Agreement to make a change to the aircraft type of certain A320 Family Aircraft, to the scheduled delivery month/quarter of certain A320 Family Aircraft and to make certain changes to the dates by which TAM will select the propulsion systems and NEO propulsion systems for certain Aircraft.

In August 2013, TAM entered into Amendment No. 17 to the A320/A330 Purchase Agreement to make a change to the scheduled delivery month of a certain A320 Family Aircraft and to make the selection of the propulsion systems and NEO propulsion systems for certain Aircraft.

In December 2014, TAM entered into Amendment No. 19 to the A320/A330 Purchase Agreement to reschedule and substitute certain A321 Aircraft.

In June 2015, TAM entered into Amendment No. 20 to the A320/A330 Purchase Agreement to make a change to the schedule delivery month of one A321 Aircraft.

In December 2015, TAM entered into Amendment No. 21 to the A320/A330 Purchase Agreement to make a change to the schedule delivery month of two A320 NEO Aircraft.

On April 15, 2016, we entered into amendment No. 22 to the A320/A330 Purchase Agreement covering the rescheduling of the delivery of one A321 Aircraft.

On April 15, 2016, we entered into amendment No. 23 to the A320/A330 Purchase Agreement to reflect the changes in the technical specifications of the aircraft to be received under this agreement.

On August 8, 2016, we entered into amendment No. 24 to the A320/A330 Purchase Agreement to cancel the delivery of eight A320 NEO Aircraft.

### *A350 Family Purchase Agreement*

In January 2008, TAM entered into a purchase agreement with Airbus S.A.S. for the purchase of 22 A350 aircraft plus 10 options rights for A350 aircraft.

In July 2010, TAM entered into amendment No. 1 to the A350 purchase agreement to exercise its option of five A350 XWB options.

In July 2014, TAM entered into amendment No. 2 to the A350 purchase agreement to reschedule the delivery of certain A350-900XWB and to amend certain provisions to reflect the latest aircraft specification.

In July 2014, TAM, LATAM and Airbus entered into a novation agreement novating the A350 purchase agreement from TAM to LATAM.

In October 2014, we entered into amendment No. 3 to the A350 purchase agreement to reschedule the scheduled delivery month of a certain A350-900XWB aircraft.

In September 2015, we entered into amendment No. 4 to the A350 purchase agreement to modify certain terms and conditions of such agreement and to convert a number of A350-900 XWB Aircraft into A350-1000 XWB Aircraft.

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In November 2015, we entered into amendment No. 5 to the A350 purchase agreement to convert a number of A350-900 XWB aircraft into six A350-1000 XWB aircraft and to reschedule the delivery of certain A350-900 XWB.

On February 3, 2016, we entered into amendment No. 6 to the A350 purchase agreement to reschedule the delivery of two A350—900 XWB Aircraft.

On August 8, 2016, we entered into amendment No. 7 to the A350 purchase agreement to change aircraft type, from two A350-900 XWB Aircraft to two A350—1000 XWB Aircraft.

On September 9, 2016, we entered into amendment No. 8 to the A350 purchase agreement to reschedule the delivery of two A350—900 XWB Aircraft.

### *Boeing 777 Purchase Agreement*

In February 2007, TAM entered into a purchase agreement with Boeing for the purchase of four Boeing 777-32WER aircraft.

In August 2007, TAM entered into supplemental agreement No. 1 to the 777 Purchase Agreement to exercise four option aircraft and to define certain aircraft configuration.

In March 2008, TAM entered into supplemental agreement No. 2 to the 777 Purchase Agreement to document its agreement on the descriptions and pricing of some options and master changes related to certain aircraft.

In December 2008, TAM entered into supplemental agreement No. 3 to the 777 Purchase Agreement for the purchase of two incremental 777 aircraft.

In July 2010, TAM entered into supplemental agreement No. 5 to the 777 Purchase Agreement to reschedule the delivery of certain aircraft.

In February 2011, TAM entered into supplemental agreement No. 6 to the 777 Purchase Agreement for the purchase of two incremental 777 aircraft.

In May 2014, TAM entered into supplemental agreement No. 7 to the 777 purchase agreement to substitute two 777-300ER Aircraft originally scheduled for delivery in 2014 for two 777-F aircraft for scheduled delivery in 2017.

In April 2015, TAM entered into supplemental agreement No. 8 to the 777 purchase agreement to reschedule the delivery of certain aircraft.

### *CFM56-5B Engine Maintenance Contract*

In March 2006, TAM entered into a services agreement with GE Celma, a Brazilian subsidiary of General Electric Engine Services division, for the maintenance by GE Celma of CFM56-5B engines to power 25 A320 family aircraft and four spare engines.

In March 2007 TAM entered into the Amendment 1 to the above-mentioned services agreement with GE Celma, extending the maintenance services to the engines powering additional 16 A320 family aircraft and two spare engines.

### *V2500-A5 Engine Maintenance Agreement*

In 2000, TAM entered into an engine maintenance contract with MTU Motoren-und Turbinen-Union München GmbH, or MTU, pursuant to which MTU agreed to provide certain maintenance, refurbishment, repair and modification services with respect to approximately 105 TAY650-15 aircraft engines. This contract is complemented by a novation and amendment agreement between us and Rolls-Royce Brazil Ltda. pursuant to which Rolls-Royce Brazil Ltda. replaced MTU as contract counterparty. This agreement terminates on June 30, 2015.

### *PW4168 Engine Maintenance Agreement*

In June 2007, TAM Linhas Aéreas S.A. entered into a purchase and support agreement engine sale, support and maintenance services agreement with Pratt & Whitney covering 20 engines contained in TAM's A330-200 fleet six aircraft plus two spares. It is also a rate per engine flight hour contract agreement, which includes cost control mechanisms for TAM. Amendment 3 July 2010 10 aircraft 4 spares.



#### *SABRE Contract*

In October 2003, TAM entered into a general services agreement with SABRE Travel International Limited, pursuant to which TAM was granted a license (relating to the provision of maintenance services) for electronic reservation technology and database backup. The term of the agreement was tacitly and automatically extended to cover all Work Orders currently in force under the agreement and will expire at the same time with the expiration of the last Work Order. In addition, TAM has distribution agreements in place with SABRE as well as with other distribution providers.

In addition, on May 4, 2015, we entered into a Master Services License Agreement with SABRE Inc. Pursuant to this agreement SABRE Inc., will grant TAM access and use of certain reservation systems. This agreement will enter into force after the expiration of that Work Order No. 1 to the November 2009 agreement between LATAM and SABRE Inc., and will be effective for an initial period of 10 years.

#### *Amadeus Contract*

In July 2009, TAM entered into a general services agreement with Amadeus IT Group S.A., pursuant to which TAM was granted a license (relating to the provision of maintenance services) for electronic reservation technology and database backup. The term of this agreement was ten years, unless terminated early by either party. On March 1, 2016, as part of LATAM's plan to unify the Passenger Service Platform and migrate to a single service provider, TAM sent Amadeus an early termination notice to be effective during 2017. In addition, TAM has distribution agreements in place with Amadeus as well as with other distribution providers.

### **D. Exchange Controls**

#### **Foreign Investment and Exchange Controls in Chile**

The Central Bank of Chile is responsible, among other things, for monetary policies and exchange controls in Chile. Equity investments, including investments in shares of stock by persons who are non-Chilean residents, have been generally subject in the past to various exchange control regulations restricting the repatriation of their investments and the earnings thereon.

Article 47 of the Central Bank Act and former Chapter XXVI of the Central Bank Foreign Exchange Regulations regulated the foreign exchange aspects of the issuance of ADSs by a Chilean company until April 2001. According to former Chapter XXVI, the Central Bank of Chile and the depositary had to enter into an agreement in order to gain access to the formal exchange market. The issuers of the shares underlying the ADSs and the custodian could also be parties to these agreements.

On April 16, 2001, the Central Bank of Chile agreed that, effective April 19, 2001:

- prior foreign exchange restrictions would be eliminated; and
- a new Compendium of Foreign Exchange Regulations (*Compendio de Normas de Cambios Internacionales*) would be applied.

The main objective of these amendments, as declared by the Central Bank of Chile, is to facilitate movement of capital in and out of Chile and to encourage foreign investment.

In connection with the change in policy, the Central Bank of Chile eliminated the following restrictions:

- a reserve requirement with the Central Bank of Chile for a period of one year (this mandatory reserve was imposed on foreign loans and funds brought into Chile to purchase shares other than those acquired in the establishment of a new company or in the capital increase of the issuing company; the reserve requirement was gradually decreased from 30% of the proposed investment to 0%);
- the requirement of prior approval by the Central Bank of Chile for certain operations;
- mandatory return of foreign currency to Chile; and
- mandatory conversion of foreign currency into Chilean pesos.

Under the new regulations, only the following limitations apply to these operations:

- the Central Bank of Chile must be provided with information related to certain operations; and
- certain operations must be conducted with the Formal Exchange Market.

The Central Bank of Chile also eliminated Chapter XXVI of the Compendium of Foreign Exchange Regulations, which regulated the establishment of an ADR facility by a Chilean company. Pursuant to the new rules, it is no longer necessary to seek the Central Bank of Chile's prior approval in order to establish an ADR facility or to enter into a foreign investment contract with the

Central Bank of Chile. The establishment of an ADR facility is now regarded as an ordinary foreign investment, and simply requires that the Central Bank of Chile be informed of the transaction pursuant to Chapter XIV of the amended Compendium of Foreign Exchange Regulations and that the foreign currency transactions related thereby be conducted through the Formal Exchange Market.

However, all contracts executed under the provisions of former Chapter XXVI (including the foreign investment contract among LATAM Airlines Group, the Central Bank of Chile and the ADS depository, or the “Foreign Investment Contract”), remained in full force and effect and continued to be governed by the provisions, and continued to be subject to the restrictions, set forth in former Chapter XXVI at the time of its abrogation. Our Foreign Investment Contract guaranteed ADS investors access to the Formal Exchange Market to convert amounts from Chilean pesos into U.S. dollars and repatriate amounts received with respect to deposited common shares or common shares withdrawn from deposit or surrender of ADRs (including amounts received as cash dividends and proceeds from the sale in Chile of the underlying common shares and any rights arising from them).

On May 10, 2007, the Board of the Central Bank of Chile resolved to interpret the regulations regarding the former Chapter XXVI in connection with the access granted to the Formal Exchange Market. These regulations allowed entities that carry out capital increases by means of the issuance of cash shares before August 31, 2007 to apply the aforementioned regulation to their capital increases, but only once and only if those shares can be fully subscribed and paid by August 31, 2008, among other conditions. Consequently, capital increases carried out after August 31, 2007 will have no guaranteed access to the Formal Exchange Market.

On October 17, 2012, the Central Bank of Chile, the depository and LATAM Airlines Group entered into a termination agreement in respect of LATAM’s existing foreign investment contract. ADR holders were notified about this termination in accordance with Section 16 of the Deposit Agreement. Upon termination of the foreign investment contract, holders of ADSs and the depository no longer have guaranteed access to the Formal Exchange Market. Currently, the ADS facility is governed by Chapter XIV of the Compendium on “Regulations applicable to Credits, Deposits, Investments and Capital Contributions from Abroad.” According to Chapter XIV, the establishment or maintenance of an ADS facility is regarded as an ordinary foreign investment, and it is not necessary to seek the Central Bank of Chile’s prior approval in order to establish an ADS facility. The establishment or maintenance of an ADS facility only requires that the Central Bank of Chile be informed of the transaction, and that the foreign currency transactions related thereby be conducted through the Formal Exchange Market.

#### **Investment in Our Shares and ADRs after the business combination with TAM**

As a result of the combination with TAM, investments made in shares of our common stock are subject to the following requirements:

- any foreign investor acquiring shares of our common stock who brought funds into Chile for that purpose must bring those funds through an entity participating in the Formal Exchange Market;
- any foreign investor acquiring shares of our common stock to be converted into ADSs or deposited into an ADR program who brought funds into Chile for that purpose must bring those funds through an entity participating in the Formal Exchange Market;
- in both cases, the entity of the Formal Exchange Market through which the funds are brought into Chile must report such investment to the Central Bank of Chile;
- all remittances of funds from Chile to the foreign investor upon the sale of the acquired shares of our common stock or from dividends or other distributions made in connection therewith must be made through the Formal Exchange Market;
- all remittances of funds from Chile to the foreign investor upon the sale of shares underlying ADSs or from dividends or other distributions made in connection therewith must be made through the Formal Exchange Market; and
- all remittances of funds made to the foreign investor must be reported to the Central Bank of Chile by the intervening entity of the Formal Exchange Market.

When funds are brought into Chile for a purpose other than to acquire shares to convert them into ADSs or deposit them into an ADR program and subsequently such funds are used to acquire shares to be converted into ADSs or deposited into an ADR program such investment must be reported to the Central Bank of Chile by the custodian within 10 days following the end of each month within which the custodian is obligated to deliver periodic reports to the Central Bank of Chile.

When funds to acquire shares of our common stock or to acquire shares to convert them into ADSs or deposit them into an ADR program are received by us abroad (i.e., outside of Chile), such investment must be reported to the Central Bank of Chile directly by the foreign investor or by an entity participating in the Formal Exchange Market within ten days following the end of the month in which the investment was made.

All payments in foreign currency in connection with our shares of common stock or ADSs made from Chile through the Formal Exchange Market must be reported to the Central Bank of Chile by the entity participating in the transaction. In the event there

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are payments made outside of Chile, the foreign investor must provide the relevant information to the Central Bank of Chile directly or through an entity of the Formal Exchange Market within the first ten calendar days of the month following the date on which the payment was made.

There can be no assurance that additional Chilean restrictions applicable to the holders of ADSs, the disposition of shares of our common shares underlying ADSs or the conversion or repatriation of the proceeds from such disposition will not be imposed in the future, nor can we assess the duration or impact of such restriction if imposed.

This summary does not purport to be complete and is qualified by reference to Chapter XIV of the Central Bank of Chile's Foreign Exchange Regulations, a copy of which is available in Spanish and English versions at the Central Bank's website at [www.bcentral.cl](http://www.bcentral.cl).

### **Voting Rights**

Holders of our ADSs, which represent common shares, may instruct the depositary to vote the shares underlying their ADRs. If we ask holders for instructions, the depositary will notify such holders of the upcoming vote and arrange to deliver our voting materials to such holders. The materials will describe the matters to be voted on and explain how holders may instruct the depositary to vote the shares or other deposited securities underlying their ADSs as they direct by a specified date. For instructions to be valid, the depositary must receive them on or before the date specified as "Vote Cut-Off Date." The depositary will try, as far as practical, subject to Chilean law and the provisions of our by-laws, to vote or to have its agents vote the shares or other deposited securities as holders instruct. Otherwise, holders will not be able to exercise their right to vote unless they withdraw the shares. However, holders may not know about the meeting far enough in advance to withdraw the shares. We will use our best efforts to request that the depositary notify holders of upcoming votes and ask for their instructions.

If the depositary does not receive voting instructions from a holder by the specified date, it will consider such holder to have authorized and directed it to give a discretionary proxy to a person designated by our board of directors to vote the number of deposited securities represented by such holder's ADSs. The depositary will give a discretionary proxy in those circumstances to vote on all questions to be voted upon unless we notify the depositary that:

- we do not wish to receive a discretionary proxy;
- we think there is substantial shareholder opposition to the particular question; or
- we think the particular question would have an adverse impact on our shareholders.

The depositary will only vote or attempt to vote as such holder instructs or as described above.

We cannot assure holders that they receive the voting materials in time to ensure that they can instruct the depositary to vote their shares. This means that holders may not be able to exercise their right to vote and there may be nothing they can do if their shares are not voted as they requested.

### **Exchange Rates**

Prior to 1989, Chilean law permitted the purchase and sale of foreign exchange only in those cases explicitly authorized by the Central Bank of Chile. The Central Bank Act liberalized the rules that govern the ability to buy and sell foreign currency. The Central Bank Act empowers the Central Bank of Chile to determine that certain purchases and sales of foreign currency specified by law must be carried out exclusively in the Formal Exchange Market, which is made up of the banks and other entities authorized by the Central Bank of Chile. All payments and distributions with respect to the ADSs must be conducted exclusively in the Formal Exchange Market.

For purposes of the operation of the Formal Exchange Market, the Central Bank of Chile sets a reference exchange rate (*dólar acuerdo*). The Central Bank of Chile resets the reference exchange rate monthly, taking internal and external inflation into account, and adjusts the reference exchange rate daily to reflect variations in parities between the Chilean peso, the U.S. dollar, the Japanese yen and the European euro.

The observed exchange rate (*dólar observado*) is the average exchange rate at which transactions were actually carried out in the Formal Exchange Market on a particular day, as certified by the Central Bank of Chile on the next banking day.

Prior to September 3, 1999, the Central Bank of Chile was authorized to buy or sell dollars in the Formal Exchange Market to maintain the observed exchange rate within a specified range above or below the reference exchange rate. On September 3, 1999, the Central Bank of Chile eliminated the exchange band. As a result, the Central Bank of Chile may buy and sell foreign exchange in the Formal Exchange Market in order to maintain the observed exchange rate at a level the Central Bank of Chile determines.

Purchases and sales of foreign exchange may be effected outside the Formal Exchange Market through the Informal Exchange Market (*Mercado Cambiario Informal*) established by the Central Bank in 1990. There are no limits on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the observed exchange rate.

Although our results of operations have not been significantly affected by fluctuations in the exchange rates between the peso and the U.S. dollar because our functional currency is the U.S. dollar, we are exposed to foreign exchange losses and gains due to exchange rate fluctuations. Even though the majority of our revenues are denominated in or pegged to the U.S. dollar, the Chilean government's economic policies affecting foreign exchange and future fluctuations in the value of the peso against the U.S. dollar could adversely affect our results of operations and an investor's return on an investment in ADSs.

## **E. Taxation**

### **Chilean Tax**

The following discussion relates to Chilean income tax laws presently in force, including Ruling No. 324 of January 29, 1990 of the Chilean Internal Revenue Service ("Chilean IRS") and other applicable regulations and rulings, all of which are subject to change. The discussion summarizes the principal Chilean income tax consequences of an investment in the ADSs or common shares by a person who is neither domiciled in, nor a resident of, Chile or by a legal entity that is incorporated abroad not organized under the laws of Chile and does not have a branch or a permanent establishment located in Chile (such an individual or entity is referred to herein as a Foreign Holder). For purposes of Chilean tax law, an individual holder is a resident of Chile if such person has resided in Chile for more than six consecutive months in one calendar year or for a total of six months in two consecutive tax years. In addition, an individual is considered domiciled in Chile in case he or she resides in Chile with the actual or presumptive intent of staying in the country. The discussion is not intended as tax advice to any particular investor, which can be rendered only in light of that investor's particular tax situation.

Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign investors, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may only be amended by another statute. In addition, the Chilean tax authorities enact rulings and regulations of either general or specific application and interpret the provisions of Chilean tax law. Chilean tax may not be assessed retroactively against taxpayers who act in good faith relying on such rulings, regulations and interpretations, but Chilean tax authorities may change these rulings, regulations and interpretations prospectively. On February 4, 2010, representatives of the governments of the United States and Chile signed an income tax treaty. The treaty will have to be approved by the U.S. Senate before it may become effective.

Law No. 20,780, enacted on September 29, 2014, in conjunction with Law No. 20,899, enacted on February 8, 2016 (both, the "Tax Reform Act") introduced a comprehensive modification to the Chilean income tax system. The Tax Reform Act introduced changes to the corporate tax rate, mandating a gradual increase of the rate from 20% to 25% or 27% in certain cases, the rules regarding minimum capitalization, and the taxation of Chilean investments abroad (the controlled-foreign-corporation rules), and introduced two new alternative general income tax regimes for Chilean taxpayers (Fully Integrated Regime and Partially Integrated Regime), among others. The new rules are set to come into effect gradually, with the implementation process having commenced on October 1, 2014 and set to be completed by January 1, 2018. The Fully Integrated Regime and the Partially Integrated Regime apply as from January 1, 2017. The mandatory regime for entities organized as stock corporations like Latam Airlines Group S.A. is the Partially Integrated System. The Corporate Income Tax rate for companies under this regime is 27% from 2018 onward. A transition rate of 25.5% applies in 2017.

#### *Cash Dividends and Other Distributions*

Under the new Partially Integrated Regime, cash dividends we pay with respect to the ADSs or common shares held by a Foreign Holder will be subject to a 35% Chilean withholding tax, which we withhold and pay over to the Chilean tax authorities and which we refer to as the Withholding Tax. A credit against the Withholding Tax is available based on the corporate income tax rate of the year of distribution and provided a sufficient balance of accumulated corporate income tax credits is available. These credits correspond to corporate income tax we actually paid on the accumulated income (referred to herein as the First Category Tax or FCIT). However, this credit does not reduce the Withholding Tax on a one-for-one basis because it also increases the base on which the Withholding Tax is imposed. If we register net income but taxable losses, no credit against the Withholding Tax may be available. In addition, if we distribute less than all of our distributable income, the credit for First Category Tax we pay is proportionately reduced.

The Partially Integrated Regime reduces the amount of First Category Tax creditable against the Withholding Tax for certain

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Foreign Holders. As a general rule, only 65% of the First Category Income Tax credit will actually offset the Withholding Tax. 35% of the credit must be added back to the Withholding Tax amount to be paid into the Treasury (referred to herein as First Category Tax Credit Restitution). However, if a tax treaty is in place between Chile and the country of domicile of a Foreign Holder and such Foreign Holder is entitled to treaty benefits in relation to the income, the full First Category Tax credit will continue to be available to offset against the Withholding Tax.

Under a transitory provision in force until December 31, 2019, the full 27% First Category Tax will also be creditable against the 35% Withholding Tax if the recipient of a dividend distribution is a shareholder resident in a country with which Chile has a tax treaty signed before January 1st, 2017, although such treaty is not yet in force.

In general, the example below illustrates the effective Withholding Tax burden on a cash dividend received by a Foreign Holder assuming a Withholding Tax rate of 35%, a First Category Tax rate of 27% and a distribution of 30% of the consolidated net income of the Company after payment of the First Category Tax:

	Foreign Holder in Treaty Country	Foreign Holder in Non Treaty country
The Company's taxable income	100.00	100.00
First Category Tax (27% of Ch\$100)(*)	(27.00)	(27.00)
Net distributable income	73.00	73.00
Dividend distributed (*)	21.90	21.90
First category increase	8.10	8.10
Amount subject to Withholding Tax (**)	30.00	30.00
Withholding Tax	(10.50)	(10.50)
Credit for First Category Tax	8.10	8.10
Add back 35% of the First Category Tax	N/A	(2.84)
Net tax withheld	(2.40)	(5.24)
Net dividend received	19.5	16.66
Effective dividend withholding rate	11%	24%

(\*) Special considerations apply to a distribution in 2017

(\*\*) 30% of net distributable income.

(\*\*) The dividend of Ch\$21.90 grossed up with the First Category Tax credit of Ch\$8.10.

The effective rate of Withholding Tax to be imposed on dividends we pay will depend on the First Category Tax rate applicable in the year of distribution and on the balance of First Category Income Tax credits accumulated by the company. The First Category Tax rate will be 27% for 2018 and following years. Special considerations apply to a distribution in 2017. These considerations are set out in a separate paragraph further below. The First Category Income Tax credits generated under the new tax regime, i.e. as of 2017, will be allocated first. Once the balance of First Category Tax credits generated as of 2017 are exhausted, the First Category Tax credits accumulated until December 31, 2016 will be used. In that event the First Category Tax credit available against the Withholding Tax will not correspond to the First Category Tax rate of the year of distribution but to the average rate of First Category Tax credits accumulated until December 31, 2016. This average rate will be determined by dividing the aggregate First Category Tax Credits accumulated until December 31, 2016 by the aggregate retained taxable profits accumulated at the same date. The First Category Tax credits accumulated until December 31, 2016 are not subject to the First Category Tax Credit Restitution irrespective of whether a tax treaty is in place with the country of the Foreign Holder or not.

The First Category Tax credits accumulated until December 31, 2016 correspond to the First Category Tax we actually paid on the income generated in a given year. For earnings generated from 1991 until 2001, the First Category Tax rate was 15%. The rate was 16.0% in 2002, 16.5% in 2003, 17% from 2004 until 2010, 20% from 2011 until 2013, 21% in 2014, 22.5% in 2015 and 24% in 2016.

In the event that the accumulated First Category Tax credits are not sufficient to cover any particular dividend, we will generally withhold tax from the dividend at the full 35% rate.

Dividend distributions made in property would be subject to the same Chilean tax rules as cash dividends based on the fair market value of such property. Stock dividends and the distribution of preemptive rights are not subject to Chilean taxation.

#### *Special Considerations for distributions in 2017*

The First Category Tax rate for 2017 is 25.5%. However, in 2017 the First Category Tax credit available against the Withholding Tax will not correspond to the First Category Tax rate of the year but to the average rate of First Category Tax credits accumulated until December 31, 2016. This average rate will be determined by dividing the aggregate First Category Tax Credits accumulated until December 31, 2016 by the aggregate retained taxable profits accumulated at the same date. These credits are not subject to the First Category Tax Credit Restitution, irrespective of whether a tax treaty is in place with the country of the Foreign Holder or not.

#### *Capital Gains*

Gain from the sale or other disposition by a Foreign Holder of ADRs evidencing ADSs outside Chile will not be subject to Chilean taxation. The deposit and withdrawal of common shares in exchange for ADRs will not be subject to any Chilean taxes.

Gain recognized on a sale or disposition of common shares by a Foreign Holder (as distinguished from sales or exchanges of ADRs evidencing ADSs representing such common shares) may be subject to a 35% Withholding Tax. Moreover, a gain not exceeding 10 Annual Tax Units (US\$8,278 as of December 31, 2016) recognized by a Foreign Holder without taxable presence in Chile in a sale to a non-related buyer will not be taxable.

The gain on the sale of shares of common stock by a Foreign Holder is subject to a withholding of 35% of the gain. If the gain subject to taxation cannot be determined, the Foreign Holder is subject to a provisional withholding of 10% of the total (sale price) amount, without any deduction, when the amounts are paid to, credited to, accounted for, put at the disposal of, or corresponding to, the Foreign Holder. The Foreign Holder would be entitled to request a tax refund for any amounts withheld in excess of the taxes actually due in April of the following year upon filing its corresponding tax return. Gain recognized in the transfer of common shares that have a high presence in the stock exchange, however, is not subject to capital gains tax in Chile, provided that the common shares are transferred in a local stock exchange or within the process of a public tender of common shares governed by the Securities Market Law.

The common shares must have been acquired either in a local stock exchange, within the process of a public tender of common shares governed by the Securities Market Law, in an initial public offer of common shares resulting from the formation of a corporation or a capital increase of the same, or in an exchange of convertible bonds.

Please note that, Chile's IRS Ruling No. 1,480 (issued on August 22, 2014) confirmed that capital gains stemming from the sale of shares with high stock market presence acquired through the exchange of American Depositary Receipts (ADRs) for shares is not subject to capital gains tax in Chile. Such exemption is applicable provided that the ADRs comply with the requirements established by the Chilean Superintendence for Securities and Insurance (SVS) for the public offering of securities in Chile (i.e. if the ADRs are registered in the Foreign Securities Registry of the SVS, or their registration has been exempted by the SVS under a cooperation agreement signed with regulators of foreign markets), and the underlying shares have been registered in the Securities Registry of the SVS and on a Chilean Stock exchange. Shares are considered to have a high presence in the stock exchange when they:

- are registered in the Securities Registry;
- are registered in a Chilean Stock exchange; and
- meet at least one of the following requirements:
  - i. have an adjusted presence equal to or above 25%;
  - ii. have a Market Maker.

To calculate the adjusted presence of a particular share, the aforementioned regulation first requires a determination of the number of days in which the operations regarding the stock exceeded, in Chilean pesos, the equivalent of 1,000 UF (US\$39,356 as of December 31, 2016) within the previous 180 business days of the stock market. That number must then be divided by 180, multiplied by 100, and expressed in a percentage value. This tax regime does not apply if the transaction involves an amount of shares that would allow the acquirer to take control of the publicly traded corporation, in which case the ordinary tax regime referred to in the previous paragraph will apply, unless the transfer is part of a tender offer governed by the Securities Market Law or the transfer is done on a Chilean stock exchange, without substantially exceeding the market price.

To meet the "Market Maker" requirement the issuer of the shares must execute a written contract with a stock broker incorporated in Chile that fulfills some additional requirements.

A capital gains tax exemption for "foreign institutional investors" such as mutual funds and pension funds was repealed as from May 1, 2014 by Law 20,712. However, the law includes a grandfathering provision for shares acquired before May 1, 2014. This provision establishes an exemption on the capital gain obtained in the sale of shares that are publicly traded and have a high presence in a stock exchange when the sale is made by a foreign institutional investor, provided that the sale is made in a local stock exchange or in a public tender in accordance with the provisions of the Securities Market Law, or in the redemption of fund quotas, and the shares were acquired before May 1, 2014.

Pursuant to the regulations of the grandfathering rule, to qualify as a foreign institutional investor an entity must be formed outside of Chile, not have a domicile in Chile, and must be at least one of the following:

- a fund registered with a regulatory authority of a EU or OECD country, or other country duly authorized by the SVS;
- a pension fund that is formed exclusively by natural persons that receive pensions out of an accumulated capital in the fund, regulated by an authority of the countries mentioned above;
- an insurance company regulated by the competent regulatory authority of the insurance business, as appropriate, which must be part of IAIS, *International Association of Insurance Supervisors*, or ASSAL, *Asociación de Supervisores de Seguros de América Latina*;
- a foreign State or a division with political autonomy recognized by Chile, whether they invest through its government, central bank, issuing bank or corresponding monetary authority. Moreover, the investment can be made through investment authorities, investment agencies, investment corporations or other entities, provided that its purpose is to provide financial resources for the exclusive benefit of the foreign State or territorial division, and provided that the vehicle is not used also for investments or resources other than those of the sovereign fund;
- endowment funds duly registered in a EU or OECD country, or other country duly authorized by the SVS.

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The foreign institutional investor must not directly or indirectly participate in the control of the corporations issuing the shares it invests in, nor possess or participate directly or indirectly in 10% or more of the capital or the profits of such corporations.

Another requirement for the exemption is that the foreign institutional investor must execute a written contract with a bank or a stock broker incorporated in Chile. In this contract, the bank or stock broker must undertake to execute purchase and sale orders, verify the applicability of the tax exemption or tax withholding and inform the Chilean IRS of the investors it works with and the transactions it performs. Finally, the foreign institutional investor must register with the Chilean IRS by means of a sworn statement issued by such bank or stock broker.

The tax basis of common shares received in exchange for ADRs will be the acquisition value of the common shares on the date of exchange duly adjusted for local inflation. The valuation procedure set forth in the deposit agreement, which values common shares which are being exchanged at the highest price at which they trade on the SSE on the date of the exchange, will determine the acquisition value for this purpose. Consequently, the surrender of ADRs for common shares and the immediate sale of the common shares for the value established under the Deposit Agreement will not generate a capital gain subject to taxation in Chile, provided that the sale of the common shares is made on the same date on which the exchange of ADRs for common shares is recorded, or if the price of the common shares at the exchange date, as determined above, is higher than the price at which the common shares are sold.

The exercise of preemptive rights relating to the common shares will not be subject to Chilean taxation. Any gain obtained by a Foreign Holder without taxable presence in Chile on the sale of preemptive rights relating to the common shares will be subject to Withholding Tax (the former being creditable against the latter).

### *Other Chilean Taxes*

There are no Chilean inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of ADSs by a Foreign Holder, but such taxes generally will apply to the transfer at death or by gift of the common shares by a Foreign Holder. There are no Chilean stamp, issue, registration or similar taxes or duties payable by Foreign Holders of ADSs or common shares.

### *Withholding Tax Certificates*

Upon request, we will provide to Foreign Holders appropriate documentation evidencing the payment of the Withholding Tax (net of the applicable First Category Tax credit).

## **United States Federal Income Tax Considerations**

This section describes the material United States federal income tax consequences to a U.S. holder (as defined below) of owning common shares or ADSs. It applies to you only if you hold your common shares or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:



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- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,
- a tax-exempt organization,
- a life insurance company,
- a person liable for alternative minimum tax,
- a person that actually or constructively owns 10% or more of our voting stock,
- a person that holds common shares or ADSs as part of a straddle or a hedging or conversion transaction,
- a person that purchases or sells common shares or ADSs as part of a wash sale for tax purposes, or
- a U.S. holder (as defined below) whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. There is currently no comprehensive income tax treaty in effect between the United States and the Republic of Chile. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

If a partnership holds the common shares or ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the common shares or ADSs should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the common shares or ADSs.

You are a U.S. holder if you are a beneficial owner of common shares or ADSs and you are:

- a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

*You should consult your own tax advisor regarding the United States federal, state and local and the Chilean and other tax consequences of owning and disposing of common shares and ADSs in your particular circumstances.*

### *ADSs*

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the common shares represented by those ADRs. Exchanges of common shares for ADRs, and ADRs for common shares, generally will not be subject to United States federal income tax.

### *Taxation of Dividends*

Under the United States federal income tax laws, and subject to the passive foreign investment company (“PFIC”) rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation.

If you are a noncorporate U.S. holder, dividends paid on the ADSs or common shares that constitute qualified dividend income will be taxable to you at the preferential rates applicable to long-term capital gains if you hold the ADSs or common shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends paid on the ADSs or common shares will be treated as qualified dividend income if:

- the ADSs or common shares are readily tradable on an established securities market in the United States; and
- we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a PFIC.

We believe that our common shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes. See “—PFIC Rules” below. The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Accordingly, we expect that dividends we pay with respect to the ADSs will be qualified dividend income. Because our common shares are not expected to be listed on any United States securities market, it is unclear whether dividends we pay with respect to the common shares will also be qualified dividend income. If dividends we pay with respect to our common shares are not qualified dividend income, then the U.S. dollar amount of such dividends received by a U.S. holder (including dividends received by a noncorporate U.S. holder) will be subject to taxation at ordinary income tax rates.

You must include any Chilean tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of common shares, or the Depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Chilean pesos payments made, determined at the spot Chilean pesos/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the common shares or ADSs and thereafter as capital gain. However, we do not expect to calculate earnings and profits in accordance with United States federal income tax principles. Accordingly, you should expect to generally treat distributions we make as dividends.

Subject to generally applicable limitations and conditions under the Internal Revenue Code, Chilean Withholding Tax withheld and paid over to the Chilean tax authorities (after taking into account the credit for the First Category Tax, when it is available) will be creditable or deductible against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the preferential tax rates. To the extent a refund of the tax withheld is available to you under Chilean law, as is the case if the amount of Chilean Withholding Tax initially withheld from a dividend is determined to be excessive as described above under “—Taxation—Chilean Tax—Cash Dividends and Other Distributions,” the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability.

Dividends will generally be income from sources outside the United States and will, depending on your circumstances, be either “passive” or “general” income for purposes of computing the foreign tax credit allowable to you.

### *Taxation of Capital Gains*

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your common shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your common shares or ADSs. Capital gain of a noncorporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

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Consequently, you may not be able to use the foreign tax credit arising from any Chilean tax imposed on the disposition of common shares or ADSs unless such credit can be applied against tax due on other income treated as derived from foreign sources in the appropriate limitation category.

### *Medicare Tax*

A U.S. holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the U.S. holder's "net investment income" (or "undistributed net investment income" in the case of an estate or trust) for the relevant taxable year and (2) the excess of the U.S. holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between \$125,000 and \$250,000, depending on the individual's circumstances). A holder's net investment income generally includes its dividend income and its net gains from the disposition of shares or ADSs, unless such dividend income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the shares or ADSs.

### *PFIC Rules*

We believe that common shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, gain realized on the sale or other disposition of your common shares or ADSs would in general not be treated as capital gain. Instead, if you are a U.S. holder, unless you elect to be taxed annually on a mark-to-market basis with respect to your common shares or ADSs, or you elect to be taxed annually on the earnings of the PFIC attributable to your shares or ADSs as a "qualified electing fund", you would be treated as if you had realized such gain and certain "excess distributions" ratably over your holding period for the common shares or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your common shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your common shares or ADSs. Dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are treated as a PFIC with respect to you either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

### **F. Dividends and Paying Agents**

Not applicable.

### **G. Statement by Experts**

Not applicable.

### **H. Documents on Display**

We are subject to the information requirements of the Exchange Act, as amended. In accordance with these requirements, we file reports, including annual reports on Form 20-F and other information with the SEC. These materials, including this annual report and the exhibits hereto, may be inspected and copied at the SEC's public reference rooms in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. In addition, some of our SEC filings, including those filed on and after February 19, 2002, are also available to the public through the SEC's website at [www.sec.gov](http://www.sec.gov).

As a foreign private issuer, we are not subject to the same disclosure requirements as a domestic U.S. registrant under the Exchange Act. For example, we are not required to prepare and issue quarterly reports. However, we furnish our shareholders with annual reports containing financial statements audited by our independent auditors and make available to our shareholders quarterly reports containing unaudited financial data for the first three quarters of each fiscal year. We file such quarterly reports with the SEC within two months of each quarter of our fiscal year, and we file annual reports on Form 20-F within the time period required by the SEC, which is currently six months from December 31, the end of our fiscal year.

### **I. Subsidiary Information**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****General**

Given the nature of its business, LATAM is exposed mainly to three types of market risk:

- Fuel price fluctuations;
- Foreign exchange fluctuations; and
- Interest rate fluctuations.

Management assesses the level of our exposure to these risks periodically to determine the extent to which we should hedge against them and the most effective mechanisms to implement the hedge. LATAM purchases derivative instruments in foreign markets to offset market risk exposure, typically utilizing a mix of financial and commodity derivatives. LATAM does not enter into or hold derivative contracts for trading purposes.

**Risk of Fluctuations in Fuel Prices**

Jet fuel price fluctuations are largely dependent on supply and demand for crude oil, OPEC decisions, refinery capacities, stock levels of crude oil and geopolitical factors.

LATAM fuel consumption for 2016 was 1,185.5 million gallons and the consumption forecast for 2017 is 1,179.6 million gallons. To manage its exposure to the cost of fuel, LATAM has a hedging program based on an approved policy. This policy aims to hedge approximately 20-60% of our aggregate fuel consumption, using commodity derivatives for the expected fuel consumption in the short term 3-6 months, where the pass-through of cost changes is limited.

Jet Fuel is not the only underlying asset that LATAM may use for hedging purposes. It may also consider derivative instruments in other underlying commodity assets such as crude oil (BRENT), West Texas intermediate (WTI) or heating oil (HO).

To keep the Company competitive, a portion of the fuel consumption is not hedged, as a drop in fuel prices positively affects the Company through a reduction in costs.

We may be exposed to fuel hedging transaction losses if our counterparties default. To manage this credit risk, we select counterparties based on their credit ratings and monitor our relative market position on a daily basis. We generally are not required to post collateral and do not require our counterparties to post collateral in respect of positions under our fuel hedging transactions. For more information see “Item 3. Key Information— D. Risk Factors—Risks Related to Our Operations and the Airline Industry—*Our operations are subject to fluctuations in the supply and cost of jet fuel, which could adversely impact our business.*”

During 2016, 2015 and 2014 we entered into a mix of swaps and option contracts on BRENT, WTI and JET FUEL 54 USGC with investment grade banks and other financial entities for notional fuel purchases (non-delivery forward). Details of the fuel hedging program are shown below:

	LATAM Fuel Hedging Year ended December 31,		
	2016 LATAM	2015 LATAM	2014 LATAM
Gallons Purchased (million)	781.2	544.7	684.3
% Total Annual Fuel Consumption	66.7%	43.6%	55.6%
Combined Result of Hedges (in million of US\$)	(48.0)	(239.4)	(108.7)

As of December 31, 2016, the fair value of our outstanding fuel related derivative contracts was estimated to be US\$ 8.1 million (positive).

Gains and losses on the hedging contracts outlined above are recognized as a cost of sales in the income statement when the fuel subject to the hedge is consumed. Premiums paid related to fuel derivative contracts are recorded as prepaid expenses (current assets) and recorded as an expense at the time the contract expires.

Under IFRS, the fair value of the hedging derivatives is booked as a non-current asset or liability if the remaining maturity of the item is hedged for more than 12 months, and as a current asset or liability if the remaining term of the item is hedged for less than 12 months. The fair value of the derivative contracts is deferred within an equity reserve account. Please see Note 2.10 to our audited consolidated financial statements. As the current positions do not represent changes in cash flows but a variation in the exposure to the market value, the Company’s current hedge positions have no impact on income; they are booked as cash flow hedge contracts, so a variation in fuel prices has an impact on the Company’s net equity.

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The following table shows the sensitivity analysis of our hedging contracts to reasonable changes in fuel prices and their effect on equity. The term used for the projection was June 30, 2017, the last maturity date of our current fuel hedge contracts. The calculations were made considering a parallel movement of US\$5 per barrel in the curve of the BRENT and JET crude futures benchmark price at the end of December 2016, 2015 and 2014.

	LATAM fuel price sensitivity (effect on equity)		
	Position as of December 31,		
	2016 LATAM	2015 LATAM	2014 LATAM
	(millions of US\$ per barrel)		
<b>BRENT or JET benchmark price</b>			
+5	+3.1	+5.4	+24.9
-5	-4.8	-2.8	-25.1

During the periods presented, the Company has not recorded amounts for ineffectiveness in the consolidated income statement pursuant to IFRS principles for recognizing and measuring financial instruments.

Given the fuel hedge structure as of December 31, 2016, which reflects only a partial hedge of our expected fuel consumption, a vertical fall by US\$5 in the BRENT and JET benchmark price (the monthly daily average) for each month would have meant savings of approximately US\$ 116.3 million in the cost of the Company's total fuel consumption. A vertical increase by US\$5 in the JET and BRENT benchmark price (the monthly daily average) for each month would have meant an additional cost of approximately US\$ 114.5 million of the Company's total fuel consumption.

### Risk of Variation in Foreign Exchange Rates

The functional currency of the LATAM holding company is the U.S. dollar. Because LATAM conducts its business in local currencies in several countries, it faces the risk of variations in multiple foreign currency exchange rates. Depreciation of these currencies against the U.S. dollar could have adverse effects both transactional and translational, because part of our revenues and expenses are denominated in those currencies.

At the same time, LATAM's affiliates are exposed to foreign exchange risk, which could in turn impact the consolidated results of the Company.

The greatest exposure to future cash flows is mainly presented by the subsidiary TAM S.A. and volatility in the R\$/US\$ exchange rate. TAM S.A.'s earnings are generated largely in R\$. We actively manage the R\$/US\$ exchange rate risk by entering into FX derivative contracts and carrying out internal operations for obtaining natural hedging. Additionally, LATAM manages its economic exposures of future flows revenues on Great Britain Pound (GBP), by entering into FX derivative contracts.

In lower concentration, the company also faces foreign exchange risk relating to additional currencies such as: Euro, Chilean Peso, Australian Dollars, Argentinean Peso, Paraguayan Guaraní, Mexican Peso, Peruvian Nuevo Sol, Colombian Peso and New Zealand Dollars.

As of December 31, 2016, the fair value of our FX derivative contracts was estimated to be US\$ 1.1 million (negative).

Because changes in the values of existing FX derivative positions do not represent changes in cash flows, but a variation in the exposure of market value, the outstanding hedging positions do not impact results (they are registered as cash flow hedges under IFRS, therefore, a change in the foreign exchange rate has an impact on the equity of the Company).

The following table shows the sensitivity of the fair value of financial instruments as a result of reasonable changes in the exchange rates of British Pounds and Brazilian reais. The term projection is defined until the end of the last hedging contract in force:

LATAM foreign exchange sensitivity Derivatives	
Position as of December 31, 2016	
Appreciation (depreciation) of US\$	Effect on equity (Millions of US\$)
+10%	+3.4
-10%	-1.0

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As of December 31, 2016, the Company has FX derivatives of US\$60 million (notional) for FX BRL and US\$10 million (notional) for FX GBP.

Balance sheet exposure of LATAM to the Brazilian Real is related to the functional currency of TAM and its balance sheet currency mismatch, as TAM has a net US\$ liability position. When the balance sheet denominated in U.S. dollars is translated to Brazilian Real, the financial results of TAM may fluctuate and therefore could impact LATAM's financial results.

The exposure to the Brazilian real on TAM's balance sheet has been reduced from over US\$4.0 billion since the combination in June 2012 to around US\$1.2 billion as of December 31, 2016. The Company continues working to mitigate this exposure through the execution of the fleet transfer from TAM to LATAM and payment of TAM's debt denominated in USD.

The following table shows the sensitivity of TAM's financial results to changes in the R\$/US\$ exchange rate:

	TAM exchange rate sensitivity Position effect on pre-tax earnings as of December 31,		
	2016	2015	2014
	LATAM	LATAM	LATAM
(millions of US\$)			
<b>Appreciation (depreciation) of R\$/US\$</b>			
-10%	+119.2	+67.6	+69.8
+10%	-119.2	-67.6	-69.8

Our foreign currency exchange exposure as of December 31, 2016 was as follows:

	LATAM foreign currency exchange exposure								
	U.S. Dollars MU\$	% of total	Brazilian real MU\$	% of total	Chilean pesos MU\$	% of total	Other currencies MU\$	% of total	Total MU\$
Current assets	1,727,743	47.6%	1,438,613	39.7%	155,611	4.3%	304,808	8.4%	3,626,775
Other assets	10,140,422	65.1%	5,285,025	33.9%	11,475	0.1%	134,497	0.9%	15,571,419
Total assets	11,868,165	61.8%	6,723,638	35.0%	167,086	0.9%	439,305	2.3%	19,198,194
Current liabilities	3,582,543	57.6%	2,121,915	34.1%	257,405	4.1%	260,328	4.2%	6,222,191
Long-term liabilities	11,400,803	75.9%	2,919,683	19.4%	413,118	2.8%	279,286	1.9%	15,012,890
Total liabilities and shareholders' equity	14,983,346	70.6%	5,041,598	23.7%	670,523	3.2%	539,614	2.5%	21,235,081

For more information on Market Risk, see Note 3 "Financial Risk Management" to our audited consolidated financial statements.

### Risk of Fluctuations in Interest Rates

As of December 31, 2016, LATAM had US\$ 8,710 million in outstanding interest bearing loans. LATAM uses interest rate derivatives to reduce the impact of an increase of interest rates. 63.1% of LATAM outstanding debt as of December 31, 2016 was effectively at a fixed rate, either as fixed rate loans or variable rate loans hedged using a floating to fixed rate derivative instrument.

LATAM's interest bearing loans can be classified by: variable interest rate debt, fixed interest rate debt and interest rate hedged debt. LATAM's variable interest rate debt amounts to US\$ 3,216 million, from which 84.2% is assigned to aircraft financing and 15.8% to non-aircraft financing. The fixed interest rate debt amounts are US\$ 5,494 million of which 62.6% is assigned to aircraft financing and 37.4% to non-aircraft financing. The interest rate hedged debt amounts to US\$ 406 million of which 100% is assigned to interest rate swaps.

Under IFRS, the positive fair value of these interest rate swaps is reflected in the balance sheet as hedging assets and the negative fair value of these agreements is reflected as hedging liabilities. As of December 31, 2016, the fair value of all the interest rate swaps was US\$ 17.2 million (negative).

The use of the aforementioned hedging instruments, combined with fixed interest rate financing for our aircraft financing, has enabled the Company to have predictable interest rate costs, reducing the cash volatility.

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As of December 31 2016, the average interest rate of our entire outstanding interest-bearing long-term debt rate was 4.0%.

The following table summarizes our principal payment obligations on all of our interest-bearing debt as of December 31, 2016 and the related average interest rate for such debt. The average interest rate has been calculated based on the prevailing interest rate on December 31, 2016 for each loan.

	LATAM's principal payment obligations by year of expected maturity(1)					
	Average interest rate(2)	2017	2018	2019	2020	2021 and thereafter
		(millions of US\$)				
Interest-bearing liabilities	4.0%	1,771	1,119	1,120	1,440	1,105

- (1) At cost.
- (2) Average interest rate means the average prevailing interest rate on our debt on December 31, 2016 after giving effect to hedging arrangements.

The following table shows the sensitivity of changes in our long-term interest bearing liabilities and capital leases that are not hedged against interest-rate variations. These changes are considered reasonably possible based on current market conditions.

	LATAM's interest rate sensitivity (effect on pre-tax earnings) Position as of December 31,		
	2016 LATAM	2015 LATAM	2014 LATAM
	(millions of US\$)		
<b>Increase (decrease) in LIBOR</b>			
+100 basis points	-32.2	-26.7	-27.5
-100 basis points	+32.2	+26.7	+27.5

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

	LATAM's interest rate sensitivity (effect on equity)		
	Position as of December 31,		
	2016	2015	2014
	LATAM	LATAM	LATAM
	(millions of US\$)		
<b>Increase (decrease) in three month LIBOR</b>			
<i>Future rates</i>			
+100 basis points	+3,9	+8.7	+15.3
−100 basis points	−4,0	+9.0	−16,0

During the periods presented, the Company has not recorded amounts for ineffectiveness in the consolidated income statement pursuant to IFRS.

There are market-related limitations in the method used for the sensitivity analysis. These limitations derive from the fact that the levels indicated by the futures curves may not be necessarily met and may change in each period.

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.

### C. Other Securities

Not applicable.

### D. American Depositary Shares

In the United States, our common shares trade in the form of ADS. Since August 2007, each ADS represents one common share, issued by The Bank of New York Mellon, as Depositary pursuant to a Deposit Agreement. ADSs commenced trading on the NYSE in 1997. In October 2011, our Depositary bank changed from The Bank of New York Mellon to JP Morgan Chase Bank, N.A. ("JP Morgan").

#### Fees and Charges for ADR Holders

The Bank of New York Mellon, and since October 2011 JP Morgan, as depositary, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of the distributable property to pay the fees. The depositary may also collect its annual fee for depositary services by deductions from cash distributions, by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:

US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

US\$0.05 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance of ADSs

US\$0.05<sup>1</sup> (or less) per ADSs per calendar year

Registration or transfer fees

Expenses of the depositary

For:

- Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
- Any cash distribution to ADS registered holders
- Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders
- Depositary services
- Transfer and registration of shares on the depositary's share register to or from the name of the depositary or its agent when investors deposit or withdraw shares
- Cable, telex and facsimile transmissions
- Conversion of foreign currencies into U.S. dollars

<sup>1</sup> Withdrawing Deposited Securities; there are no such fees in respect of the Shares as of the date of the Deposit Agreement), and (iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency). Such charges may at any time and from time to time be changed by agreement between the Company and the Depositary.



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### Persons depositing or withdrawing shares must pay:

Taxes and other governmental charges the depositary or the custodian has to pay on any ADS or share underlying an ADS, such as stock transfer taxes, stamp duty or withholding taxes • As necessary

For:

Any charges incurred by the depositary or its agents for servicing the deposited securities • As necessary

### **Fees and Direct and Indirect Payments Made by the Depositary to the Foreign Issuer**

#### **Past Fees and Payments**

During 2016, the Company received from the depositary US\$443,339.9 for continuing annual stock exchange listing fees, standard out-of-pocket maintenance costs for the ADRs (consisting of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls), payments related to applicable performance indicators relating to the ADR facility, underwriting fees and legal fees.

#### **Future Fees and Payments**

JP Morgan, as the depositary bank, has agreed to reimburse the Company for certain of our reasonable expenses related to our ADS program and incurred by us in connection with the program. The reimbursements include direct payments (legal and accounting fees incurred in connection with preparation of Form 20-F and ongoing SEC compliance and listing requirements, listing fees, investor relations expenses, advertising and public relations expenses and fees payable to service providers for the distribution of hard copy materials to beneficial ADR holders in the Depositary Trust Company, such as information related to shareholders' meetings and related voting instruction cards); and indirect payments (third-party expenses paid directly and fees waived).

## **PART II**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

### **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

### **ITEM 15. CONTROLS AND PROCEDURES**

#### **Controls and Procedures**

Management carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2016. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon such evaluation, management, with the participation of the chief executive officer and chief financial officer concluded that the disclosure controls and procedures, as of December 31, 2016, were effective in providing reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act, as amended, is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management including our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

#### **Management's annual report on internal control over financial reporting**

The management of the Company, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, as amended.

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

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate. LATAM Airlines Group S.A.'s management, including the Chief Executive Officer and the Chief Financial Officer, has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016 based on the criteria established in "Internal Control-Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and, based on such criteria, LATAM Airlines Group S.A.'s management has concluded that, as of December 31, 2016, the Company's internal control over financial reporting is effective. The company's internal control over financial reporting effectiveness as of December 31, 2016 has been audited by PricewaterhouseCoopers Consultores Auditores SpA, an independent registered public accounting firm, as stated in their report included herein.

(c) *Attestation report of the registered public accounting firm.* See page F-156 of our audited consolidated financial statements.

- (d) *Changes in internal control over financial reporting.* There have been no changes in our internal control over financial reporting during 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **ITEM 16. RESERVED**

### **A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our Board of Directors has designated Georges de Bourguignon as an "audit committee financial expert" within the meaning of this Item 16. A. Mr. de Bourguignon is independent within the meaning of Rule 10A-3 under the Exchange Act. See "Item 6. Directors, Senior Management and Employees— A. Directors and Senior Management."

### **B. CODE OF ETHICS**

We have adopted a code of ethics and conduct, as defined in Item 16B of Form 20-F under the Exchange Act. Our code of ethics applies to our senior management, including our Chief Executive Officer, our Chief Financial Officer and our Chief Accounting Officer, as well as to other employees. Our code is freely available online at our website, [www.latam.com](http://www.latam.com), under the heading "Corporate Governance" on the Investor Relations page. In addition, upon written request, by regular mail, to the following address: LATAM Airlines Group S.A., Investor Relations Department, attention: Investor Relations, Av. Presidente Riesco 5711, Piso 20, Comuna Las Condes, Santiago, Chile, or by e-mail at [Investor.Relations@latam.com](mailto:Investor.Relations@latam.com) we will provide any person with a copy of it without charge. If we amend the provisions of our code of ethics that apply to our senior management or to other persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website.

### **C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

#### **Audit and Non-Audit Fees**

The following table sets forth the fees paid to our independent registered public accounting firm, PricewaterhouseCoopers, during the fiscal years ended December 31, 2016 and 2015:

	2016	2015
	USD (in thousands)	
Audit fees	1,734	1,910
Audit-related fees	21	7
Tax fees	—	6
All Other fees	40	11
Total fees	1,795	1,934

Audit-related fees in the above table are the aggregate fees billed by PricewaterhouseCoopers for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements or that are traditionally performed by the external auditor, including due diligence and other audit related services. Fees in 2016 correspond to review over sustainability report and attestation services related with revenues in Argentina. Fees in 2015 correspond to attestation services related with revenues in Argentina.

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Other fees in the above table are fees billed by PricewaterhouseCoopers as of December 31, 2016 and correspond primarily for review of requirements necessary for building construction authorization and 0survey salary in Peru. Fees in 2015 correspond to a survey salary and salary special studies in Peru and Chile.

### **Board of Directors' Committee Pre-Approval Policies and Procedures**

Since January 2004, LATAM has complied with SEC regulations regarding the type of additional services our independent auditors are authorized to offer to us. In addition, our Board of Directors' Committee (which serves as our Audit Committee) has decided to automatically authorize any such accepted services for an amount of up to 10% of the fees charged by the auditing firm, and for an amount of up to 50% when adding all such services provided by the auditing firm in the aggregate. If the amount of any services is larger than these thresholds, approval by the Board of Directors' Committee will be required.

### **D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None.

### **E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

None.

### **F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

None.

## **G. CORPORATE GOVERNANCE**

### **New York Stock Exchange Corporate Governance Comparison**

Pursuant to Section 303A.11 of the Listed Company Manual of the NYSE, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. We are a Chilean corporation with shares listed on the SSE, the Chilean Electronic Exchange and the Valparaiso Stock Exchange and our ADSs listed on the NYSE. Our corporate governance practices are governed by our bylaws, the Chilean Corporation Law and the Securities Market Law.

The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

NYSE Standards	Our Corporate Governance Practice
<b>Director Independence.</b> Majority of board of directors must be independent. §303A.01	Under Chilean law, we are not required to have a majority of independent directors on our board.  Our board of directors' committee (all of whom are members of our board of directors) is composed of three directors, two of whom must be independent if we have a sufficient number of independent directors on our board.  The definition of independence applicable to us pursuant to the Chilean Corporation Law differs in certain respects from the definition applicable to U.S. issuers under the NYSE rules.  <b>Pursuant to Law No. 20,382 on Corporate Governance, which came into effect on January 1, 2010, we are also required to have at least one independent director.</b>

**Executive Sessions.** *Non-management directors must meet regularly in executive sessions without management. Independent directors should meet alone in an executive session at least once a year. §303A.03*

**Audit committee.** *Audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act, as amended, and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07*

**Nominating/corporate governance committee.** *Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.04*

**Compensation committee.** *Compensation committee of independent directors is required, which must approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.05*

**Equity compensation plans.** *Equity compensation plans require shareholder approval, subject to limited exemptions.*

**Code of Ethics.** *Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. §303A.10*

Starting on January 1, 2010, directors are deemed to be independent if they have not fallen within any of the following categories during the 18 months prior to their election: (i) had a relevant relationship, interest or dependence on us, our affiliates, controlling shareholders, main executives, or had served any of the foregoing in a senior position; (ii) had a close family relationship with any of the individuals indicated in (i); (iii) had served in a non-profit organization which received significant funds from the individuals indicated in (i); (iv) had been a partner or shareholder (with a direct or indirect participation in excess of 10%) in, or had a senior position at a company which has rendered significant services to, the individuals indicated in (i); (v) had been a partner or shareholder (with a direct or indirect participation in excess of 10%) in, or had a senior position at, our main competitors, suppliers or clients. In addition, the election of such an independent director is subject to a procedure set forth by the cited Corporation Law.

There is no similar requirement under our bylaws or under applicable Chilean law.

We are in compliance with Rule 10A-3. We are not required to satisfy the NYSE independence and other audit committee standards that are not prescribed by Rule 10A-3.

We are not required to have, and do not have, a nominating/corporate governance committee.

We are not required to have a compensation committee. Pursuant to the Chilean Corporation Law, our board of directors' committee must approve our senior management's and employee's compensation.

Under the Chilean Corporation Law, equity compensation plans require shareholder approval.

We have adopted a code of ethics and conduct applicable to our senior management, including our chief executive officer, our chief financial officer and our chief accounting officer, as well as to other employees. Our code is freely available online at our website, [www.latamairlinesgroup.net](http://www.latamairlinesgroup.net), under the heading "Corporate Governance" in the Investor Relations informational page. In addition, upon written request, by regular mail to LATAM Airlines Group S.A., Investor Relations Department, attention: Investor Relations, Av. Presidente Riesco 5711, 20<sup>th</sup> floor, Comuna Las Condes, Santiago, Chile or by e-mail at [Investor.Relations@latam.com](mailto:Investor.Relations@latam.com), we will provide any person with a copy of our code of ethics without charge. We are required by Item 16B of Form 20-F to disclose any waivers granted to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions.

The disclosure of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards is also posted on our website and can be accessed at [www.latamairlinesgroup.net](http://www.latamairlinesgroup.net)

## H. Mine Safety Disclosure

Not applicable.

## ITEM 17. FINANCIAL STATEMENTS

See “Item 18. Financial Statements.”

## ITEM 18. FINANCIAL STATEMENTS

See our consolidated Financial Statements beginning on page F-1. The following is an index of the financial statements.

## ITEM 19. EXHIBITS

Documents filed as exhibits to this annual report:

Exhibit No.	Description
1.1*	Amended By-laws of LATAM Airlines Group S.A.
2.1	Second Amended and Restated Deposit Agreement, dated as of October 28, 2011, between the Company and JPMorgan Chase Bank, N.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984), filed on November 15, 2011).
2.3	Indenture, dated as of April 25, 2007, among TAM Capital Inc., Tam S.A., TAM Linhas Aéreas S.A., The Bank of New York and The Bank of New York (Luxembourg) S.A., incorporated herein by reference from our second pre-effective amendment to our Registration Statement on Form F-4, File No. 333-131938.
2.4	Indenture, dated as of October 29, 2009, among TAM Capital 2 Inc., TAM S.A., TAM Linhas Aéreas S.A., The Bank of New York Mellon and The Bank of New York Mellon (Luxembourg) S.A., incorporated herein by reference from our Annual Report for the fiscal year ended December 31, 2009 on Form 20-F, filed June 30, 2010, File No. 333-131938.
2.5	Indenture, dated as of June 3, 2011, between TAM Capital 3 Inc., TAM S.A., TAM Linhas Aéreas S.A., The Bank of New York Mellon and The Bank of New York Mellon (Luxembourg) S.A., incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016.
2.6	Indenture, dated as of November 7, 2013, between Guanay Finance Limited and Citibank N.A., incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016.
2.7	Form of Indenture and Security Agreement between Parina Leasing Limited, Cuclillo Leasing Limited, Rayador Leasing Limited or Canastero Leasing Limited and Wilmington Trust Company (including Annex A), incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016.
2.8	Indenture, dated as of June 9, 2015, between LATAM Airlines Group S.A. and The Bank of New York Mellon, incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016.
2.9	We hereby agree to furnish to the SEC, upon its request, copies of any instruments defining the rights of holders of our long-term debt (or any long-term debt of our subsidiaries for which we are required to file consolidated or unconsolidated financial statements), where such indebtedness does not exceed 10% of our total consolidated assets.
4.1	Second A320-Family Purchase Agreement, dated March 20, 1998, between the Company and Airbus Industry relating to Airbus A320-Family Aircraft (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on June 24, 2001, and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.1	Amendment No. 1, dated as of November 14, 2003, and Amendment No. 2, dated as of October 4, 2005, to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (as successor to Airbus Industry) (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on June 30, 2006, and portions of which have been omitted pursuant to a request for confidential treatment).

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Exhibit No.	Description
4.1.2	Amendment No. 3, dated as of March 6, 2007, to the Second A320-Family Purchase Agreement, dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on June 30, 2006, and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.3	Amendment No. 5, dated as of December 23, 2009, to the Second A320-Family Purchase Agreement, dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on June 29, 2010, and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.4	Amendments No. 6, 7, 8 and 9 (dated as of May 10, 2010, May 19, 2010, September 23, 2010 and December 21, 2010, respectively), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011, and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.5	Amendments No. 10 and 11 (dated as of June 10, 2011 and November 8, 2011, respectively), to the Second A320-Family Purchase Agreement, dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.6	Amendment No. 12 (dated as of November 19, 2012), to the Second A320-Family Purchase Agreement, dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.7	Amendment No. 13 (dated as of August 19, 2013), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2014, and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.8	Amendments No. 14, 15, 16 and 17 (dated as of March 31, 2014, May 16, 2014, July 15, 2015 and December 11, 2014, respectively), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.9	Novation Agreement (dated as of October 30, 2014) between TAM Linhas Aereas S.A., LATAM Airlines Group S.A. and Airbus S.A.S., relating to the A320 Family/A330 purchase agreement dated November 14, 2006, as amended and restated, between Airbus S.A.S. and TAM Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).
4.2	Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company as amended and supplemented, relating to Model 767-316ER, Model 767-38EF, and Model 767-316F Aircraft (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on December 21, 2004, and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.1	Supplemental Agreements No. 16, 19, 20, 21 and 22 (dated as of November 11, 2004, January 21, March 10, April 1, April 28, and July 20, 2005, and March 31, 2006, respectively) to the Purchase Agreement No. 2126, dated January 30, 1998, between the Company and The Boeing Company, relating to Model 767-316ER, Model 767-38EF, and Model 767-316F Aircraft (incorporated by reference to our amended annual report filed on Form 20-F (File No. 001-14728) filed on May 7, 2007 and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.2	Supplemental Agreement No. 23, dated as of March 6, 2007, to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on April 23, 2007, and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.3	Supplemental Agreement No. 24, dated as of November 10, 2008, to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on June 25, 2009, and portions of which have been omitted pursuant to a request for confidential treatment).

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Exhibit No.	Description
4.2.4	Supplemental Agreements No. 28 and 29 (dated as of March 22, 2010 and November 10, 2010, respectively), to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company. Portions of these documents have been omitted pursuant to a request for confidential treatment (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011, and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.5	Supplemental Agreements No. 30, 31 and 32 (dated as of February 15, 2011, May 10, 2011 and December 22, 2011, respectively), to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).
4.3	Aircraft Lease Common Terms Agreement between GE Commercial Aviation Services Limited and LAN Cargo S.A., dated as of April 30, 2007, and Aircraft Lease Agreements between Wells Fargo Bank Northwest N.A., as owner trustee, and LAN Cargo S.A., dated as of April 30, 2007 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 7, 2007, and portions of which have been omitted pursuant to a request for confidential treatment).
4.4	Purchase Agreement No. 3194 between the Company and The Boeing Company relating to Boeing Model 777-Freighter aircraft, dated as of July 3, 2007, (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on June 25, 2008, and portions of which have been omitted pursuant to a request for confidential treatment).
4.4.1	Supplemental Agreement No. 2, dated as of November 2, 2010, to the Purchase Agreement No. 3194 between the Company and The Boeing Company, dated as of July 3, 2007 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011, and portions of which have been omitted pursuant to a request for confidential treatment).
4.4.2	Supplemental Agreement No. 3, dated as of September 24, 2011, to the Purchase Agreement No. 3194 between the Company and The Boeing Company, dated as of July 3, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).
4.4.3	Supplemental Agreement No. 4, dated as of August 9, 2012, to the Purchase Agreement No. 3194 between the Company and The Boeing Company, dated as of July 3, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).
4.5	Purchase Agreement No. 3256 between the Company and The Boeing Company relating to Boeing Model 787-8 and 787-9 aircraft, dated as of October 29, 2007, (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on June 25, 2008, and portions of which have been omitted pursuant to a request for confidential treatment).
4.5.1	Supplemental Agreements No. 1 and 2, (dated March 22, 2010 and July 8, 2010, respectively) to the Purchase Agreement No. 3256, dated October 29, 2007, as amended, between the Company and The Boeing Company (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011, and portions of which have been omitted pursuant to a request for confidential treatment).
4.5.2	Supplemental Agreement No. 3, dated as of August 24, 2012, to the Purchase Agreement No. 3256, as amended, between the Company and The Boeing Company, dated as of October 29, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).
4.5.3	Delay Settlement Agreement, dated as of September 16, 2013, to the Purchase Agreement No. 3256, as amended, between the Company and The Boeing Company, dated as of October 29, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2014 and portions of which have been omitted pursuant to a request for confidential treatment)..



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Exhibit No.	Description
4.5.4	Supplemental Agreements No. 4 and 5 (dated as of April 22, 2015 and July 3, 2015, respectively) to the Purchase Agreement No. 3256, as amended, between the Company and The Boeing Company, dated as of October 29, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016 and portions of which have been omitted pursuant to a request for confidential treatment).
4.5.5*	Supplemental Agreements No. 6 and 7 (dated as of May 27, 2016 and December 20, 2016, respectively) to the Purchase Agreement No. 3256, as amended, between the Company and The Boeing Company, dated as of October 29, 2007. Portions of these documents have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
4.6	General Terms Agreement No. CFM-1-2377460475 and Letter Agreement No. 1 to General Terms Agreement No. CFM-1-2377460475 between the Company and CFM International, Inc., both dated December 17, 2010 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011, and portions of which have been omitted pursuant to a request for confidential treatment).
4.7	Rate Per Flight Hour Engine Shop Maintenance Services Agreement between the Company and CFM International, Inc., dated December 17, 2010 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011, and portions of which have been omitted pursuant to a request for confidential treatment).
4.8	Implementation Agreement, dated as of January 18, 2011, among the Company, Costa Verde Aeronáutica S.A., Inversiones Mineras del Cantábrico S.A., TAM S.A., TAM Empreendimentos e Participações S.A. and Maria Cláudia Oliveira Amaro, Maurício Rolim Amaro, Noemy Almeida Oliveira Amaro and João Francisco Amaro (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011).
4.8.1	Extension Letter to the Implementation Agreement and Exchange Offer Agreement, dated January 12, 2012, among the Company, Costa Verde Aeronáutica S.A., Inversiones Mineras del Cantábrico S.A., TAM S.A., TAM Empreendimentos e Participações S.A. and Maria Cláudia Oliveira Amaro, Maurício Rolim Amaro, Noemy Almeida Oliveira Amaro and João Francisco Amaro (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984), filed on November 15, 2011).
4.9	Exchange Offer Agreement, dated as of January 18, 2011, among LAN Airlines S.A., Costa Verde Aeronáutica S.A., Inversiones Mineras del Cantábrico S.A., TAM S.A., TAM Empreendimentos e Participações S.A. and Maria Cláudia Oliveira Amaro, Maurício Rolim Amaro, Noemy Almeida Oliveira Amaro and João Francisco Amaro (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728), filed on May 5, 2011).
4.10	Shareholders Agreement, dated as of January 25, 2012, between the Company and TEP Chile S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984), filed on November 15, 2011).
4.11	Shareholders Agreement, dated as of January 25, 2012, among the Company, TEP Chile S.A. and Holdco I S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984), filed on November 15, 2011).
4.12	Shareholders Agreement, dated as of January 25, 2012, among the Company, TEP Chile S.A., Holdco I S.A. and TAM S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984) filed on November 15, 2011).
4.13	Letter Agreement No. 12 (GTA No. 6-9576), dated July 11, 2011, between the Company and the General Electric Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.14	A320 NEO Purchase Agreement, dated as of June 22, 2011, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).
4.14.1	Amendments No. 1, 2 and 3 (dated as of February 27, 2013, July 15, 2014 and December 11, 2014, respectively), to the A320 NEO Purchase Agreement dated as of June 22, 2011, between the Company and Airbus S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).



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<b>Exhibit No.</b>	<b>Description</b>
4.14.2	Letter Agreement No. 1 (dated as of July 15, 2014) to Amendment No. 2 (dated as of July 15, 2014) to the A320 NEO Purchase Agreement dated as of June 22, 2011, between the Company and Airbus S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).
4.14.3*	Amendment No. 4, 5 and 6 (dated as of April 15, 2016, April 15, 2016, and August 8, 2016, respectively), to the A320 NEO Purchase Agreement dated as of June 22, 2011, between the Company and Airbus S.A.. Portions of these documents have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
4.15	Buyback Agreement No. 3001 relating to One (1) Airbus A318-100 Aircraft MSN 3001, dated as of April 14, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).
4.16	Buyback Agreement No. 3030 relating to One (1) Airbus A318-100 Aircraft MSN 3003, dated as of August 10, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).
4.17	Buyback Agreement No. 3062, to One (1) Airbus A318-100 Aircraft MSN 3062, dated as of May 13, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).
4.18	Buyback Agreement No. 3214, to One (1) Airbus A318-100 Aircraft MSN 3214, dated as of June 9, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).
4.19	Buyback Agreement No. 3216, to One (1) Airbus A318-100 Aircraft MSN 3216, dated as of July 13, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).
4.20	Aircraft General Terms Agreement Number AGTA-LAN, dated May 9, 1997, between the Company and The Boeing Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 2, 2012, and portions of which have been omitted pursuant to a request for confidential treatment).
4.21	Buyback Agreement No. 3371, dated as of July 25, 2012, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).
4.22	Buyback Agreement No. 3390, dated as of October 26, 2012, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).
4.23	Buyback Agreement No. 3438, dated as of December 5, 2012, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).
4.24	Buyback Agreement No. 3469, dated as of January 4, 2013, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).

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Exhibit No.	Description
4.25	Buyback Agreement No. 3509, dated as of February 20, 2013, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).
4.26	A320 Family Purchase Agreement, dated March 19, 1998, between Airbus S.A.S. (formerly known as Airbus Industrie GIE) and TAM Linhas Aéreas S.A. (formerly known as TAM Transportes Aéreos Meridionais S.A. and as successor in interest in TAM-Transportes Aéreos Regionais S.A.), incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.
4.26.1	Amendments No. 12, 13 and 14 (dated as of January 27, 2012 and November 30, 2012 and December 14, 2012, respectively), to the Second A320-Family Purchase Agreement, dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728), filed on April 30, 2013, and portions of which have been omitted pursuant to a request for confidential treatment).
4.27	A350 Family Purchase Agreement, dated December 20, 2005, between Airbus S.A.S. and TAM Linhas Aéreas S.A., incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.
4.27.1	A350 Family Purchase Agreement, dated December 20, 2005, as amended and restated on January 21, 2008, between Airbus S.A.S. and TAM Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).
4.27.2	Amendments No. 1, 2 and 3 (dated July 28, 2010, July 15, 2014 and October 30, 2014, respectively) to the A350 Purchase Agreement, dated December 20, 2005, as amended and restated on January 21, 2008, between Airbus S.A.S. and TAM Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).
4.27.3	Novation Agreement (dated as of July 21, 2014) between TAM Linhas Aereas S.A., LATAM Airlines Group S.A. and Airbus S.A.S., relating to the A350 Family Purchase Agreement, dated December 20, 2005, as amended and restated on January 21, 2008, between Airbus S.A.S. and TAM Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).
4.27.4	Amendments No. 4 and 5 (dated September 15, 2015 and November 19, 2015, respectively) to the A350 Purchase Agreement, dated December 20, 2005, as amended and restated on January 21, 2008, between Airbus S.A.S. and TAM Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016 and portions of which have been omitted pursuant to a request for confidential treatment).
4.27.5*	Amendments No. 6, 7 and 8 (dated February 3, 2016, August 8, 2016, and September 9, 2016, respectively) to the A350 Purchase Agreement, dated December 20, 2005, as amended and restated on January 21, 2008, between Airbus S.A.S. and TAM Linhas Aereas S.A.. Portions of these documents have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
4.29	V2500 Maintenance Agreement, dated September 14, 2000, between TAM Transportes Aéreos Regionais S.A. (incorporated by TAM Linhas Aéreas S.A.) and MTU Maintenance Hannover GmbH (MTU), incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.
4.30	PW1100G-JM Engine Support and Maintenance Agreement, dated February 26, 2014, between LATAM Airlines Group S.A. and Pratt & Whitney Division. Portions of this document have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
4.31	Framework Deed, dated May 28, 2013, between LATAM Airlines Group S.A. and Aercap Holdings N.V. Portions of this document have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
4.32	A320 Family/A330 Purchase Agreement (dated as of November 14, 2006) between Airbus S.A.S. and TAM – Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).

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Exhibit No.	Description
4.32.1	Amendments No. 15, 16, 17, 18, and 19 (dated as of February 18, 2013, February 27, 2013, August 19, 2013, July 15, 2014 and December 11, 2014, respectively) to the A320 Family/A330 Purchase Agreement (dated as of November 14, 2006) between Airbus S.A.S. and TAM – Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).
4.32.2	Amendments No. 20 and 21 (dated as of June 3, 2015 and December 21, 2015, respectively) to the A320 Family/A330 Purchase Agreement (dated as of November 14, 2006) between Airbus S.A.S. and TAM – Linhas Aereas S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).
4.32.3*	Amendments No. 22, 23 and 24 (dated as of April 15, 2016, April 15, 2016, and August 8, 2016, respectively) to the A320 Family/A330 Purchase Agreement (dated as of November 14, 2006) between Airbus S.A.S. and TAM – Linhas Aereas S.A.. Portions of these documents have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
4.33	Supplemental Agreement No. 7 (dated as of May 2014) to the Boeing 777-32WER Purchase Agreement (dated as of February 2007) between TAM – Linhas Aereas S.A. and The Boeing Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 1, 2015 and portions of which have been omitted pursuant to a request for confidential treatment).
4.33.1	Supplemental Agreement No. 8, dated as of April 22, 2015, to the Boeing 777-32WER Purchase Agreement (dated as of February 2007) between TAM Linhas Aéreas and The Boeing Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 29, 2016 and portions of which have been omitted pursuant to a request for confidential treatment).
8.1*	List of subsidiaries of the Company.
12.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1*	Certifications of Chief Financial Officer and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith



LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

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LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

	<u>Note</u>	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
<b>Current assets</b>			
Cash and cash equivalents	6 -7	949,327	753,497
Other financial assets	7 -11	712,828	651,348
Other non-financial assets	12	212,242	330,016
Trade and other accounts receivable	7 - 8	1,107,889	796,974
Accounts receivable from related entities	7 - 9	554	183
Inventories	10	241,363	224,908
Tax assets	18	65,377	64,015
Total current assets other than non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners		<u>3,289,580</u>	<u>2,820,941</u>
Non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners	13	<u>337,195</u>	<u>1,960</u>
Total current assets		<u>3,626,775</u>	<u>2,822,901</u>
<b>Non-current assets</b>			
Other financial assets	7 -11	102,125	89,458
Other non-financial assets	12	237,344	235,463
Accounts receivable	7 - 8	8,254	10,715
Intangible assets other than goodwill	15	1,610,313	1,321,425
Goodwill	16	2,710,382	2,280,575
Property, plant and equipment	17	10,498,149	10,938,657
Tax assets	18	20,272	25,629
Deferred tax assets	18	384,580	376,595
Total non-current assets		<u>15,571,419</u>	<u>15,278,517</u>
Total assets		<u>19,198,194</u>	<u>18,101,418</u>

The accompanying Notes 1 to 38 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES AND EQUITY

	Note	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other financial liabilities	7 - 19	1,839,528	1,644,235
Trade and other accounts payables	7 - 20	1,593,068	1,483,957
Accounts payable to related entities	7 - 9	269	447
Other provisions	21	2,643	2,922
Tax liabilities	18	14,286	19,378
Other non-financial liabilities	22	2,762,245	2,490,033
		<u>6,212,039</u>	<u>5,640,972</u>
Liabilities included in disposal groups classified as held for sale		10,152	—
Total current liabilities		<u>6,222,191</u>	<u>5,640,972</u>
<b>Non-current liabilities</b>			
Other financial liabilities	7 - 19	6,796,952	7,532,385
Accounts payable	7 - 24	359,391	417,050
Other provisions	21	422,494	424,497
Deferred tax liabilities	18	915,759	811,565
Employee benefits	23	82,322	65,271
Other non-financial liabilities	22	213,781	272,130
Total non-current liabilities		<u>8,790,699</u>	<u>9,522,898</u>
Total liabilities		<u>15,012,890</u>	<u>15,163,870</u>
<b>EQUITY</b>			
Share capital	25	3,149,564	2,545,705
Retained earnings	25	366,404	317,950
Treasury Shares	25	(178)	(178)
Other reserves		580,870	(6,942)
Parent's ownership interest		4,096,660	2,856,535
Non-controlling interest	14	88,644	81,013
Total equity		<u>4,185,304</u>	<u>2,937,548</u>
Total liabilities and equity		<u>19,198,194</u>	<u>18,101,418</u>

The accompanying Notes 1 to 38 form an integral part of these consolidated financial statements.



LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

		For the period ended December 31,		
	Note	2016 ThUS\$	2015 ThUS\$	2014 ThUS\$
Revenue	26	8,988,340	9,740,045	12,093,501
Cost of sales		(6,967,037)	(7,636,709)	(9,624,501)
Gross margin		2,021,303	2,103,336	2,469,000
Other income	28	538,748	385,781	377,645
Distribution costs		(747,426)	(783,304)	(957,072)
Administrative expenses		(872,954)	(878,006)	(980,660)
Other expenses		(373,738)	(323,987)	(401,021)
Other gains/(losses)		(72,634)	(55,280)	33,524
Income from operation activities		493,299	448,540	541,416
Financial income		74,949	75,080	90,500
Financial costs	27	(416,336)	(413,357)	(430,034)
Share of profit of investments accounted for using the equity method		—	37	(6,455)
Foreign exchange gains/(losses)	29	121,651	(467,896)	(130,201)
Result of indexation units		311	481	7
Income (loss) before taxes		273,874	(357,115)	65,233
Income (loss) tax expense / benefit	18	(163,204)	178,383	(292,404)
NET INCOME (LOSS) FOR THE PERIOD		110,670	(178,732)	(227,171)
Income (loss) attributable to owners of the parent		69,220	(219,274)	(259,985)
Income (loss) attributable to non-controlling interest	14	41,450	40,542	32,814
Net income (loss) for the year		110,670	(178,732)	(227,171)
EARNINGS PER SHARE				
Basic earnings (losses) per share (US\$)	30	0.12665	(0.40193)	(0.47656)
Diluted earnings (losses) per share (US\$)	30	0.12665	(0.40193)	(0.47656)

The accompanying Notes 1 to 38 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the period ended December 31,		
	Note	2016 ThUS\$	2015 ThUS\$	2014 ThUS\$
NET INCOME (LOSS)		110,670	(178,732)	(227,171)
Components of other comprehensive income that will not be reclassified to income before taxes				
Other comprehensive income, before taxes, gains (losses) by new measurements on defined benefit plans	25	(3,105)	(14,631)	—
Total other comprehensive income that will not be reclassified to income before taxes		(3,105)	(14,631)	—
Components of other comprehensive income that will be reclassified to income before taxes				
Currency translation differences				
Gains (losses) on currency translation, before tax	29	494,362	(1,409,439)	(650,439)
Other comprehensive income, before taxes, currency translation differences		494,362	(1,409,439)	(650,439)
Cash flow hedges				
Gains (losses) on cash flow hedges before taxes	19	127,390	80,387	(163,993)
Other comprehensive income (losses), before taxes, cash flow hedges		127,390	80,387	(163,993)
Total other comprehensive income that will be reclassified to income before taxes		621,752	(1,329,052)	(814,432)
Other components of other comprehensive income (loss), before taxes		618,647	(1,343,683)	(814,432)
Income tax relating to other comprehensive income that will not be reclassified to income				
Income tax relating to new measurements on defined benefit plans	18	921	3,911	—
Accumulate income tax relating to other comprehensive income that will not be reclassified to income		921	3,911	—
Income tax relating to other comprehensive income that will be reclassified to income				
Income tax related to cash flow hedges in other comprehensive income		(34,695)	(21,103)	47,979
Income taxes related to components of other comprehensive income that will be reclassified to income		(34,695)	(21,103)	47,979
Total Other comprehensive income		584,873	(1,360,875)	(766,453)
Total comprehensive income (loss)		695,543	(1,539,607)	(993,624)
Comprehensive income (loss) attributable to owners of the parent		648,539	(1,551,331)	(980,697)
Comprehensive income (loss) attributable to non-controlling interests		47,004	11,724	(12,927)
TOTAL COMPREHENSIVE INCOME (LOSS)		695,543	(1,539,607)	(993,624)

The accompanying Notes 1 to 38 form an integral part of these consolidated financial statements.

**LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Note	Attributable to owners of the parent											Total equity ThUS\$
		Share capital ThUS\$	Treasury shares ThUS\$	Currency translation reserve ThUS\$	Cash flow hedging reserve ThUS\$	Change in other reserves				Retained earnings ThUS\$	Parent's ownership interest ThUS\$	Non-controlling interest ThUS\$	
						Actuarial gains or losses on defined benefit plans reserve ThUS\$	Shares based payments reserve ThUS\$	Other sundry reserve ThUS\$	Total other reserve ThUS\$				
Equity as of January 1, 2016		2,545,705	(178)	(2,576,041)	(90,510)	(10,717)	35,647	2,634,679	(6,942)	317,950	2,856,535	81,013	2,937,548
Total increase (decrease ) in equity													
Comprehensive income Gain (losses )	25	—	—	—	—	—	—	—	—	69,220	69,220	41,450	110,670
Other comprehensive income		—	—	489,486	92,016	(2,183)	—	—	579,319	—	579,319	5,554	584,873
Total comprehensive income		—	—	489,486	92,016	(2,183)	—	—	579,319	69,220	648,539	47,004	695,543
Transactions with shareholders Equity issue	25-34	608,496	—	—	—	—	—	—	—	—	608,496	—	608,496
Dividends	25	—	—	—	—	—	—	—	—	(20,766)	(20,766)	—	(20,766)
Increase (decrease ) through transfers and other changes , equity	25-34	(4,637)	—	—	—	—	2,891	5,602	8,493	—	3,856	(39,373)	(35,517)
Total transactions with shareholders		603,859	—	—	—	—	2,891	5,602	8,493	(20,766)	591,586	(39,373)	552,213
Closing balance as of December 31, 2016		3,149,564	(178)	(2,086,555)	1,506	(12,900)	38,538	2,640,281	580,870	366,404	4,096,660	88,644	4,185,304

The accompanying Notes 1 to 38 form an integral part of these consolidated financial statements.

**LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

		Attributable to owners of the parent											
		Change in other reserves								Retained earnings	Parent's ownership interest	Non-controlling interest	Total equity
Note	Share capital	Treasury shares	Currency translation reserve	Cash flow hedging reserve	Actuarial gains or losses on defined benefit plans reserve	Shares based payments reserve	Other sundry reserve	Total other reserve					
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Equity as of January 1, 2015	2,545.705	(178)	(1.193.871)	(151.340)	—	29.642	2.635.748	1.320.179	536.190	4.401.896	101.799	4.503.695	
Total increase (decrease) in equity Comprehensive income													
Gain (losses)	25	—	—	—	—	—	—	—	(219.274)	(219.274)	40.542	(178.732)	
Other comprehensive income		—	—	(1.382.170)	60.830	(10.717)	—	(1.332.057)	—	(1.332.057)	(28.818)	(1.360.875)	
Total comprehensive income		—	—	(1.382.170)	60.830	(10.717)	—	(1.332.057)	(219.274)	(1.551.331)	11.724	(1.539.607)	
Transactions with shareholders													
Increase (decrease) through transfers and other changes , equity	25-34	—	—	—	—	—	6.005	(1.069)	4.936	1.034	5.970	(32.510)	(26.540)
Total transactions with shareholders		—	—	—	—	—	6.005	(1.069)	4.936	1.034	5.970	(32.510)	(26.540)
Closing balance as of December 31, 2015		2,545.705	(178)	(2.576.041)	(90.510)	(10.717)	35.647	2.634.679	(6.942)	317.950	2.856.535	81.013	2.937.548

The accompanying Notes 1 to 38 form an integral part of these consolidated financial statements.

**LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Note	Attributable to owners of the parent								Parent's ownership interest	Non-controlling interest	Total equity
		Share capital	Treasury shares	Change in other reserves				Retained earnings				
				Currency translation reserve	Cash flow hedging reserve	Shares based payments reserve	Other sundry reserve		Total other reserve			
		ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Equity as of January 1, 2014		2,389,384	(178)	(589,991)	(34,508)	21,011	2,657,800	2,054,312	795,303	5,238,821	87,638	5,326,459
Total increase (decrease) in equity												
Comprehensive income Gain (losses)	25	—	—	—	—	—	—	—	(259,985)	(259,985)	32,814	(227,171)
Other comprehensive income		—	—	(603,880)	(116,832)	—	—	(720,712)	—	(720,712)	(45,741)	(766,453)
Total comprehensive income		—	—	(603,880)	(116,832)	—	—	(720,712)	(259,985)	(980,697)	(12,927)	(993,624)
Transactions with shareholders Equity issuance	25-34	156,321	—	—	—	—	—	—	—	156,321	—	156,321
Increase (decrease) through transfers and other changes, equity	25-34	—	—	—	—	8,631	(22,052)	(13,421)	872	(12,549)	27,088	14,539
Total transactions with shareholders		156,321	—	—	—	8,631	(22,052)	(13,421)	872	143,772	27,088	170,860
Closing balance as of December 31, 2014		2,545,705	(178)	(1,193,871)	(151,340)	29,642	2,635,748	1,320,179	536,190	4,401,896	101,799	4,503,695

The accompanying Notes 1 to 38 form an integral part of these consolidated financial statements.

**LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT – METHOD**

	Note	2016 ThUS\$	For the periods ended December 31, 2015 ThUS\$	2014 ThUS\$
<b>Cash flows from operating activities</b>				
Cash collection from operating activities				
Proceeds from sales of goods and services		9,918,589	11,372,397	13,367,838
Other cash receipts from operating activities		70,359	88,237	96,931
Payments for operating activities				
Payments to suppliers for goods and services		(6,756,121)	(7,029,582)	(8,823,007)
Payments to and on behalf of employees		(1,820,279)	(2,165,184)	(2,433,652)
Other payments for operating activities		(162,839)	(351,177)	(528,214)
Interest received		11,242	43,374	11,589
Income taxes refunded (paid)		(59,556)	(57,963)	(108,389)
Other cash inflows (outflows)	35	(209,269)	(184,627)	(251,657)
Net cash flows from operating activities		992,126	1,715,475	1,331,439
<b>Cash flows used in investing activities</b>				
Cash flows used to obtain control of subsidiaries or other businesses		—	—	518
Other cash receipts from sales of equity or debt instruments of other entities		2,969,731	519,460	524,370
Other payments to acquire equity or debt instruments of other entities		(2,706,733)	(704,115)	(474,656)
Amounts raised from sale of property, plant and equipment		76,084	57,117	564,266
Purchases of property, plant and equipment		(694,370)	(1,569,749)	(1,440,445)
Amounts raised from sale of intangible assets		1	91	—
Purchases of intangible assets		(88,587)	(52,449)	(55,759)
Other cash inflows (outflows)	35	843	10,576	(17,399)
Net cash flow from (used in) investing activities		(443,031)	(1,739,069)	(899,105)
<b>Cash flows from (used in) financing activities</b>				
Amounts raised from issuance of shares		608,496	—	156,321
Payments to acquire or redeem the shares of the entity		—	—	4,661
Amounts raised from long-term loans		1,820,016	1,791,484	1,042,820
Amounts raised from short-term loans		279,593	205,000	603,151
Loans repayments		(2,121,130)	(1,263,793)	(2,315,120)
Payments of finance lease liabilities		(314,580)	(342,614)	(394,131)
Dividends paid	35	(41,223)	(35,032)	(35,362)
Interest paid		(398,288)	(383,648)	(368,789)
Other cash inflows (outflows)	35	(229,163)	(99,757)	(13,777)
Net cash flows from (used in) financing activities		(396,279)	(128,360)	(1,320,226)
Net increase (decrease) in cash and cash equivalents before effect of exchanges rate change		152,816	(151,954)	(887,892)
Effects of variation in the exchange rate on cash and cash equivalents		43,014	(83,945)	(107,615)
Net increase (decrease) in cash and cash equivalents		195,830	(235,899)	(995,507)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	35	753,497	989,396	1,984,903
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	6	949,327	753,497	989,396

The accompanying Notes 1 to 38 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2016

NOTE 1 - GENERAL INFORMATION

LATAM Airlines Group S.A. (the “Company”) 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 Stock Brokers—Stock Exchange (Valparaíso)—the Chilean Electronic Stock Exchange and the Santiago Stock Exchange; it is also quoted in the United States of America on the New York Stock Exchange (“NYSE”) in New York in the form of American Depositary Receipts (“ADRs”).

Its principal business is passenger and cargo air transportation, both in the domestic markets of Chile, Peru, Argentina, Colombia, Ecuador and Brazil and in a developed series of regional and international routes in America, Europe and Oceania. These businesses are 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.

The Company is located in Santiago, Chile, at Avenida Américo Vespucio Sur No. 901, commune of Renca.

Corporate Governance practices of the Company are set in accordance with Securities Market Law the Corporations Law and its regulations, and the regulations of the SVS and the laws and regulations of the United States of America and the U.S. Securities and Exchange Commission (“SEC”) of that country, with respect to the issuance of ADRs.

On July 18, 2016, LATAM received the approval by Comissão de Valores Mobiliários (“CVM”) for a discontinuation of Brazilian LATAM depositary receipts-BDRS level III (“BDRs”), supported by common shares of the Company and, consequently, our registration of the foreign issuer. On May 24, 2016, the Company reported as an Essential Fact the maturity date May 23, 2016 deadline for holders of BDRs to express their option to keep the shares and the blockade by BM&FBOVESPA with the same date of the respective balances of shares of the holders of BDRs who chose to adhere to the procedure for sale of shares through the procedure called Sale Facility and assigned for this purpose a theoretical value of sales in the Santiago Stock Exchange. On June 9, 2016, the Company reported that BTG Pactual Chile S.A. Stockbrokers (“BTG Pactual Chile”), a Chilean institution contracted by the Company, made the sale on the Santiago Stock Exchange of the shares of the respective holders who adhered to Sale Facility procedure.

As of December 31, 2015, the Company’s subscribed and paid capital was represented by 545,558,101 common shares, without par value. On August 18, 2016, the Company held an extraordinary shareholders’ meeting in which it was approved to increase the capital by issuing 61,316,424 shares of payment, all of them common shares, without par value. As of December 31, 2016, 60,849,592 shares, equivalent to this increase, had been placed, so at that date the number of shares subscribed and paid by the Company amounted to 606,407,693 shares.

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At December 31, 2016, the Company's capital stock is represented by 608,374,525 shares, all common shares, without par value, which is divided into: (a) the 606,407,693 subscribed and paid shares mentioned above; And (b) 1,966,832 shares pending of subscription and payment, of which: (i) 1,500,000 shares are allocated to compensation stock option plan; And (ii) 466,832 correspond to the balance of shares pending of placement of the last capital increase.

It should be noted that the Company's capital stock was expressed in 613,164,243 shares, all ordinary shares, without nominal value. However, on December 21, 2016, the deadline for the subscription and payment of 4,789,718 shares that were also destined to compensation plans for the workers expired, so the Company's capital stock was fully reduced to the already mentioned 608,374,525 shares.

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

The majority shareholder of the Company is the Cueto Group, which through Costa Verde Aeronáutica S.A., Costa Verde Aeronáutica SpA, Costa Verde Aeronáutica Tres SpA, Inversiones Nueva Costa Verde Aeronáutica Limitada, Inversiones Priesca Dos y Cía. Ltda., Inversiones Caravia Dos y Cía. Ltda., Inversiones El Fano Dos y Cía. Ltda., Inversiones La Espasa Dos S.A., Inversiones, Inversiones La Espasa Dos y Cía. Ltda. and Inversiones Mineras del Cantábrico S.A. owns 28.27% of the shares issued by the Company, and therefore is the controlling shareholder of the Company in accordance with the provisions of the letter b) of Article 97 and Article 99 of the Securities Market Law, given that there is a decisive influence on its administration.

As of December 31, 2016, the Company had a total of 1,566 registered shareholders. At that date approximately 4.69 % of the Company's share capital was in the form of ADRs.

For the period ended December 31, 2016, the Company had an average of 48,336 employees, ending this period with a total of 45,916 employees, spread over 8,010 Administrative employees, 4,895 in Maintenance, 15,924 in Operations, 8,970 in Cabin Crew, 3,882 in Controls Crew, and 4,235 in Sales.



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

### a) Participation rate

Tax No.	Company	Country of origin	Functional Currency	As December 31, 2016			As December 31, 2015			As December 31, 2014		
				Direct %	Indirect %	Total %	Direct %	Indirect %	Total %	Direct %	Indirect %	Total %
96.518.860-6	Latam Travel Chile S.A. and Subsidiary (*)	Chile	US\$	99.9900	0.0100	100.0000	99.9900	0.0100	100.0000	99.9900	0.0100	100.0000
96.763.900-1	Inmobiliaria Aeronáutica S.A.	Chile	US\$	99.0100	0.9900	100.0000	99.0100	0.9900	100.0000	99.0100	0.9900	100.0000
96.969.680-0	Lan Pax Group S.A. and Subsidiaries	Chile	US\$	99.8361	0.1639	100.0000	99.8361	0.1639	100.0000	99.8361	0.1639	100.0000
Foreign	Lan Perú S.A.	Peru	US\$	49.0000	21.0000	70.0000	49.0000	21.0000	70.0000	49.0000	21.0000	70.0000
Foreign	Lan Chile Investments Limited and Subsidiary	Cayman Island	US\$	0.0000	0.0000	0.0000	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	99.8939	0.0041	99.8980
Foreign	Connecta Corporation	U.S.A.	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Prime Airport Services Inc. and Subsidiary	U.S.A.	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.951.280-7	Transporte Aéreo S.A.	Chile	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Aircraft International Leasing Limited	U.S.A.	US\$	0.0000	0.0000	0.0000	0.0000	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	0.0000	100.0000	100.0000
96.631.410-9	Ladeco Cargo S.A.	Chile	CLP	0.0000	0.0000	0.0000	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	0.0000	100.0000	100.0000
Foreign	Lan Cargo Overseas Limited and Subsidiaries	Bahamas	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.969.690-8	Lan Cargo Inversiones S.A. and Subsidiary	Chile	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.575.810-0	Inversiones Lan S.A. and Subsidiaries	Chile	US\$	99.7100	0.2900	100.0000	99.7100	0.2900	100.0000	99.7100	0.0000	99.7100
59.068.920-3	Technical Training LATAM S.A.	Chile	CLP	99.8300	0.1700	100.0000	99.8300	0.1700	100.0000	99.8300	0.1700	100.0000
Foreign	TAM S.A. and Subsidiaries (**)	Brazil	BRL	63.0901	36.9099	100.0000	63.0901	36.9099	100.0000	63.0901	36.9099	100.0000

(\*) Lantours Division de Servicios Terrestres S.A. changes its name to Latam Travel Chile S.A.

(\*\*) As of December 31, 2016, indirect ownership participation on TAM S.A and subsidiaries is from Holdco I S.A., LATAM is entitled to 99,9983% of the economic rights and 49% of the rights politicians product of provisional measure No. 714 of the Brazilian government that allows foreign capital to have up to 49% of the property.

Thus, since April 2016, LATAM Airlines Group S.A. owns 901 voting shares of Holdco I S.A., equivalent to 49% of the total shares with voting rights of said company and TEP Chile S.A. owns 938 voting shares of Holdco I S.A., equivalent to 51% of the total voting shares of that company.

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### b) Statement of financial position

Tax No.	Company	Statement of financial position									Net Income		
		As of December 31, 2016			As of December 31, 2015			As of December 31, 2014			For the periods ended December 31,		
		Assets	Liabilities	Equity	Assets	Liabilities	Equity	Assets	Liabilities	Equity	2016	2015	2014
		ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	Gain/(loss)	ThUS\$
96.518.860-6	Latam Travel Chile S.A. and Subsidiary (*)	5,468	2,727	2,741	5,613	5,522	91	3,229	2,289	940	2,650	2,341	2,078
96.763.900-1	Inmobiliaria Aeronáutica S.A.	36,756	8,843	27,913	39,302	14,832	24,470	39,920	16,854	23,066	3,443	1,404	(717)
96.969.680-0	Lan Pax Group S.A. and Subsidiaries (**)	475,763	1,045,761	(561,472)	519,663	1,049,232	(521,907)	640,020	1,065,157	(426,016)	(36,331)	(35,187)	(114,511)
Foreign	Lan Perú S.A.	306,111	294,912	11,199	255,691	240,938	14,753	239,470	228,395	11,075	(2,164)	5,068	1,058
Foreign	Lan Chile Investments Limited and Subsidiary (**)	—	—	—	2,015	13	2,002	2,015	—	2,015	23	(13)	2,844
93.383.900-4	Lan Cargo S.A.	480,908	239,728	241,180	483,033	217,037	265,966	575,979	234,772	341,207	(24,813)	(74,408)	(17,905)
Foreign	Connecta Corporation	31,981	23,525	8,456	37,070	38,298	(1,228)	27,431	28,853	(1,422)	9,684	194	740
Foreign	Prime Airport Services Inc . and Subsidiary (**)	7,385	11,294	(3,909)	6,683	11,180	(4,497)	18,120	22,897	(4,777)	588	279	107
96.951.280-7	Transporte Aéreo S.A.	340,940	124,805	216,135	331,117	122,666	208,451	367,570	147,278	220,292	8,206	5,878	(19,001)
Foreign	Aircraft International Leasing Limited	—	—	—	—	4	(4)	—	—	—	9	(4)	2,805
96.631.520-2	Fast Air Almacenes de Carga S.A.	10,023	3,645	6,378	8,985	4,641	4,344	9,601	3,912	5,689	1,717	1,811	893
Foreign	Laser Cargo S.R.L.	21	32	(11)	27	39	(12)	41	138	(97)	(1)	69	12
Foreign	Lan Cargo Overseas Limited and Subsidiaries (**)	54,092	35,178	15,737	62,406	43,759	15,563	60,634	46,686	12,218	176	3,344	(84,603)
96.969.690-8	Lan Cargo Inversiones S.A. and Subsidiary (**)	80,644	95,747	(13,506)	54,179	68,220	(12,601)	45,589	59,768	(12,711)	(910)	113	(4,276)
96.575.810-0	Inversiones Lan S.A. and Subsidiaries (**)	10,971	6,452	4,452	16,512	14,676	1,828	16,035	14,746	1,272	2,549	2,772	(4,473)
59.068.920-3	Technical Training LATAM S.A.	1,745	284	1,461	1,527	266	1,261	1,660	263	1,397	73	(72)	
Foreign	TAM S.A. and Subsidiaries (**)	5,287,286	4,710,308	495,562	4,969,553	4,199,223	423,190	6,817,698	5,809,529	912,634	2,107	(183,581)	171,655

(\*) Lantours Division de Servicios Terrestres S.A. changes its name to Latam Travel Chile S.A.

(\*\*) The Equity reported corresponds to Equity attributable to owners of the parent, does not include Non-controlling interest.

Additionally, we have proceeded to consolidate the following special purpose entities: 1. JOL (Japanese Operating Lease) created in order to finance the purchase of certain aircraft; 2. Chercán Leasing Limited created to finance the pre-delivery payments on aircraft; 3. Guanay Finance Limited created to issue a bond collateralized with future credit card receivables; 4. Private investment funds and 5. Avoceta Leasing Limited created to finance the pre-delivery payments on aircraft. These companies have been consolidated as required by IFRS 10.

All the entities controlled have been included in the consolidation.

Changes in the scope of consolidation between January 1, 2015 and December 31, 2016, are detailed below:

(1) Incorporation or acquisition of companies

- On October 2015, Rampas Airport Services S.A., subsidiary of Lan Pax Group S.A. increases its capital and paid in the amount of ThUS\$ 6,000 by issuing new shares, changing the property of the company as follows: Lan Pax Group S.A. increased its share to 99.99738%, Inversiones Lan S.A. decreased its stake to 0.00002% and Aerolane Líneas Aéreas Nacionales del Ecuador S.A. acquires stake for 0.0026%.
- On January 2016 it was registered at the Public Registry of Commerce, the Increase in Share Capital and statutory modification for the purpose of creating a new class of shares of Lan Argentina S.A., subsidiary of Lan Pax Group S.A., for a total of 90,000,000 Class “C” shares registered non-endorsable and non-voting. Lan Pax Group S.A. participated in this capital increase, changing its ownership to 4.87%, consequently, the indirect participation of LATAM Airlines Group S.A. increases to 95.85660%
- On April 1, 2016, Multiplus Corretora de Seguros Ltda. was created, the ownership of which corresponds to 99.99% of Multiplus S.A. direct subsidiary of TAM S.A.
- During period 2016 , Inversiones LAN S.A., subsidiary of LATAM Airlines Group S.A., acquired 4,767 shares of Aerovías de Integración Regional Aires S.A. a non-controlling shareholder, equivalent to 0.0914%, consequently, the indirect participation of LATAM Airlines Group S.A. increases to 99.19061%

(2) Dissolution of companies

- In July 2015, the Company Ladeco Cargo S.A., subsidiary of Lan Cargo S.A., was dissolved.
- During the period 2016, Lan Chile Investments Limited, subsidiary of LATAM Airlines S.A.; and Aircraft International Leasing Limited, subsidiary of Lan Cargo S.A., were dissolved.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1. Basis of Preparation

The consolidated financial statements of LATAM Airlines Group S.A. for the period ended December 31, 2016, have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") incorporated therein and with the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRIC).

Law No. 20,780 issued on September 29, 2014, introduced modifications to the income tax system in Chile and other tax matters. On October 17, 2014 the Chilean Superintendence of Securities and Insurance (the "SVS") issued Circular No. 856, which established that the effects of the change in the income tax rates on deferred tax assets and liabilities must be recognized directly within "Retained earnings" instead of the income statement as required by IAS 12. In order to comply with IAS 12, the financial statements for the period ended December 31, 2014 are different from those presented to the SVS as the modifications introduced by Law No. 20,780 and Circular No. 856 have been recognized within the income statement. A reconciliation of such differences is presented as follows:

As of December 31, 2014

	Consolidated Financial Statements for SEC ThUS\$	Consolidated Financial Statements for SVS ThUS\$	Difference ThUS\$
<b>Total Equity</b>			
Parent's ownership			
Retained earnings			
Net Income (Loss) for the period	(259,985)	(109,790)	(150,195)
Retained earnings for the last period	796,175	645,980	150,195
Total Retained earnings	536,190	536,190	—
Non-controlling			
Retained earnings			
Net Income (Loss) for the period	32,814	32,829	(15)
Retained earnings for the last period	17,099	17,084	15
Total Retained earnings	49,913	49,913	—

As from the year 2016, the differences between the financial statements presented to the Chilean regulator and those prepared to comply with IAS 12 no longer exist so no adjustment is necessary.

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

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

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

(a) Accounting pronouncements with implementation effective from January 1, 2016:

	Date of issue	Mandatory Application: Annual periods beginning on or after
(i) Standards and amendments		
Amendment to IFRS 11: Joint arrangements.	May 2014	01/01/2016
Amendment to IAS 16: Property, plant and equipment, and IAS 38: Intangible assets.	May 2014	01/01/2016
Amendment to IAS 27: Separate financial statements.	August 2014	01/01/2016
Amendment IAS 1: Presentation of Financial Statements.	December 2014	01/01/2016
Amendment to IFRS 10: Consolidated financial statements, IFRS 12: Disclosure of interests in other entities and IAS 28: Investments in associates and joint ventures.	December 2014	01/01/2016

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	Date of issue	Mandatory Application: Annual periods beginning on or after
(ii) Standards and amendments		
(iii) Improvements		
Improvements to International Financial Reporting Standards (2012-2014 cycle ): IFRS 5 Non-current assets held for sale and discontinued operations; IFRS 7 Financial instruments: Disclosures; IAS 19 Employee benefits and IAS 34 Interim financial reporting.	September 2014	01/01/2016

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

(b) Accounting pronouncements not yet in force for financial years beginning on January 1, 2016 and which has not been effected early adoption

	Date of issue	Mandatory Application: Annual periods beginning on or after
(i) Standards and amendments		
Amendment to IAS 7: Statement of Cash Flows.	January 2016	01/01/2017
Amendment to IAS 12: Income Taxes.	January 2016	01/01/2017
IFRS 9: Financial instruments.	December 2009	01/01/2018
Amendment to IFRS 9: Financial instruments.	November 2013	01/01/2018
IFRS 15: Revenue from contracts with customers (1).	May 2014	01/01/2018
Amendment to IFRS 15: Revenue from contracts with customers.	April 2016	01/01/2018
Amendment to IFRS 2: Share-based payments	June 2016	01/01/2018
Amendment to IFRS 4: Insurance contracts.	September 2016	01/01/2018
Amendment to IAS 40: Investment property	December 2016	01/01/2018
IFRS 16: Leases (2).	January 2016	01/01/2019

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		Mandatory Application: Annual periods beginning on or after
(i) Standards and amendments	Date of issue	
Amendment to IFRS 10: Consolidated financial statements and IAS 28 Investments in associates and joint ventures.	September 2014	To be determined
(ii) Improvements		
Improvements to International Financial Reporting Standards. (cycle 2012-2014) IFRS 1: First-time adoption of international financial reporting standards; IFRS 12 Disclosure of interests in other entities and IAS 28 investments in associates and joint ventures.	December 2016	01/01/2017 (improvements IFRS 12) 01/01/2018 (improvements IFRS 1 and IAS 28)
(iii) Interpretations		
IFRIC 22: Foreign currency transactions and advance consideration	December 2016	01/01/2018

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

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

We are currently evaluating how the adoption of the revenue recognition standard will impact our Consolidated Financial Statements. Interpretations are on-going and could have a significant impact on our implementation. We currently believe the adoption will not have a significant impact on passenger and cargo revenue recognition. However, the impact in revenue and liability for frequent flyer program are still being analyzed.

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

We are currently evaluating how the adoption of the leases recognition standard will impact our Consolidated Financial Statements. Interpretations are on-going and could have a material impact on our implementation. Currently, we expect that the adoption of the new lease standard will have a material impact on our consolidated balance sheet due to the recognition of right-of-use assets and lease liabilities principally for certain leases currently accounted for as operating leases.

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

### 2.2. Basis of Consolidation

#### (a) Subsidiaries

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

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

To account for and identify the financial information to be revealed when carrying out a business combination, such as the acquisition of an entity by the Company, shall apply the acquisition method provided for in IFRS 3: Business combination.

#### (b) Transactions with non-controlling interests

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

#### (c) Sales of subsidiaries

When a subsidiary is sold and a percentage of participation is not retained, the Company derecognizes assets and liabilities of the subsidiary, the non-controlling and other components of equity related to the subsidiary. Any gain or loss resulting from the loss of control is recognized in the consolidated income statement in Other gains (losses).



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If LATAM Airlines Group S.A. and Subsidiaries retain an ownership of participation in the sold subsidiary, and does not represent control, this is recognized at fair value on the date that control is lost, the amounts previously recognized in Other comprehensive income are accounted as if the Company had disposed directly from the assets and related liabilities, which can cause these amounts are reclassified to profit or loss. The percentage retained valued at fair value is subsequently accounted using the equity method.

### (d) Investees or associates

Investees or associates are all entities over which LATAM Airlines Group S.A. and Subsidiaries have significant influence but have no control. This usually arises from holding between 20% and 50% of the voting rights. Investments in associates are booked using the equity method and are initially recognized at their cost.

## 2.3. Foreign currency transactions

### (a) Presentation and functional currencies

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

### (b) Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates on the transaction dates. Foreign currency gains and losses resulting from the liquidation of these transactions and from the translation at the closing exchange rates of the monetary assets and liabilities denominated in foreign currency are shown in the consolidated statement of income by function except when deferred in Other comprehensive income as qualifying cash flow hedges.

### (c) Group entities

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

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

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The exchange rates used correspond to those fixed in the country where the subsidiary is located, whose functional currency is different to the U.S. dollar.

Adjustments to the Goodwill and fair value arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate or period informed.

### 2.4. Property, plant and equipment

The land of LATAM Airlines Group S.A. and Subsidiaries is recognized at cost less any accumulated impairment loss. The rest of the Property, plant and equipment are registered, initially and subsequently, at historic cost less the corresponding depreciation and any impairment loss.

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 results 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 are reviewed, and adjusted if necessary, once per 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 compensation with the book value and are included in the consolidated statement of income.

### 2.5. Intangible assets other than goodwill

#### (a) Airport slots and Loyalty program

Airport slots and the Coalition and Loyalty program are intangible assets of indefinite useful life and are subject to impairment tests annually as an integral part of each CGU, in accordance with the premises that are applicable, included as follows:

Airport slots – Air transport CGU

Loyalty program – Coalition and loyalty program Multiplus CGU

(See Note 16)

The airport slots correspond to an administrative authorization to carry out operations of arrival and departure of aircraft at a specific airport, within a specified period.

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The Loyalty program corresponds to the system of accumulation and redemption of points that has developed Multiplus S.A., subsidiary of TAM S.A.

The Brands, airport Slots and Loyalty program were recognized in fair values determined in accordance with IFRS 3, as a consequence of the business combination with TAM and Subsidiaries.

### (b) Computer software

Licenses for computer software acquired are capitalized on the basis of the costs incurred in acquiring them and preparing them for using the specific software. These costs are amortized over their estimated useful lives, for which the Company has been defined useful lives between 3 and 10 years.

Expenses related to the development or maintenance of computer software which do not qualify for capitalization, are shown as an expense when incurred. The personnel costs and others costs directly related to the production of unique and identifiable computer software controlled by the Company, are shown as intangible Assets others than Goodwill when they have met all the criteria for capitalization.

### (c) Brands

The Brands were acquired in the business combination with TAM S.A. And Subsidiaries and recognized at fair value under IFRS. During the year 2016, the estimated useful life of the brands change from an indefinite useful life to a five-year period, the period in which the value of the brands will be amortized (See Note 15).

## 2.6. Goodwill

Goodwill represents the excess of acquisition cost over the fair value of the Company's participation in the net identifiable assets of the subsidiary or associate on the acquisition date. Goodwill related to acquisition of subsidiaries is not amortized but tested for impairment annually or each time that there is evidence of impairment. Gains and losses on the sale of an entity include the book amount of the goodwill related to the entity sold.

## 2.7. Borrowing costs

Interest costs incurred for the construction of any qualified asset are capitalized over the time necessary for completing and preparing the asset for its intended use. Other interest costs are recognized in the consolidated income statement when they are accrued.

## 2.8. Losses for impairment of non-financial assets

Intangible assets that have an indefinite useful life, and developing IT projects, are not subject to amortization and are subject to annual testing for impairment. Assets subject to amortization are subjected to impairment tests whenever any event or change in circumstances indicates that the book value of the assets may not be recoverable. An impairment loss is recorded when the book value is greater than the recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In evaluating the impairment, the assets are grouped at the lowest level for which cash flows are separately identifiable (CGUs). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed if there are indicators of reverse losses at each reporting date.

## 2.9. Financial assets

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

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

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

### (b) Loans and receivables

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

The regular purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method. At the date of each consolidated statement of financial position, the Company assesses if there is objective evidence that a financial asset or group of financial assets may have suffered an impairment loss.

2.10. Derivative financial instruments and hedging activities

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

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

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

The total fair value of the hedging derivatives is booked as Other non-current financial asset or liability if the remaining maturity of the item hedged is over 12 months, and as an other current financial asset or liability if the remaining term of the item hedged is less than 12 months. Derivatives not booked as hedges are classified as Other financial assets or liabilities.

(a) Fair value hedges

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

(b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is shown in the statement of other comprehensive income. The loss or gain relating to the ineffective portion is recognized immediately in the consolidated statement of income under Other gains (losses). Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

In case of variable interest-rate hedges, the amounts recognized in the statement of Other comprehensive income are reclassified to results within financial costs at the same time the associated debts accrue interest.

For fuel price hedges, the amounts shown in the statement of Other comprehensive income are reclassified to results under the line item Cost of sales to the extent that the fuel subject to the hedge is used.

For foreign currency hedges, the amounts recognized in the statement of Other comprehensive income are reclassified to income as deferred revenue resulting from the use of points, are recognized as Income.

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

### (c) Derivatives not booked as a hedge

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

### 2.11. Inventories

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

### 2.12. Trade and other accounts receivable

Trade accounts receivable are shown initially at their fair value and later at their amortized cost in accordance with the effective interest rate method, less the allowance for impairment losses. An allowance for impairment loss of trade accounts receivable is made when there is objective evidence that the Company will not be able to recover all the amounts due according to the original terms of the accounts receivable.

The existence of significant financial difficulties on the part of the debtor, the probability that the debtor is entering bankruptcy or financial reorganization and the default or delay in making payments are considered indicators that the receivable has been impaired. The amount of the provision is the difference between the book value of the assets and the present value of the estimated future cash flows, discounted at the original effective interest rate. The book value of the asset is reduced by the amount of the allowance and the loss is shown in the consolidated statement of income in Cost of sales. When an account receivable is written off, it is charged to the allowance account for accounts receivable.

### 2.13. Cash and cash equivalents

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

### 2.14. Capital

The common shares are classified as net equity.

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

2.15. Trade and other accounts payables

Trade payables and other accounts payable are initially recognized at fair value and subsequently at amortized cost.

2.16. Interest-bearing loans

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

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

2.17. Current and deferred taxes

The expense by current tax is comprised of income and deferred taxes.

The charge for current tax is calculated based on tax laws in force on the date of statement of financial position, in the countries in which the subsidiaries and associates operate and generate taxable income.

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

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

The tax (current and deferred) is recognized in income by function, unless it relates to an item recognized in Other comprehensive income, directly in equity or from business combination. In that case the tax is also recognized in Other comprehensive income, directly in income by function or goodwill, respectively.

2.18. Employee benefits

(a) Personnel vacations

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

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### (b) Share-based compensation

The compensation plans implemented based on the shares of the Company are recognized in the consolidated financial statements in accordance with IFRS 2: Share-based payments, for plans based on the granting of options, the effect of fair value is recorded in equity with a charge to remuneration in a linear manner between the date of grant of said options and the date on which they become irrevocable, for the plans considered as cash settled award the fair value, updated as of the closing date of each reporting period, is recorded as a liability with charge to remuneration.

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

Provisions are made for these obligations by applying the method of the projected unit credit method, and taking into account estimates of future permanence, mortality rates and future wage increases determined on the basis of actuarial calculations. The discount rates are determined by reference to market interest-rate curves. Actuarial gains or losses are shown in other comprehensive income.

### (d) Incentives

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

## 2.19. Provisions

Provisions are recognized when:

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

## 2.20. Revenue recognition

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

### (a) Rendering of services

#### (i) Passenger and cargo transport

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



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Consistent with the foregoing, the Company presents the deferred revenues, generated by anticipated sale of flight tickets and freight services, in heading Other non—financial liabilities in the Statement of Financial Position.

### (ii) Frequent flyer program

The Company currently has a frequent flyer programs, whose objective is customer loyalty through the delivery of kilometers or points fly whenever the programs holders make certain flights, use the services of entities registered with the program or make purchases with an associated credit card. The kilometers or points earned can be exchanged for flight tickets or other services of associated entities.

The consolidated financial statements include liabilities for this concept (deferred income), according to the estimate of the valuation established for the kilometers or points accumulated pending use at that date, in accordance with IFRIC 13: Customer loyalty programs.

### (iii) Other revenues

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

### (b) Dividend income

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

## 2.21. Leases

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

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

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

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

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

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### 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 when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at at the lesser of their book value and the fair value less costs to sell.

### 2.23. Maintenance

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

In case of own aircraft or under financial leases, these maintenance cost are capitalized as Property, plant and equipment, while in the case of aircraft under operating leases, a liability is accrued based on the use of the main components is recognized, since a contractual obligation with the lessor to return the aircraft on agreed terms of maintenance levels exists. These are recognized as Cost of sales.

Additionally, some leases establish the obligation of the lessee to make deposits to the lessor as a guarantee of compliance with the maintenance and return conditions. These deposits, often called maintenance reserves, accumulate until a major maintenance is performed, once made, the recovery is requested to the lessor. At the end of the contract period, there is comparison between the reserves that have been paid and required return conditions, and compensation between the parties are made if applicable.

The unscheduled maintenance of aircraft and engines, as well as minor maintenance, are charged to results as incurred.

### 2.24. Environmental costs

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

## NOTE 3—FINANCIAL RISK MANAGEMENT

### 3.1. Financial risk factors

The Company is exposed to different financial risks: (a) market risk, (b) credit risk, and (c) liquidity risk. The program overall risk management of the Company aims to minimize the adverse effects of financial risks affecting the company.

#### (a) Market risk

Due to the nature of its operations, the Company is exposed to market factors such as: (i) fuel-price risk, (ii) exchange -rate risk, and (iii) interest -rate risk.

The Company has developed policies and procedures for managing market risk, which aim to identify, quantify, monitor and mitigate the adverse effects of changes in market factors mentioned above.

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For this, the Administration monitors the evolution of price levels and rates, and quantifies their risk exposures (Value at Risk), and develops and implements hedging strategies.

(i) Fuel-price risk:

### Exposition:

For the execution of its operations the Company purchases a fuel called Jet Fuel grade 54 USGC, which is subject to the fluctuations of international fuel prices.

### Mitigation:

To cover the risk exposure fuel, the Company operates with derivative instruments (swaps and options) whose underlying assets may be different from Jet Fuel, being possible use West Texas Intermediate ("WTI") crude, Brent ("BRENT") crude and distillate Heating Oil ("HO"), which have a high correlation with Jet Fuel and are highly liquid.

### Fuel Hedging Results:

During the period ended at December 31, 2016, the Company recognized losses of US\$ 48.0 million on fuel derivative. During the same period of 2015, the Company recognized losses of US\$ 239.4 million for the same reason.

At December 31, 2016, the market value of its fuel positions amounted to US\$ 8.1 million (positive). At December 31, 2015, this market value was US\$ 56.4 million (negative).

The following tables show the level of hedge for different periods:

#### Positions as of December 31, 2016 (\*)

	Maturities		
	Q117	Q217	Total
Percentage of the hedge of expected consumption value	21%	16%	18%

(\*) The volume shown in the table considers all the hedging instruments (swaps and options).

#### Positions as of December 31, 2015 (\*)

	Maturities				
	Q116	Q216	Q316	Q416	Total
Percentage of the hedge of expected consumption value	63%	27%	27%	11%	32%

(\*) The volume shown in the table considers all the hedging instruments (swaps and options).

### Sensitivity analysis

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

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The current hedge positions they are booked as cash flow hedge contracts, so a variation in the fuel price has an impact on the Company's net equity.

The following table shows the sensitivity analysis of the financial instruments according to reasonable changes in the fuel price and their effect on equity. The term of the projection was defined until the end of the last current fuel hedge contract, being the last business day of the last quarter of 2017.

The calculations were made considering a parallel movement of US\$ 5 per barrel in the curve of the BRENT and JET crude futures benchmark price at the end of September 2016 and the end of December, 2015.

Benchmark price (US\$ per barrel)	Positions as of December 31, 2016 effect on equity (millions of US\$)	Positions as of December 31, 2015 effect on equity (millions of US\$)
+5	+3.12	+5.41
-5	-4.78	-2.78

Given the fuel hedge structure during the year 2016, which considers a hedge-free portion, a vertical fall by 5 dollars in the JET benchmark price (the monthly daily average), would have meant an impact of approximately US\$ 116.3 million in the cost of total fuel consumption for the same period. For the year 2016, a vertical rise by 5 dollars in the JET benchmark price (the monthly daily average) would have meant an impact of approximately US\$ 114.5 million of increased fuel costs.

(ii) Foreign exchange rate risk:

### Exposition:

The functional and presentation currency of the Financial Statements of the Parent Company is the United States dollar, so the risk of Transactional exchange rate and Conversion arises mainly from its own operating activities of the business, strategic and accounting of the Company are denominated in a different currency than the functional currency.

LATAM Subsidiaries are also exposed to currency risk that impacts the consolidated results of the Company.

Most currency exposure of LATAM comes from the concentration of business in Brazil, which are mostly denominated in Brazilian Real (BRL), being actively managed by the company.

Additionally, the company manages the economic exposure to operating revenues in Pound Sterling (GBP).

In lower concentrations the Company is therefore exposed to fluctuations in others currencies, such as: Euro, Australian Dollar, Colombian Peso, Chilean Peso, Argentine Peso, Paraguayan Guaraní, Mexican Peso, Peruvian Sol and New Zealand Dollar.

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### Mitigation:

The Company mitigates currency risk exposures by contracting derivative instruments or through natural hedges or execution of internal operations.

### FX Hedging Results:

With the aim of reducing exposure to exchange rate risk on operating cash flows in 2016 and 2017, and secure the operating margin, LATAM and TAM conduct hedging through FX derivatives.

At December 31, 2016, the market value of its FX positions amounted to US\$ 1.1 million (negative). At end of December 2015 the market value was of US\$ 8.0 million (positive).

During the period ended at December 31, 2016 the Company recognized losses of US\$ 40.3 million on hedging FX. During the same period of 2015 the Company recognized gains of US\$ 19.0 million on hedging FX.

At end of December 2016, the Company has contracted FX derivatives for US\$ 60 million to BRL and US\$ 10 million to GBP. At end of December 2015, the Company had contracted FX for US\$ 270 million to BRL, US\$ 30 million to EUR and US\$ 15 million to GBP.

### Sensitivity analysis:

A depreciation of exchange rate R\$/ US\$ and US\$/GBP, affects negatively the Company for a rise of its costs in US\$, however, it also affects positively the value of contracted derivate positions.

The FX derivatives are registered for as hedges of cash flow, therefore, a variation in the exchange rate has an impact on the market value of derivatives, whose changes impact on the Company's net equity.

The following table presents the sensitivity of derivative FX Forward instruments agrees with reasonable changes to exchange rate and its effect on equity. The projection term was defined until the end of the last current contract hedge, being the last business day of the first quarter of 2017:

Appreciation (depreciation)* of R\$/GBP	Effect at December 31, 2016 Millions of US\$	Effect at December 31, 2015 Millions of US\$
-10%	-1.02	-21.28
+10%	+3.44	+16.71

In the case of TAM S.A. which operates with the Brazilian Real as its functional currency, a large proportion of the company's assets liabilities are expressed in United States Dollars. Therefore, this subsidiary's profit and loss varies when its financial assets and liabilities, and its accounts receivable listed in dollars are converted to Brazilian Reals. This impact on profit and loss is consolidated in the Company.

In order to reduce the volatility on the financial statements of the Company caused by rises and falls in the R\$/US\$ exchange rate, the Company has contracted hedging derivatives has conducted transactions for to reduce the net US\$ liabilities held by TAM S.A.

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The following table shows the variation of financial performance to appreciate or depreciate 10% exchange rate R\$/US\$:

Appreciation (depreciation)* of R\$/US\$	Effect at December 31, 2016 Millions of US\$	Effect at December 31, 2015 Millions of US\$
-10%	+119.2	+67.6
+10%	-119.2	-67.6

(\*) Appreciation (depreciation) of US\$ regard to the covered currencies.

### Effects of exchange rate derivatives in the Financial Statements

The profit or losses caused by changes in the fair value of hedging instruments are segregated between intrinsic value and temporary value. The intrinsic value is the actual percentage of cash flow covered, initially shown in equity and later transferred to income, while the hedge transaction is recorded in income. The temporary value corresponds to the ineffective portion of cash flow hedge which is recognized in the financial results of the Company (Note 19).

Due to the functional currency of TAM S.A. and Subsidiaries is the Brazilian real, the Company presents the effects of the exchange rate fluctuations in Other comprehensive income by converting the Statement of financial position and Income statement of TAM S.A. and Subsidiaries from their functional currency to the U.S. dollar, which is the presentation currency of the consolidated financial statement of LATAM Airlines Group S.A. and Subsidiaries. The Goodwill generated in the Business combination is recognized as an asset of TAM S.A. and Subsidiaries in Brazilian real whose conversion to U.S. dollar also produces effects in Other comprehensive income.

The following table shows the change in Other comprehensive income recognized in Total equity in the case of appreciate or depreciate 10% the exchange rate R\$/US\$:

Appreciation (depreciation) of R\$/US\$	Effect at December 31, 2016 Millions of US\$	Effect at December 31, 2015 Millions of US\$
-10%	+351.04	+296.41
+10%	-287.22	-242.52

(iii) Interest -rate risk:

### Exposition:

The Company is exposed to fluctuations in interest rates affecting the markets future cash flows of the assets, and current and future financial liabilities.

The Company is exposed in one portion to the variations of London Inter-Bank Offer Rate ("LIBOR") and other interest rates of less relevance are Brazilian Interbank Deposit Certificate ("ILC"), and the Interest Rate Term of Brazil ("TJLP").

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### Mitigation:

In order to reduce the risk of an eventual rise in interest rates, the Company has signed interest-rate swap and call option contracts. Currently a 63% (71% at December 31, 2015) of the debt is fixed to fluctuations in interest rate.

### Rate Hedging Results:

At December 31, 2016, the market value of the positions of interest rate derivatives amounted to US\$ 17.2 million (negative). At end of December 2015 this market value was US\$ 39.8 million (negative).

### Sensitivity analysis:

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

Increase (decrease) futures curve in libor 3 months	Positions as of December 31, 2016 effect on profit or loss before tax (millions of US\$)	Positions as of December 31, 2015 effect on profit or loss before tax (millions of US\$)
+100 basis points	-32.16	-26.70
-100 basis points	+32.16	+26.70

Much of the current rate derivatives are registered for as hedges of cash flow, therefore, a variation in the exchange rate has an impact on the market value of derivatives, whose changes impact on the Company's net equity.

The calculations were made increasing (decreasing) vertically 100 basis points of the three-month Libor futures curve, being both reasonably possible scenarios according to historical market conditions.

Increase (decrease) futures curve in libor 3 months	Positions as of December 31, 2016 effect on equity (millions of US\$)	Positions as of December 31, 2015 effect on equity (millions of US\$)
+100 basis points	+3.93	+8.71
-100 basis points	-4.03	-9.02

The assumptions of sensitivity calculation must assume that forward curves of interest rates do not necessarily reflect the real value of the compensation flows. Moreover, the structure of interest rates is dynamic over time.

During the periods presented, the Company has no registered amounts by ineffectiveness in consolidated statement of income for this kind of hedging.

(b) Credit risk

Credit risk occurs when the counterparty to a financial agreement or instrument fails to discharge an obligation due or financial instrument, leading to a loss in market value of a financial instrument (only financial assets, not liabilities).

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

To reduce the credit risk associated with operational activities, the Company has established credit limits to abridge the exposure of their debtors which are monitored permanently (mainly in case of operational activities in Brazil with travel agents).

As a way to mitigate credit risk related to financial activities, the Company requires that the counterparty to the financial activities remain at least investment grade by major Risk Assessment Agencies. Additionally the company has established maximum limits for investments which are monitored regularly.

(i) Financial activities

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

In order to reduce counterparty risk and to ensure that the risk assumed is known and managed by the Company, investments are diversified among different banking institutions (both local and international). The Company evaluates the credit standing of each counterparty and the levels of investment, based on (i) their credit rating, (ii) the equity size of the counterparty, and (iii) investment limits according to the Company's level of liquidity. According to these three parameters, the Company chooses the most restrictive parameter of the previous three and based on this, establishes limits for operations with each counterparty.

The Company has no guarantees to mitigate this exposure.

(ii) Operational activities

The Company has four large sales "clusters": travel agencies, cargo agents, airlines and credit-card administrators. The first three are governed by International Air Transport Association, international ("IATA") organization comprising most of the airlines that represent over 90% of scheduled commercial traffic and one of its main objectives is to regulate the financial transactions between airlines and travel agents and cargo. When an agency or airline does not pay their debt, they are excluded from operating with IATA's member airlines. In the case of credit-card administrators, they are fully guaranteed by 100% by the issuing institutions.

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



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One of the tools the Company uses for reducing credit risk is to participate in global entities related to the industry, such as IATA, Business Sales Processing (“BSP”), Cargo Account Settlement Systems (“CASS”), IATA Clearing House (“ICH”) and banks (credit cards). These institutions fulfill the role of collectors and distributors between airlines and travel and cargo agencies. In the case of the Clearing House, it acts as an offsetting entity between airlines for the services provided between them. A reduction in term and implementation of guarantees has been achieved through these entities. Currently the sales invoicing of TAM Linhas Aéreas S.A. related with travel agents and cargo agents for domestic transportation in Brazil is done directly by TAM Linhas Aéreas S.A.

### Credit quality of financial assets

The external credit evaluation system used by the Company is provided by IATA. Internal systems are also used for particular evaluations or specific markets based on trade reports available on the local market. The internal classification system is complementary to the external one, i.e. for agencies or airlines not members of IATA, the internal demands are greater.

To reduce the credit risk associated with operational activities, the Company has established credit limits to abridge the exposure of their debtors which are monitored permanently (mainly in case of operational activities of TAM Linhas Aéreas S.A. with travel agents). The bad-debt rate in the principal countries where the Company has a presence is insignificant.

### (c) Liquidity risk

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

Because of the cyclical nature of the business, the operation, and its investment and financing needs related to the acquisition of new aircraft and renewal of its fleet, plus the financing needs, the Company requires liquid funds, defined as cash and cash equivalents plus other short term financial assets, to meet its payment obligations.

The liquid funds, the future cash generation and the capacity to obtain additional funding, through bond issuance and banking loans, will allow the Company to obtain sufficient alternatives to face its investment and financing future commitments.

The liquid funds balance as of December 31, 2016 is US\$ 1,486 million (US\$ 1,360 million at December 31, 2015), invested in short term instruments through financial high credit rating levels entities.

In addition to the liquid funds, the Company has access to short term credit line. As of December 31, 2016, LATAM has working capital credit lines with multiple banks and additionally has a US\$ 325 million undrawn committed credit line (US\$ 130 million at December 31, 2015).

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Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2016  
Debtor: LATAM Airlines Group S.A. and Subsidiaries , Tax No. 89.862.200-2 Chile.

Tax No.	Creditor	Creditor country	Currency	Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total	Nominal value	Amortization	Effective rate	Nominal rate
				ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	%	%	
Loans to exporters													
97.032.000-8	BBVA	Chile	US \$	75,212	—	—	—	—	75,212	75,000	At Expiration	1.85	1.85
97.032.000-8	BBVA	Chile	UF	—	52,675	—	—	—	52,675	50,381	At Expiration	5.23	4.43
97.036.000-K	SANTANDER	Chile	US \$	30,193	—	—	—	—	30,193	30,000	At Expiration	2.39	2.39
97.030.000-7	ESTADO	Chile	US \$	40,191	—	—	—	—	40,191	40,000	At Expiration	1.91	1.91
97.003.000-K	BANCODEBRASIL	Chile	US \$	72,151	—	—	—	—	72,151	70,000	At Expiration	3.08	3.08
97.951.000-4	HSBC	Chile	US \$	12,054	—	—	—	—	12,054	12,000	At Expiration	1.79	1.79
Obligations with the public													
97.023.000-9	CORPBANCA	Chile	UF	20,808	61,112	63,188	16,529	—	161,637	153,355	Quarterly	4.06	4.06
0-E	BLADEX	U.S.A.	US \$	—	14,579	31,949	—	—	46,528	42,500	Semiannual	5.14	5.14
0-E	DVB BANK SE	U.S.A.	US \$	145	199	28,911	—	—	29,255	28,911	Quarterly	1.86	1.86
97.036.000-K	SANTANDER	Chile	US \$	1,497	4,308	160,556	—	—	166,361	158,194	Quarterly	3.55	3.55
Obligations with the public													
0-E	BANK OF NEWYORK	U.S.A.	US \$	—	36,250	72,500	518,125	—	626,875	500,000	At Expiration	7.77	7.25
Guaranteed obligations													
0-E	CREDIT AGRICOLE	France	US \$	11,728	30,916	65,008	33,062	3,760	144,474	138,417	Quarterly	2.21	1.81
0-E	BNP PARIBAS	U.S.A.	US \$	13,805	56,324	142,178	141,965	376,894	731,166	628,118	Quarterly	2.97	2.96
0-E	WELLS FARGO	U.S.A.	US \$	35,896	107,830	287,878	288,338	411,076	1,131,018	1,056,345	Quarterly	2.37	1.68
0-E	WILMINGTON TRUST COMPANY	U.S.A.	US \$	25,833	79,043	206,952	200,674	733,080	1,245,582	967,336	Quarterly	4.25	4.25
0-E	CITIBANK	U.S.A.	US \$	20,224	61,020	164,077	166,165	184,053	595,539	548,168	Quarterly	2.72	1.96
97.036.000-K	SANTANDER	Chile	US \$	5,857	17,697	47,519	48,024	26,448	145,545	138,574	Quarterly	1.98	1.44
0-E	BTMU	U.S.A.	US \$	3,163	9,568	25,752	26,117	27,270	91,870	85,990	Quarterly	2.31	1.72
0-E	APPLE BANK	U.S.A.	US \$	1,551	4,712	12,693	12,891	13,857	45,704	42,754	Quarterly	2.29	1.69
0-E	US BANK	U.S.A.	US \$	18,563	55,592	147,357	146,045	230,747	598,304	532,608	Quarterly	3.99	2.81
0-E	DEUTSCHE BANK	U.S.A.	US \$	6,147	18,599	31,640	31,833	48,197	136,416	117,263	Quarterly	3.86	3.86
0-E	NATIXIS	France	US \$	14,779	44,826	116,809	96,087	206,036	478,537	422,851	Quarterly	2.60	2.57
0-E	PK AirFinance	U.S.A.	US \$	2,265	6,980	19,836	25,610	3,153	57,844	54,787	Monthly	2.40	2.40
0-E	KFWIP EX-BANK	Germany	US \$	2,503	7,587	18,772	9,178	—	38,040	36,191	Quarterly	2.55	2.55
0-E	AIRBUS FINANCIAL	U.S.A.	US \$	1,982	5,972	16,056	7,766	—	31,776	30,199	Monthly	2.49	2.49
0-E	INVESTEC	England	US \$	1,880	10,703	25,369	25,569	23,880	87,401	72,202	Semiannual	5.67	5.67
Other guaranteed obligations													
0-E	CREDITAGRICOLE	France	US \$	1,501	4,892	268,922	—	—	275,315	256,860	At Expiration	2.85	2.85
Financial leases													
0-E	ING	U.S.A.	US \$	5,889	17,671	34,067	12,134	—	69,761	63,698	Quarterly	5.62	4.96
0-E	CREDITAGRICOLE	France	US \$	1,788	5,457	—	—	—	7,245	7,157	Quarterly	1.85	1.85
0-E	CITIBANK	U.S.A.	US \$	6,083	18,250	48,667	14,262	—	87,262	78,249	Quarterly	6.40	5.67
0-E	PEFCO	U.S.A.	US \$	17,558	50,593	67,095	3,899	—	139,145	130,811	Quarterly	5.39	4.79
0-E	BNP PARIBAS	U.S.A.	US \$	13,744	41,508	79,165	22,474	—	156,891	149,119	Quarterly	3.69	3.26
0-E	WELLS FARGO	U.S.A.	US \$	5,591	16,751	44,615	44,514	1,880	113,351	103,326	Quarterly	3.98	3.54
0-E	DVB BANK S E	U.S.A.	US \$	4,773	9,541	—	—	—	14,314	14,127	Quarterly	2.57	2.57
0-E	RRP F ENGINE	England	US \$	—	—	8,248	8,248	12,716	29,212	25,274	Monthly	2.35	2.35
Other loans													
0-E	BOEING	U.S.A.	US \$	163	320	26,214	—	—	26,697	26,214	At Expiration	2.35	2.35
0-E	CITIBANK (*)	U.S.A.	US \$	25,802	77,795	207,001	103,341	—	413,939	370,389	Quarterly	6.00	6.00
Hedging derivatives													
-	OTHERS	—	US \$	7,364	15,479	7,846	—	—	30,689	—	—	—	—
	Total			508,683	944,749	2,476,840	2,002,850	2,303,047	8,236,169	7,257,368			

(\*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

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Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2016

Debtor: TAMS .A. and Subsidiaries, Tax No. 02.012.862/ 0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Up to 90 days ThUS\$	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Nominal value ThUS\$	Amortization	Effective rate %	Nominal rate %
Bank loans													
0-E	NEDERLANDSCHE CREDIETVERZEKERING MAATS CHAPPIJ	Holland	US \$	179	493	1,315	1,314	54	3,355	2,882	Monthly	6.01	6.01
0-E	CITIBANK	U.S .A.	US \$	1,528	203,150	—	—	—	204,678	200,000	At Expiration	3.39	3.14
Obligation with the public													
0-E	THE BANK OF NEWYORK	U.S .A.	US \$	—	352,938	83,750	562,813	—	999,501	800,000	At Expiration	8.17	8.00
Financial leases													
0-E	AFS INVESTMENT IX LLC	U.S.A.	US \$	2,733	7,698	20,522	8,548	—	39,501	35,448	Monthly	1.25	1.25
0-E	DVB BANK SE	U.S .A.	US \$	120	165	—	—	—	285	282	Monthly	2.50	2.50
0-E	GENERALELECTRIC CAPITAL CORPORATION	U.S .A.	US \$	3,852	5,098	—	—	—	8,950	8,846	Monthly	2.30	2.30
0-E	KFWIP EX-BANK	Germany	US \$	592	1,552	—	—	—	2,144	2,123	Monthly/Quarterly	2.80	2.80
0-E	NATIXIS	France	US \$	4,290	7,837	22,834	40,968	41,834	117,763	107,443	Quarterly/Semiannual	4.90	4.90
0-E	WACAPOULEASINGS.A.	Luxemburg	US \$	833	2,385	6,457	6,542	—	16,217	14,754	Quarterly	3.00	3.00
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US \$	11,875	32,116	85,995	171,553	—	301,539	279,335	Quarterly	4.18	4.11
0-E	BANCO IBMS .A	Brazil	BRL	380	1,161	35	—	—	1,576	1,031	Monthly	13.63	13.63
0-E	HP FINANCIAL SERVICE	Brazil	BRL	225	—	—	—	—	225	222	Monthly	10.02	10.02
0-E	SOCIÉTÉ GÉNÉRALE	France	BRL	146	465	176	—	—	787	519	Monthly	13.63	13.63
Total				26,753	615,058	221,084	791,738	41,888	1,696,521	1,452,885			

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Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2016  
Debtor: LATAM Airlines Group S.A. and Subsidiaries , Tax No .89.862.200-2, Chile.

Tax No .	Creditor	Creditor country	Currency	Up to 90 days ThUS\$	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Nominal value ThUS\$	Amortization	Effective rate %	Nominal rate %
Trade and other accounts payables													
—	OTHERS	OTHERS	US\$	549,897	21,215	—	—	—	571,112	571,112	—	—	—
			CLP	48,842	(30)	—	—	—	48,812	48,812	—	—	—
			BRL	346 ,037	27	—	—	—	346,064	346,064	—	—	—
			Other currencies	140 ,471	11,467	—	—	—	151,938	151,938	—	—	—
Accounts payable to related parties currents													
0-E	Consultoría Administrativa Profesional S.A. de C.V.	Mexico	MXN	170	—	—	—	—	170	170	—	—	—
78.997.060-2	Viajes Falabella Ltda.	Chile	CLP	46	—	—	—	—	46	46	—	—	—
0 -E	TAM Aviação Executiva e Taxi Aéreo S.A.	Brazil	BRL	28	—	—	—	—	28	28	—	—	—
65.216.000K	Comunidad Mujer	Chile	CLP	13	—	—	—	—	13	13	—	—	—
78.591.3701	Bethia S.A. y Filiales	Chile	CLP	6	—	—	—	—	6	6	—	—	—
79.773.4403	Trans portes San Felipe S.A.	Chile	CLP	4	—	—	—	—	4	4	—	—	—
0 -E	Inversora Aeronáutica Argentina	Argentina	US\$	2	—	—	—	—	2	2	—	—	—
	Total			1,085,516	32,679	—	—	—	1,118,195	1,118,195			
	Total consolidated			1,620,952	1,592,486	2,697,924	2,794,588	2,344,935	11,050,885	9,828,448			

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Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2015  
Debtor: LATAM Airlines Group S.A. and Subsidiaries , Tax No . 89 .862.200 -2 Chile.

Tax No .	Creditor	Creditor country	Currency	Up to 90 days ThUS\$	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Nominal value ThUS\$	Amortization	Effective rate %	Nominal rate %
Loans to exporters													
97.032.000-8	BBVA	Chile	US\$	100,253	—	—	—	—	100,253	100,000	At Expiration	1.00	1.00
97.036.000-K	SANTANDER	Chile	US\$	100,363	—	—	—	—	100,363	100,000	At Expiration	1.44	1.44
97.030.000-7	ESTADO	Chile	US\$	55,172	—	—	—	—	55,172	55,000	At Expiration	1.05	1.05
97.004.000-5	BANCO DE CHILE	Chile	US\$	50,059	—	—	—	—	50,059	50,000	At Expiration	1.42	1.42
97.003.000-K	BANCO DO BRASIL	Chile	US\$	70,133	—	—	—	—	70,133	70,000	At Expiration	1.18	1.18
97.951.000-4	HSBC	Chile	US\$	12,020	—	—	—	—	12,020	12,000	At Expiration	0.66	0.66
Bank loans													
97.023.000-9	CORPBANCA	Chile	UF	19,873	58,407	112,252	35,9 53	—	226,485	211,135	Quarterly	4.18	4.18
0 -E	BANCO BLADEX	U.S.A.	US\$	—	9,702	30,526	15,514	—	55,742	50 ,000	Semiannual	4.58	4.58
0 -E	DVB	U.S.A.	US\$	146	430	154,061	—	—	154,637	153,514	Quarterly	1.67	1.67
97.036.000-K	SANTANDER	Chile	US\$	1,053	—	226,712	—	—	227,765	226,712	Quarterly	2.24	2.24
Obligations with the public													
0 -E	BANK OF NEW YORK	U.S.A.	US\$	—	36,250	72,500	554 ,3 75	—	663,125	500,000	At Expiration	7.77	7.25
Guaranteed obligations													
0 -E	CREDIT AGRICOLE	Francia	US\$	31,813	92,167	210,541	55,3 8 1	12,677	402,579	389,027	Quarterly	1.83	1.66
0 -E	BNP	U.S.A.	US\$	9,899	29,975	82,094	83 ,4 2 7	148,904	354,299	319,397	Quarterly	2.29	2.22
0 -E	PARIBAS	U.S.A.	US\$	9,899	29,975	82,094	83 ,4 2 7	148,904	354,299	319,397	Quarterly	2.29	2.22
0 -E	WELLS FARGO	U.S.A.	US\$	35,636	106,990	285,967	286 ,9 59	554,616	1,270,168	1,180,751	Quarterly	2.27	1.57
0 -E	WILMINGTON TRUST	U.S.A.	US\$	6,110	69,232	135,334	133,363	539,019	883,058	675,696	Quarterly	4.25	4.25
0 -E	CITIBANK	U.S.A.	US\$	19,478	58,741	158,957	162,459	266,273	665,908	617,002	Quarterly	2.40	1.64
97.036.000-K	SANTANDER	Chile	US\$	5,585	16,848	45,653	46,740	50,124	164,950	159,669	Quarterly	1.47	0.93
0 -E	BTMU	U.S.A.	US\$	2,992	9,035	24,541	25,214	39,930	101,712	96,954	Quarterly	1.82	1.22
0 -E	APPLE BANK	U.S.A.	US\$	1,471	4,445	12,079	12,431	20,099	50,525	48,142	Quarterly	1.72	1.12
0 -E	US BANK	U.S.A.	US\$	18,643	55,824	147,994	146,709	303,600	672,770	591,039	Quarterly	3.99	2.81
0 -E	DEUTSCHE BANK	U.S.A.	US\$	5,923	17,881	39,185	30,729	63,268	156,986	136,698	Quarterly	3.40	3.40
0 -E	NATIXIS	France	US\$	13,740	41,730	115,026	100,617	249,194	520,307	469,423	Quarterly	2.08	2.05
0 -E	HSBC	U.S.A.	US\$	1,590	4,790	12,908	13,112	25,175	57,575	53,583	Quarterly	2.40	1.59
0 -E	PK AirFinance	U.S.A.	US\$	2,172	6,675	18,928	20,812	18,104	66,691	62,514	Monthly	2.04	2.04
0 -E	KFW IPEX-BANK	Germany	US\$	728	2,232	5,684	4,131	1,6 58	14,433	13,593	Quarterly	2.45	2.45
Other guaranteed obligations													
0 -E	DVB BANK SE	U.S.A.	US\$	8,225	24,695	—	—	—	32,920	32,492	Quarterly	2.32	2.32
Financial leases													
0 -E	ING	U.S.A.	US\$	9,214	26,054	41,527	28,234	—	105,029	94,998	Quarterly	5.13	4.57
0 -E	CREDIT AGRICOLE	France	US\$	1,711	5,236	7,216	—	—	14,163	13,955	Quarterly	1.28	1.28
0 -E	CITIBANK	U.S.A.	US\$	6,083	18,250	48,667	3 8,596	—	111,596	97,383	Quarterly	6.40	5.67
0 -E	PEFCO	U.S.A.	US\$	17,556	52,674	115,934	23,211	—	209,375	192,914	Quarterly	5.37	4.77
0 -E	BNP	U.S.A.	US\$	11,368	34,292	86,206	31,782	—	163,648	153,107	Quarterly	4.08	3.64
0 -E	PARIBAS	U.S.A.	US\$	11,368	34,292	86,206	31,782	—	163,648	153,107	Quarterly	4.08	3.64
0 -E	WELLS FARGO	U.S.A.	US\$	5,594	16,768	44,663	44,565	24,125	135,715	121,628	Quarterly	3.98	3.54
0 -E	DVBBANKSE	U.S.A.	US\$	4,732	14,225	14,269	—	—	33,226	32,567	Quarterly	2.06	2.06
0 -E	BANC OF AMERICA	U.S.A.	US\$	703	2,756	—	—	—	3,459	2,770	Monthly	1.41	1.41
Other loans													
0 -E	BOEING	U.S.A.	US\$	655	533	151,362	—	—	152,550	151,362	At Expiration	1.80	1.80
0 -E	CITIBANK (*)	U.S.A.	US\$	25,820	77,850	207,190	206,749	—	517,609	450,000	Quarterly	6.00	6.00
Hedging derivatives													
—	OTROS	-	US\$	12,232	33,061	40,986	3 ,688	16	89,983	85,653	-	—	—
	Total			668,745	927,748	2,648,962	2,104,751	2,316,782	8,666,988	7,770,678			

(\*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

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Class of liability for the analysis of liquidity risk ordered by date of maturity as of  
December 31, 2015 Debtor: TAM S.A. and Subsidiaries , Tax No . 02.012.862/0001-60, Brazil.

Tax No .	Creditor	Creditor country	Currency	Up to 90 days ThUS\$	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Nominal value ThUS\$	Amortization	Effective rate %	Nominal rate %
Bank loans													
0-E	NEDERLANDSCHE CREDITVERZEKERING MAATSCHAPPIJ	Holland	US\$	181	493	1,315	1,314	712	4,015	3,353	Monthly	6.01	6.01
Obligation with the public													
0-E	BANK OF NEW YORK	U.S.A.	US\$	440	65,321	397,785	86,590	521,727	1,071,863	800,000	At Expiration	8.17	8.00
Financial leases													
0-E	AFS INVESTMENT IX LLC	U.S.A.	US\$	2,771	7,700	20,527	18,808	—	49,806	43,505	Monthly	1.25	1.25
0-E	AIRBUS FINANCIAL	U.S.A.	US\$	3,715	11,054	21,830	15,730	—	52,329	49,995	Monthly	1.43	1.43
0-E	CREDIT AGRICOLE -CIB	France	US\$	4,542	—	—	—	—	4,542	4,500	Quarterly/Semiannual	3.25	3.25
0-E	DVB BANK SE	U.S.A.	US\$	123	361	284	—	—	768	755	Monthly	1.64	1.64
0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A.	US\$	3,834	11,437	9,050	—	—	24,321	23,761	Monthly	1.25	1.25
0-E	KFW IPEX-BANK	Germany	US\$	3,345	6,879	15,973	12,429	—	38,626	36,899	Monthly/Quarterly	1.72	1.72
0-E	NATIXIS	France	US\$	4,338	7,812	22,635	23,030	70,925	128,740	115,020	Quarterly/Semiannual	3.85	3.85
0-E	PK AIR FINANCE US, INC.	U.S.A.	US\$	1,428	21,992	—	—	—	23,420	23,045	Monthly	1.75	1.75
0-E	WACAPOU LEASING S.A.	Luxemburg	US\$	520	1,386	3,198	14,567	—	19,671	18,368	Quarterly	2.00	2.00
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	11,993	31,874	85,695	214,612	—	344,174	312,486	Quarterly	3.63	3.55
0-E	BANCO IBM S.A	Brazil	BRL	267	846	1,230	—	—	2,343	1,728	Monthly	14.14	14.14
0-E	HP FINANCIAL SERVICE	Brazil	BRL	188	564	188	—	—	940	882	Monthly	10.02	10.02
0-E	SOCIÉTÉ GÉNÉRALE	France	BRL	104	330	626	—	—	1,060	775	Monthly	14.14	14.14
	Total			<u>37,789</u>	<u>168,049</u>	<u>580,336</u>	<u>387,080</u>	<u>593,364</u>	<u>1,766,618</u>	<u>1,435,072</u>			

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Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2015

Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Up to 90 days ThUS\$	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Nominal value ThUS\$	Amortization	Effective rate %	Nominal rate %
Trade and other accounts payables													
—	OTHERS	OTHERS	US\$	442,320	14,369	—	—	—	456,689	456,689	—	—	—
			CLP	39,823	114	—	—	—	39,937	39,937	—	—	—
			BRL	301,569	16	—	—	—	301,585	301,585	—	—	—
			Others currencies	218,347	9,016	—	—	—	227,363	227,363	—	—	—
Accounts payable to related parties current													
65.216.000-K	COMUNIDAD MUJER	Chile	CLP	10	—	—	—	—	10	10	—	—	—
78.591.370-1	BETHIA S.A. Y FILIALES	Chile	CLP	5	—	—	—	—	5	5	—	—	—
78.997.060-2	Viajes Falabella Ltd a.	Chile	CLP	68	—	—	—	—	68	68	—	—	—
0-E	Consultoría Administrativa Profesional	Mexico	MXN	342	—	—	—	—	342	342	—	—	—
0-E	INVERSORA AERONÁUTICA ARGENTINA	Argentina	US\$	22	—	—	—	—	22	22	—	—	—
	Total			1,002,506	23,515	—	—	—	1,026,021	1,026,021	—	—	—
	Total consolidated			1,709,040	1,119,312	3,229,298	2,491,831	2,910,146	11,459,627	10,231,771	—	—	—

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The Company has fuel, interest rate and exchange rate hedging strategies involving derivatives contracts with different financial institutions. The Company has margin facilities with each financial institution in order to regulate the mutual exposure produced by changes in the market valuation of the derivatives.

At the end of 2015, the Company provided US\$ 49.6 million in derivative margin guarantees, for cash and stand-by letters of credit. At December 31, 2016, the Company had provided US\$ 30.2 million in guarantees for Cash and cash equivalent and stand-by letters of credit. The decrease was due at: i) maturity of hedge contracts, ii) acquire of new fuel purchase contracts, and iii) changes in fuel prices, exchange rate and interest rates.

### 3.2. Capital risk management

The Company's objectives, with respect to the management of capital, are (i) to comply with the restrictions of minimum equity and (ii) to maintain an optimal capital structure.

The Company monitors its contractual obligations and the regulatory limitations in the different countries where the entities of the group are domiciled to assure they meet the limit of minimum net equity, where the most restrictive limitation is to maintain a positive net equity.

Additionally, the Company periodically monitors the short and long term cash flow projections to assure the Company has adequate sources of funding to generate the cash requirement to face its investment and funding future commitments.

The Company international credit rating is the consequence of the Company capacity to face its long terms financing commitments. As of December 31, 2016 the Company has an international long term credit rating of BB- with negative outlook by Standard & Poor's, a B+ rating with negative outlook by Fitch Ratings and a B1 rating with stable outlook by Moody's.

### 3.3. Estimates of fair value.

At December 31, 2016, the Company maintained financial instruments that should be recorded at fair value. These are grouped into two categories:

#### 1. Hedge Instruments:

This category includes the following instruments:

- Interest rate derivative contracts,
- Fuel derivative contracts,
- Currency derivative contracts.

#### 2. Financial Investments:

This category includes the following instruments:

- Investments in short-term Mutual Funds (cash equivalent),
- Private investment funds.



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

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

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

	As of December 31, 2016				As of December 31, 2015			
	Fair value ThUS\$	Fair value measurements using values considered as			Fair ThUS\$	Fair value measurements using values considered as		
		Level I ThUS\$	Level II ThUS\$	Level III ThUS\$		Level I ThUS\$	Level II ThUS\$	Level III ThUS\$
<b>Assets</b>								
Cash and cash equivalents	15,522	15,522	—	—	26,600	26,600	—	—
Short-term mutual funds	15,522	15,522	—	—	26,600	26,600	—	—
Other financial assets, current	548,402	536,991	11,411	—	622,963	606,385	16,578	—
Fair value of fuel derivatives	10,088	—	10,088	—	6,293	—	6,293	—
Fair value of foreign currency derivatives	1,259	—	1,259	—	9,888	—	9,888	—
Interest accrued since the last payment date of Cross Currency Swap	64	—	64	—	397	—	397	—
Private investment funds	536,991	536,991	—	—	448,810	448,810	—	—
Domestic and foreign bonds	—	—	—	—	157,575	157,575	—	—
<b>Liabilities</b>								
Other financial liabilities , current	24,881	—	24,881	—	134,089	—	134,089	—
Fair value of interest rate derivatives	9,579	—	9,579	—	33,518	—	33,518	—
Fair value of fuel derivatives	—	—	—	—	39,818	—	39,818	—
Fair value of foreign currency derivatives	13,155	—	13,155	—	56,424	—	56,424	—
Interest accrued since the last payment date of Currency Swap	2,147	—	2,147	—	4,329	—	4,329	—
Interest rate derivatives not recognized as a hedge	—	—	—	—	—	—	—	—
Other financial liabilities, non current	6,679	—	6,679	—	16,128	—	16,128	—
Fair value of interest rate derivatives	6,679	—	6,679	—	16,128	—	16,128	—

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Additionally, at December 31, 2016, 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, 2016		As of December 31, 2015	
	Book value	Fair value	Book value	Fair value
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalents	933,805	933,805	726,897	726,897
Cash on hand	8,630	8,630	10,656	10,656
Bank balance	255,746	255,746	255,421	255,421
Overnight	295,060	295,060	267,764	267,764
Time deposits	374,369	374,369	193,056	193,056
Other financial assets, current	164,426	164,426	28,385	28,385
Other financial assets	164,426	164,426	28,385	28,385
Trade and other accounts receivable current	1,107,889	1,107,889	796,974	796,974
Accounts receivable from related entities	554	554	183	183
Other financial assets, non current	102,125	102,125	89,458	89,458
Accounts receivable	8,254	8,254	10,715	10,715
Other financial liabilities, current	1,814,647	2,022,290	1,510,146	1,873,552
Trade and other accounts payables	1,593,068	1,593,068	1,483,957	1,483,957
Accounts payable to related entities	269	269	447	447
Other financial liabilities, non current	6,790,273	6,970,375	7,516,257	7,382,221
Accounts payable, non-current	359,391	359,391	417,050	417,050

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

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

#### NOTE 4—ACCOUNTING ESTIMATES AND JUDGMENTS

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

- (a) Evaluation of possible losses through impairment of goodwill and intangible assets with an indefinite useful life.

As of December 31, 2016 goodwill amounted to ThUS\$ 2,710,382 (ThUS\$ 2,280,575 at December 31, 2015), while intangible assets with an indefinite useful life comprised airport slots for ThUS\$ 978,849 (ThUS\$ 816,987 at December 31, 2015), Loyalty Program for ThUS\$ 326,262 (ThUS\$ 272,312 at December 31, 2015) and Trademarks (\*) for ThUS\$ 52,981 at December 31, 2015.

At least once per year the Company verifies whether goodwill and intangible assets with an indefinite useful life have suffered any losses through impairment. For the purposes of this evaluation, the Company has identified two cash-generating units (CGUs): “Air transport” and “Multiplus loyalty and coalition program.” The book value of goodwill assigned to each CGU as of December 31, 2016, amounted to ThUS\$ 2,176,634 and ThUS\$ 533,748 (ThUS\$ 1,835,088 and ThUS\$ 445,487 at December 31, 2015), which included intangible assets with undefined useful life:

	Air Transport CGU		Coalition and loyalty Program Multiplus CGU	
	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Airport Slots	978,849	816,987	—	—
Trade marks (*)	—	52,981	—	—
Loyalty program	—	—	326,262	272,312

- (\*) At December 31, 2016, the Company has changed the estimated useful life of the brands from an indefinite useful life to a five-year period (See Note 15).

The recoverable value of these cash-generating units (CGUs) has been determined based on calculations of their value in use. The principal assumptions used by the management include: growth rate, exchange rate, discount rate, fuel prices, and other economic assumptions. The estimation of these assumptions requires significant judgment by the management, as these variables feature inherent uncertainty; however, the assumptions used are consistent with Company’s internal planning. Therefore, management evaluates and updates the estimates on an annual basis, in light of conditions that affect these variables. The mainly assumptions used as well as, the corresponding sensitivity analyses are showed in Note 16.

(b) Useful life, residual value, and impairment of property, plant, and equipment

The depreciation of assets is calculated based on the linear model, except for certain technical components depreciated on cycles and hours flown. These useful lives are reviewed on an annual basis according with the Company's future economic benefits associated with them.

Changes in circumstances such as: technological advances, business model, planned use of assets or capital strategy may render the useful life different to the lifespan estimated. When it is determined that the useful life of property, plant, and equipment must be reduced, as may occur in line with changes in planned usage of assets, the difference between the net book value and estimated recoverable value is depreciated, in accordance with the revised remaining useful life.

Residual values are estimated in accordance with the market value that these assets will have at the end of their useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, once a year. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.8).

(c) Recoverability of deferred tax assets

Deferred taxes are calculated in accordance with the liability method, applied over temporary differences that arise between the fiscal based of assets and liabilities, and their book value. Deferred tax assets for tax losses are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company makes tax and financial projections to evaluate the realization of deferred tax asset over the course of time. Additionally, these projections are ensured to be consistent with those used to measure other long term assets. As of December 31, 2016 the company recognized deferred tax assets amounting to ThUS\$ 384,580 (ThUS\$ 376,595 at December 31, 2015), and had ceased to recognize deferred tax assets for tax losses amounting to ThUS\$ 115,801 (ThUS\$ 15,513 at December 31, 2015) (Note 18).

(d) Air tickets sold that are not actually used.

The Company advance sales of tickets as deferred revenue. Revenue from ticket sales is recognized in the income statement when the service is provided or when the tickets expires unused, reducing the corresponding deferred revenue. The Company evaluates monthly the probability that tickets expiry unused, based on the history of used tickets. Changes in the exchange probability would have an impact our revenue in the year in which the change occurs and in future years. As of December 31, 2016, deferred revenue associated with air tickets sold amounted to ThUS\$ 1,535,229 (ThUS\$ 1,223,886 as of December 31, 2015). An hypothetical change of 1% in passenger behavior regarding to the ticket usage,—that is, if during the next six months after sells probability of used were 89% rather than 90%, as we consider, it would lead to a change in the expiry period from six to seven months, which, as of December 31, 2016, would have an impact of up to ThUS\$ 20,000.

(e) Valuation of loyalty points and kilometers granted to loyalty program members, pending usage.

As of December 31, 2016 and December 31, 2015, the Company operated the following loyalty programs: LATAM Pass, LATAM Fidelidade and Multiplus, with the objective of enhancing customer loyalty by offering points or kilometers (see Note 22).

When kilometers and points are redeemed for products and services other than the services provided by the Company, revenue is recognized immediately; when they are redeemed for air tickets on airlines from to LATAM Airlines Group S.A. and subsidiaries, revenue is deferred until the transport service is provided or the corresponding tickets expired.

Deferred revenue from loyalty programs at the closing date corresponds to the valuation of points and kilometers granted to loyalty program members, pending of use, and the probability to be redeemed.

According to IFRIC-13, kilometers and points value that the Company estimate are not likely to be redeemed (“breakage”), they recognize the associated value proportionally during the period in which the remaining kilometers or points are expected to be redeemed. The Company uses statistical models to estimate the breakage, based on historical redemption patterns. Changes in the breakage would have a significant impact on our revenue in the year in which the change occurs and in future years.

As of December 31, 2016, deferred revenue associated with the LATAM Pass loyalty program amounted to ThUS\$ 896,190 (ThUS\$ 973,264 at December 31, 2015). As of December 31, 2016 a hypothetical change of 1% in the probability of usage would result in an impact of approximately ThUS\$ 30,632 and ThUS\$ 30,000 at the same period of 2015. Meanwhile, deferred revenue associated with the LATAM Fidelidade and Multiplus loyalty programs amounted to ThUS\$ 392,107 (ThUS\$ 452,264 at December 31, 2015). As of December 31, 2016 a hypothetical change of 2% in the probability of usage would result in an impact of approximately ThUS\$ 14,639 and ThUS\$ 11,755 at the same period of 2015.

The fair value of kilometers is determined by the Company based in its best estimate of the price at which they have been sold in the past. As of December 31, 2016 a hypothetical change of 1% in the fair value of the unused kilometers would result in an impact of approximately ThUS\$ 8,400 and ThUS\$ 8,800 at the same period of 2015.

(f) Provisions needs, and their valuation when required

Known contingencies are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. The Company applies professional judgment, experience, and knowledge to use available information to determine these values, in light of the specific characteristics of known risks. This process facilitates the early assessment and valuation of potential risks in individual cases or in the development of contingent eventualities.

(g) Investment in subsidiary (TAM)

The management has applied its judgment in determining that LATAM Airlines Group S.A. controls TAM S.A. and Subsidiaries, for accounting purposes, and has therefore consolidated the financial statements.

The grounds for this decision are that LATAM issued ordinary shares in exchange for the majority of circulating ordinary and preferential shares in TAM, except for those TAM shareholders who did not accept the exchange, which were subject to a squeeze out, entitling LATAM to substantially all economic benefits generated by the LATAM Group, and thus exposing it to substantially all risks relating to the operations of TAM. This exchange aligns the economic interests of LATAM and all of its shareholders, including the controlling shareholders of TAM, thus insuring that the shareholders and directors of TAM shall have no incentive to exercise their rights in a manner that would be beneficial to TAM but detrimental to LATAM. Furthermore, all significant actions necessary of the operation of the airlines require votes in favor by the controlling shareholders of both LATAM and TAM.

Since the integration of LAN and TAM operations, the most critical airline operations in Brazil have been managed by the CEO of TAM while global activities have been managed by the CEO of LATAM, who is in charge of the operation of the LATAM Group as a whole and reports to the LATAM Board.

The CEO of LATAM also evaluates the performance of LATAM Group executives and, together with the LATAM Board, determines compensation. Although Brazilian law currently imposes restrictions on the percentages of voting rights that may be held by foreign investors, LATAM believes that the economic basis of these agreements meets the requirements of accounting standards in force, and that the consolidation of the operations of LAN and LATAM is appropriate.

These estimates were made based on the best information available relating to the matters analyzed.

In any case, it is possible that events that may take place in the future could lead to their modification in future reporting periods, which would be made in a prospective manner.

NOTE 5 - SEGMENTAL INFORMATION

The Company has determined that it has two operating segments: the air transportation business and the coalition and loyalty program Multiplus.

The Air transport segment corresponds to the route network for air transport and it is based on the way that the business is run and managed, according to the centralized nature of its operations, the ability to open and close routes and reallocate resources (aircraft, crew, staff, etc.) within the network, which is a functional relationship between all of them, making them inseparable. This segment definition is the most common level used by the global airline industry.

The segment of loyalty coalition called Multiplus, unlike LATAM Pass and LATAM Fidelidade, is a frequent flyer programs which operate as a unilateral system of loyalty that offers a flexible coalition system, interrelated among its members, with 16.5 million of members, along with being a regulated entity with a separately business and not directly related to air transport.

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For the periods ended

	Air transportation At December 31,			Coalition and loyalty program Multiplus At December 31,			Eliminations At December 31,			Consolidated At December 31,		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$
Income from ordinary activities from external customers (*)	8,587,772	9,278,041	11,587,224	400,568	462,004	506,277	—	—	—	8,988,340	9,740,045	12,093,501
LAN passenger	4,104,348	4,241,918	4,464,761	—	—	—	—	—	—	4,104,348	4,241,918	4,464,761
TAM passenger	3,372,799	3,706,692	5,409,084	400,568	462,004	506,277	—	—	—	3,773,367	4,168,696	5,915,361
Freight	1,110,625	1,329,431	1,713,379	—	—	—	—	—	—	1,110,625	1,329,431	1,713,379
Income from ordinary activities from transactions with other operating segments	400,568	462,004	506,277	65,969	67,826	106,030	(466,537)	(529,830)	(612,307)	—	—	—
Other operating income	364,551	230,823	217,390	174,197	154,958	160,255	—	—	—	538,748	385,781	377,645
Interest income	27,287	21,818	32,390	58,380	63,647	58,110	(10,718)	(10,385)	—	74,949	75,080	90,500
Interest expense	(427,054)	(423,742)	(430,030)	—	—	(4)	10,718	10,385	—	(416,336)	(413,357)	(430,034)
Total net interest expense	(399,767)	(401,924)	(397,640)	58,380	63,647	58,106	—	—	—	(341,387)	(338,277)	(339,534)
Depreciation and amortization	(952,285)	(923,311)	(983,847)	(8,043)	(11,095)	(7,417)	—	—	—	(960,328)	(934,406)	(991,264)
Material non-cash items other than depreciation and amortization	10,069	(507,921)	(168,573)	(991)	1,893	(2,350)	—	—	—	9,078	(506,028)	(170,923)
Disposal of fixed assets and inventory losses	(82,734)	(20,932)	(28,756)	—	—	(814)	—	—	—	(82,734)	(20,932)	(29,570)
Doubtful accounts	(29,674)	(18,292)	(9,637)	(476)	611	(1,522)	—	—	—	(30,150)	(17,681)	(11,159)
Exchange differences	122,129	(469,178)	(130,187)	(478)	1,282	(14)	—	—	—	121,651	(467,896)	(130,201)
Result of indexation units	348	481	7	(37)	—	—	—	—	—	311	481	7
Income (loss) attributable to owners of the parents	(83,653)	(356,039)	(404,346)	152,873	136,765	144,361	—	—	—	69,220	(219,274)	(259,985)
Participation of the entity in the income of associates	—	37	(2,175)	—	—	(4,280)	—	—	—	—	37	(6,455)
Expenses for income tax	(92,476)	249,090	(218,503)	(70,728)	(70,707)	(73,901)	—	—	—	(163,204)	178,383	(292,404)
Segment profit/(loss)	(42,203)	(315,497)	(332,287)	152,873	136,765	105,116	—	—	—	110,670	(178,732)	(227,171)
Assets of segment	17,805,749	16,924,200	18,759,848	1,400,432	1,182,111	1,773,584	(7,987)	(4,893)	(49,002)	19,198,194	18,101,418	20,484,430
Amount of non-current asset additions	1,481,090	1,492,281	1,522,298	—	—	—	—	—	—	1,481,090	1,492,281	1,522,298
Property, plant and equipment	1,390,730	1,439,057	1,444,402	—	—	—	—	—	—	1,390,730	1,439,057	1,444,402
Intangibles other than goodwill	90,360	53,224	77,896	—	—	—	—	—	—	90,360	53,224	77,896
Segment liabilities	14,469,505	14,700,072	15,293,668	572,065	490,076	723,438	(28,680)	(26,278)	(36,371)	15,012,890	15,163,870	15,980,735
Purchase of non-monetary assets of segment	782,957	1,622,198	1,496,204	—	—	—	—	—	—	782,957	1,622,198	1,496,204

(\*) The Company does not have any interest revenue that should be recognized as income from ordinary activities by interest.

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

	2016	For the period ended At December 31,	
	ThUS\$	2015 ThUS\$	2014 ThUS\$
Peru	627,215	681,340	660,057
Argentina	1,030,973	979,324	813,472
U.S.A.	933,130	1,025,475	1,224,264
Europe	714,436	723,062	935,893
Colombia	343,001	353,007	391,678
Brazil	2,974,234	3,464,297	5,361,594
Ecuador	198,171	238,500	248,585
Chili	1,512,570	1,575,519	1,589,202
Asia Pacific and rest of Latin America	654,610	699,521	868,756
Income from ordinary activities	8,988,340	9,740,045	12,093,501
Other operating income	538,748	385,781	377,645

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

The Company has no customers that individually represent more than 10% of sales.

## NOTE 6 - CASH AND CASH EQUIVALENTS

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Cash on hand	8,630	10,656
Bank balances	255,746	255,421
Overnight	295,060	267,764
Total Cash	559,436	533,841
Cash equivalents		
Time deposits	374,369	193,056
Mutual funds	15,522	26,600
Total cash equivalents	389,891	219,656
Total cash and cash equivalents	949,327	753,497



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Cash and cash equivalents are denominated in the following currencies:

Currency	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Argentine peso	7,871	18,733
Brazilian real	97,401	106,219
Chilean peso	30,758	17,978
Colombian peso	4,336	14,601
Euro	1,695	10,663
US Dollar	780,124	564,214
Strong bolivar (*)	61	2,986
Other currencies	27,081	18,103
Total	<u>949,327</u>	<u>753,497</u>

(\*) At December 31, 2015, the Company reflected an exchange rate loss of ThUS\$ 40,968 consequence change in the SICAD rate of Venezuela (13.5 VEF/US\$) at the SIMADI rate equivalent to 198.70 VEF/US\$.

As of December 31, 2016, the DICOM rate, which replaces SIMADI (February 2016), and to this date is 673.76 VEF/US\$, Applied to cash and cash equivalents in VEF, represented a balance of ThUS\$ 61 (ThUS\$ 2,986 at December 31, 2015)

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NOTE 7 - FINANCIAL INSTRUMENTS

7.1. Financial instruments by category

As of December 31, 2016

Assets	Loans and receivables ThUS\$	Hedge derivatives ThUS\$	Held for trading ThUS\$	Initial designation as fair value through profit and loss ThUS\$	Total ThUS\$
Cash and cash equivalents	933,805	—	—	15,522	949,327
Other financial assets, current (*)	164,426	11,411	—	536,991	712,828
Trade and others accounts receivable, current	1,107,889	—	—	—	1,107,889
Accounts receivable from related entities, current	554	—	—	—	554
Other financial assets, non current (*)	101,603	—	522	—	102,125
Accounts receivable, non current	8,254	—	—	—	8,254
Total	<u>2,316,531</u>	<u>11,411</u>	<u>522</u>	<u>552,513</u>	<u>2,880,977</u>

Liabilities	Other financial liabilities ThUS\$	Held Hedge derivatives ThUS\$	Total ThUS\$
Other liabilities, current	1,814,647	24,881	1,839,528
Trade and others accounts payable, current	1,593,068	—	1,593,068
Accounts payable to related entities, current	269	—	269
Other financial liabilities, non-current	6,790,273	6,679	6,796,952
Accounts payable, non-current	359,391	—	359,391
Total	<u>10,557,648</u>	<u>31,560</u>	<u>10,589,208</u>

(\*) The value presented as initial designation as fair value through profit and loss, corresponds mainly to private investment funds; and loans and receivables corresponds to guarantees given.

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As of December 31, 2015

<u>Assets</u>	<u>Loans and receivables</u> ThUS\$	<u>Hedge derivatives</u> ThUS\$	<u>Held for trading</u> ThUS\$	<u>Initial designation as fair value through profit and loss</u> ThUS\$	<u>Total</u> ThUS\$
Cash and cash equivalents	726,897	—	—	26,600	753,497
Other financial assets, current (*)	28,385	16,578	157,575	448,810	651,348
Trade and others accounts receivable, current	796,974	—	—	—	796,974
Accounts receivable from related entities, current	183	—	—	—	183
Other financial assets, non current (*)	88,820	—	638	—	89,458
Accounts receivable, non current	10,715	—	—	—	10,715
<b>Total</b>	<b>1,651,974</b>	<b>16,578</b>	<b>158,213</b>	<b>475,410</b>	<b>2,302,175</b>

<u>Liabilities</u>	<u>Other financial liabilities</u> ThUS\$	<u>Held Hedge derivatives</u> ThUS\$	<u>Total</u> ThUS\$
Other liabilities, current	1,510,146	134,089	1,644,235
Trade and others accounts payable, current	1,483,957	—	1,483,957
Accounts payable to related entities, current	447	—	447
Other financial liabilities, non-current	7,516,257	16,128	7,532,385
Accounts payable, non-current	417,050	—	417,050
<b>Total</b>	<b>10,927,857</b>	<b>150,217</b>	<b>11,078,074</b>

(\*) The value presented as initial designation as fair value through profit and loss, corresponds mainly to private investment funds; and loans and receivables corresponds to guarantees given.

## 7.2. Financial instruments by currency

a) Assets	As of December 31, 2016	As of December 31, 2015
	ThUS \$	ThUS \$
Cash and cash equivalents	949,327	753,497
Argentine peso	7,871	18,733
Brazilian real	97,401	106,219
Chilean peso	30,758	17,978
Colombian peso	4,336	14,601
Euro	1,695	10,663
US Dollar	780,124	564,214
Strong bolivar	61	2,986
Other currencies	27,081	18,103
Other financial assets (current and non-current)	814,953	740,806
Argentine peso	337	157,281
Brazilian real	686,501	449,934
Chilean peso	668	640
Colombian peso	1,023	1,670
Euro	6,966	614
US Dollar	117,346	128,620
Strong bolivar	76	22
Other currencies	2,036	2,025
Trade and other accounts receivable, current	1,107,889	796,974
Argentine peso	82,770	71,438
Brazilian real	551,260	191,037
Chilean peso	92,791	57,755
Colombian peso	16,454	13,208
Euro	21,923	30,006
US Dollar	312,394	344,153
Strong bolivar	43	7,225
Other currencies (*)	30,254	82,152
Accounts receivable, non-current	8,254	10,715
Brazilian real	4	521
Chilean peso	8,250	5,041
US Dollar	—	5,000
Other currencies (*)	—	153
Accounts receivable from related entities, current	554	183
Brazilian real	—	2
Chilean peso	554	181
Total assets	2,880,977	2,302,175
Argentine peso	90,978	247,452
Brazilian real	1,335,166	747,713
Chilean peso	133,021	81,595
Colombian peso	21,813	29,479
Euro	30,584	41,283
US Dollar	1,209,864	1,041,987
Strong bolivar	180	10,233
Other currencies	59,371	102,433

(\*) See the composition of the others currencies in Note 8 Trade, other accounts receivable and non-current accounts receivable.

## b) Liabilities

Liabilities information is detailed in the table within Note 3 Financial risk management.

# NOTE 8 - TRADE AND OTHER ACCOUNTS RECEIVABLE CURRENT, AND NON-CURRENT ACCOUNTS RECEIVABLE

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Trade accounts receivable	1,022,933	685,733
Other accounts receivable	170,264	182,028
Total trade and other accounts receivable	1,193,197	867,761
Less: Allowance for impairment loss	(77,054)	(60,072)
Total net trade and accounts receivable	1,116,143	807,689
Less: non-current portion – accounts receivable	(8,254)	(10,715)
Trade and other accounts receivable, current	1,107,889	796,974

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

The maturity of these accounts at the end of each period is as follows:

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Fully performing	896,040	577,902
Matured accounts receivable, but not impaired		
Expired from 1 to 90 days	38,969	28,717
Expired from 91 to 180 days	9,303	10,995
More than 180 days overdue (*)	1,567	8,047
Total matured accounts receivable, but not impaired	49,839	47,759
Matured accounts receivable and impaired		
Judicial, pre-judicial collection and protested documents	34,909	24,304
Debtor under pre-judicial collection process and portfolio sensitization	42,145	35,768
Total matured accounts receivable and impaired	77,054	60,072
Total	1,022,933	685,733

(\*) Value of this segment corresponds primarily to accounts receivable that were evaluated in their ability to recover, therefore not requiring a provision.

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Currency balances that make up the Trade and other accounts receivable and non-current accounts receivable are the following:

<u>Currency</u>	<u>As of December 31, 2016 ThUS\$</u>	<u>As of December 31, 2015 ThUS\$</u>
Argentine Peso	82,770	71,438
Brazilian Real	551,264	191,558
Chilean Peso	101,041	62,796
Colombian peso	16,454	13,208
Euro	21,923	30,006
US Dollar	312,394	349,153
Strong bolivar	43	7,225
Other currency (*)	30,254	82,305
<b>Total</b>	<b>1,116,143</b>	<b>807,689</b>
(*) Other currencies		
Australian Dollar	5,487	26,185
Chinese Yuan	271	4,282
Danish Krone	151	164
Pound Sterling	3,904	7,228
Indian Rupee	303	3,070
Japanese Yen	2,601	4,343
Norwegian Kroner	184	221
Swiss Franc	1,512	1,919
Korean Won	4,241	4,462
New Taiwanese Dollar	662	3,690
Other currencies	10,938	26,741
<b>Total</b>	<b>30,254</b>	<b>82,305</b>

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

<u>Maturity</u>	<u>Impairment</u>
Judicial and pre-judicial collection assets	100%
Over 1 year	100%
Between 6 and 12 months	50%

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Movement in the allowance for impairment loss of Trade and other accounts receivables are the following:

Periods	Opening balance ThUS\$	Write-offs ThUS\$	(Increase) Decrease ThUS\$	Closing balance ThUS\$
From January 1 to December 31, 2014	(70,602)	6,864	(7,304)	(71,042)
From January 1 to December 31, 2015	(71,042)	10,120	850	(60,072)
From January 1 to December 31, 2016	(60,072)	20,910	(37,892)	(77,054)

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

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

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

	As of December 31, 2016			As of December 31, 2015		
	Gross exposure according to balance ThUS\$	Gross impaired exposure ThUS\$	Exposure net of risk concentrations ThUS\$	Gross exposure according to balance ThUS\$	Gross Impaired exposure ThUS\$	Exposure net of risk concentrations ThUS\$
Trade accounts receivable	1,022,933	(77,054)	945,879	685,733	(60,072)	625,661
Other accounts receivable	170,264	—	170,264	182,028	—	182,028

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

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# NOTE 9 - ACCOUNTS RECEIVABLE FROM/PAYABLE TO RELATED ENTITIES

## (a) Accounts Receivable

<u>Tax No.</u>	<u>Related party</u>	<u>Relationship</u>	<u>Country of origin</u>	<u>Currency</u>	<u>As of December 31, 2016</u> ThUS\$	<u>As of December 31, 2016</u> ThUS\$
78.591.370-1	Bethia S.A. and Subsidiaries	Related director	Chile	CLP	538	167
87.752.000-5	Granja Marina Tornagaleones S.A.	Common shareholder	Chile	CLP	14	14
96.810.370-9	Inversiones Costa Verde Ltda. y CPA.	Controller	Chile	CLP	2	—
Foreign	TAM Aviação Executiva e Taxi Aéreo S.A.	Related director	Brazil	BRL	—	2
Total current assets					<u>554</u>	<u>183</u>

## (b) Accounts payable

<u>Tax No.</u>	<u>Related party</u>	<u>Relationship</u>	<u>Country of origin</u>	<u>Currency</u>	<u>As of December 31, 2016</u> ThUS\$	<u>As of December 31, 2015</u> ThUS\$
Foreign	Consultoría Administrativa Profesional S.A. de C.V.	Associate	Mexico	MXN	170	342
65.216.000-K	Viajes Falabella Ltda.	Related director	Chile	CLP	46	68
79.773.440-3	TAM Aviação Executiva e Taxi Aéreo S.A.	Related director	Brazil	BRL	28	—
65.216.000-K	Comunidad Mujer	Related director	Chile	CLP	13	10
78.591.370-1	Bethia S.A. and Subsidiaries	Related director	Chile	CLP	6	5
79.773.440-3	Transportes San Felipe S.A	Common property	Chile	CLP	4	—
Foreign	Inversora Aeronáutica Argentina	Related director	Argentina	US\$	2	22
Total current liabilities					<u>269</u>	<u>447</u>

Transactions between related parties have been carried out on free-trade conditions between interested and duly-informed parties. The transaction times are between 30 and 45 days, and the nature of settlement of the transactions is monetary.



NOTE 10 - INVENTORIES

The composition of Inventories is as follows:

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Technical stock	191,864	192,930
Non-technical stock	49,499	31,978
Total	<u>241,363</u>	<u>224,908</u>

The items included in this heading are spare parts and materials that will be used mainly in consumption in in-flight and maintenance services provided to the Company and third parties, which are valued at average cost, net of provision for obsolescence, as per the following detail:

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Provision for obsolescence Technical stock	31,647	13,303
Provision for obsolescence Non-technical stock	3,429	2,589
Total	<u>35,076</u>	<u>15,892</u>

The resulting amounts do not exceed the respective net realizable values.

As of December 31, 2016, the Company recorded ThUS\$ 167,365 (ThUS\$ 160,030 at December 31, 2015) within the income statement, mainly due to in-flight consumption and maintenance, which forms part of Cost of sales.

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# NOTE 11 - OTHER FINANCIAL ASSETS

The composition of Other financial assets is as follows:

	Current Assets		Non-current assets		Total Assets	
	As of	As of	As of	As of	As of	As of
	December 31, 2016 ThUS\$	December 31, 2015 ThUS\$	December 31, 2016 ThUS\$	December 31, 2015 ThUS\$	December 31, 2016 ThUS\$	December 31, 2015 ThUS\$
(a ) Other financial assets						
Private investment funds	536,991	448,810	—	—	536,991	448,810
Deposits in guarantee (aircraft)	16,819	16,532	56,846	58,483	73,665	75,015
Guarantees for margins of derivatives	939	4,456	—	—	939	4,456
Other investments	—	—	522	638	522	638
Domestic and foreign bonds	—	157,575	—	—	—	157,575
Other guarantees given	140,733	6,160	44,757	30,337	185,490	36,497
Other	5,935	1,237	—	—	5,935	1,237
Subtotal of other financial assets	701,417	634,770	102,125	89,458	803,542	724,228
(b) Hedging assets						
Interest accrued since the last payment date of Cross currency swap	64	397	—	—	64	397
Fair value of foreign currency derivatives (*)	1,259	9,888	—	—	1,259	9,888
Fair value of fuel price derivatives	10,088	6,293	—	—	10,088	6,293
Subtotal of hedging assets	11,411	16,578	—	—	11,411	16,578
Total Other Financial Assets	712,828	651,348	102,125	89,458	814,953	740,806

(\*) The foreign currency derivatives correspond to forward and combination of options.

The types of derivative hedging contracts maintained by the Company at the end of each period are described in Note 19.

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## NOTE 12 - OTHER NON-FINANCIAL ASSETS

The composition of Other non-financial assets is as follows:

	Current Assets		Non-current assets		Total Assets	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$
(a ) Advance payments						
Aircraft leases	37,560	33,305	14,065	22,569	51,625	55,874
Aircraft insurance and other	14,717	12,408	—	—	14,717	12,408
Others	4,521	16,256	1,573	33,781	6,094	50,037
Subtotal advance payments	56,798	61,969	15,638	56,350	72,436	118,319
(b) Other assets						
Aircraft maintenance reserve (*)	51,576	99,112	90,175	64,366	141,751	163,478
Sales tax	102,351	158,134	40,232	45,061	142,583	203,195
Other taxes	500	4,295	—	—	500	4,295
Contributions to Société Internationale de Télécommunications Aéronautiques (“SITA”)	406	505	591	547	997	1,052
Judicial deposits	—	—	90,604	67,980	90,604	67,980
Others	611	6,001	104	1,159	715	7,160
Subtotal other assets	155,444	268,047	221,706	179,113	377,150	447,160
Total Other Non - Financial Assets	212,242	330,016	237,344	235,463	449,586	565,479

(\*) Aircraft maintenance reserves reflect prepayment deposits made by the group to lessors of certain aircraft under operating lease agreements in order to ensure that funds are available to support the scheduled heavy maintenance of the aircraft.

These amounts are calculated based on performance measures, such as flight hours or cycles, are paid periodically (usually monthly) and are contractually required to be repaid to the lessee upon the completion of the required maintenance of the leased aircraft. At the end of the lease term, any unused maintenance reserves are either returned to the Company in cash or used to offset amounts that we may owe the lessor as a maintenance adjustment.

In some cases (five lease agreements), if the maintenance cost incurred by LATAM is less than the corresponding maintenance reserves, the lessor is entitled to retain those excess amounts at the time the heavy maintenance is performed. The Company periodically reviews its maintenance reserves for each of its leased aircraft to ensure that they will be recovered, and recognizes an expense if any such amounts are less than probable of being returned. Since the acquisition of TAM in June 2012, the cost of aircraft maintenance has been higher than the related maintenance reserves for all aircraft.

As of December 31, 2016, LATAM had ThUS\$ 141,751 in maintenance reserves (ThUS\$ 163,478 at December 31, 2015), corresponding to two aircraft with contracts that establish periodic payments and whose expiration date is in 2017 and 21 aircraft that maintains remaining balances, which will be liquidated in the next maintenance or return.

Aircraft maintenance reserves are classified as current or non-current depending on the dates when the related maintenance is expected to be performed (Note 2.23)

# NOTE 13 - NON-CURRENT ASSETS AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Non-current assets and in disposal groups held for sale at December 31, 2016 and December 31, 2015 are detailed below:

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Current assets		
Aircraft	281,158	263
Engines and rotables	29,083	1,697
Other assets	26,954	—
Total	<u>337,195</u>	<u>1,960</u>
Current liabilities		
Other liabilities	10,152	—
Total	<u>10,152</u>	<u>—</u>

The balances are presented at the lower of book value and fair value less cost to sell. The fair value of these assets were determined based on quoted prices in active markets for similar assets or liabilities. This is a level II measurement as per the fair value hierarchy set out in note 3.3 (2). There were no transfers between levels for recurring fair value measurements during the year.

(a) Assets reclassified from Property, plant and equipment to Non-current assets or groups of assets for disposal classified as held for sale

In the period ended December 31, 2016, two Airbus A319 aircraft, two Airbus A320 aircraft, six Airbus A330 aircraft, two Boeing 777 aircraft, eight A330 spare engines, A330 rotables and two buildings were reclassified from Property, plant and equipment to Non-current assets or groups of assets for disposal classified as held for sale.

During the period ended December 31, 2016, two Airbus A319 aircraft, one Airbus A320 aircraft and two Airbus A330 aircraft were sold. Additionally an A330 spare engine and D200 rotables were sold.

As a result, an adjustment of US \$ 55 million was recorded to write down these assets to their net

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The detail of fleet classified as non-current assets or groups of assets for disposal classified as held for sale is the following:

Aircraft	As of December 31, 2016	As of December 31, 2015
Boeing 777 Freighter	2(*)	—
Airbus A330-200	4	—
Airbus A320-200	1	—
ATR42-300	1	1
Total	8	1

(\*) One aircraft leased to DHL.

### NOTE 14 - INVESTMENTS IN SUBSIDIARIES

#### (a) Investments in subsidiaries

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

Detail of significant subsidiaries and summarized financial information:

Name of significant subsidiary	Country of incorporation	Functional currency	Ownership	
			As of December 31, 2016 %	As of December 31, 2015 %
Lan Perú S.A.	Peru	US\$	70.00000	70.00000
Lan Cargo S.A.	Chile	US\$	99.89803	99.89803
Lan Argentina S.A.	Argentina	ARS	95.85660	94.99055
Transporte Aéreo S.A.	Chile	US\$	99.89804	99.89804
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	Ecuador	US\$	100.00000	100.00000
Aerovías de Integración Regional, AIRES S.A.	Colombia	COP	99.19056	99.01646
TAM S.A.	Brazil	BRL	99.99938	99.99938

The consolidated subsidiaries do not have significant restrictions for transferring funds to controller.

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### Summary financial information of significant subsidiaries

Name of significant subsidiary	Statement of financial position as of December 31, 2016						Results for the period ended December 31, 2016	
	Total Assets	Current Assets	Non-current Assets	Total Liabilities	Current Liabilities	Non-current Liabilities	Revenue	Net Income
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Lan Perú S.A.	306,111	283,691	22,420	294,912	293,602	1,310	967,787	(2,164)
Lan Cargo S.A.	480,908	144,309	336,599	239,728	211,395	28,333	266,296	(24,813)
Lan Argentina S.A.	216,331	194,306	22,025	200,172	197,330	2,842	371,896	(29,572)
Transporte Aéreo S.A.	340,940	36,986	303,954	124,805	59,668	65,137	297,247	8,206
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	89,667	56,064	33,603	81,101	75,985	5,116	219,676	(1,281)
Aerovías de Integración Regional, AIRES S.A.	129,734	55,132	74,602	85,288	74,160	11,128	277,503	(13,675)
TAM S.A. (*)	5,287,286	1,794,189	3,493,097	4,710,308	2,837,620	1,872,688	4,145,951	2,107

Name of significant subsidiary	Statement of financial position as of December 31, 2015						Results for the period ended December 31, 2015	
	Total Assets	Current Assets	Non-current Assets	Total Liabilities	Current Liabilities	Non-current Liabilities	Revenue	Net Income
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Lan Perú S.A.	255,691	232,547	23,144	240,938	239,521	1,417	1,078,992	5,068
Lan Cargo S.A.	483,033	159,294	323,739	217,037	147,423	69,614	278,117	(74,408)
Lan Argentina S.A.	195,756	180,558	15,198	170,384	168,126	2,258	443,317	9,432
Transporte Aéreo S.A.	331,117	41,756	289,361	122,666	44,495	78,171	324,464	5,878
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	126,001	80,641	45,360	116,153	111,245	4,908	246,402	(1,278)
Aerovías de Integración Regional, AIRES S.A.	130,039	62,937	67,102	75,003	64,829	10,174	291,354	(34,079)
TAM S.A. (*)	4,711,316	1,350,377	3,360,939	4,199,223	1,963,400	2,235,823	4,597,611	(183,812)

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### Summary financial information of significant subsidiaries

Name of significant subsidiary	Statement of financial position as of December 31, 2014						Results for the period ended December 31, 2014	
	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.	239,470	214,245	25,225	228,395	226,784	1,611	1,134,289	1,058
Lan Cargo S.A.	575,979	250,174	325,805	234,772	119,111	115,661	267,578	(17,905)
Lan Argentina S.A.	233,142	206,503	26,639	201,168	198,593	2,575	439,929	(17,864)
Transporte Aéreo S.A.	367,570	80,090	287,480	147,278	59,805	87,473	364,580	(19,001)
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	126,472	78,306	48,166	116,040	111,718	4,322	256,925	(20,193)
Aerovías de Integración Regional, AIRES S.A.	131,324	38,751	92,573	61,736	49,577	12,159	392,433	(81,033)
TAM S.A. (*)	6,817,698	1,921,316	4,896,382	5,809,529	2,279,110	3,530,419	6,628,432	171,655

(\*) Corresond to consolidated information of TAM S.A. and Subsidiaries.

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### (b) Non-controlling interest

Equity	Tax No .	Country of origin	As of December 31, 2016 %	As of December 31, 2015 %	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Lan Perú S.A	0 - E	Peru	30.00000	30.00000	3,360	4,426
Lan Cargo S.A. and Subsidiaries	93.383.000 - 4	Chile	0.10196	0.10605	957	974
Promotora Aérea Latinoamericana S.A. and Subsidiaries	0 - E	Mexico	51.00000	51.00000	3,162	3,084
Inversora Cordillera S.A. and Subsidiaries	0 - E	Argentina	0.70422	0.70422	515	(1,386)
Lan Argentina S.A.	0 - E	Argentina	0.13440	1.00000	(311)	29
Americonsult de Guatemala S.A.	0 - E	Guatemala	1.00000	1.00000	1	5
Americonsult Costa Rica S.A.	0 - E	Costa Rica	1.00000	1.00000	12	12
Linea Aérea Carguera de Colombiana S.A.	0 - E	Colombia	10.00000	10.00000	(905)	(811)
Aerolíneas Regionales de Integración Aires S.A.	0 - E	Colombia	0.80944	0.98307	436	540
Transportes Aereos de l Mercosur S.A.	0 - E	Paraguay	5.02000	5.02000	1,104	1,256
Multiplus S.A.	0 - E	Brazil	27.26000	27.26000	80,313	72,884
Total					88,644	81,013

Incomes	Tax No.	Country of origin	As of December 31, 2016 %	As of December 31, 2015 %	As of December 31, 2014 %	2016 ThUS\$	For the period ended December 31, 2015 ThUS\$	2014 ThUS\$
Lan Perú S.A	0 - E	Peru	30.00000	30.00000	30.00000	(649)	1,521	317
Lan Cargo S.A. and Subsidiaries	93.383.000 - 4	Chile	0.10196	0.10605	0.10605	(7)	(69)	(125)
Inversiones Lan S.A. and Subsidiaries	96.575.810 - 0	Chile	0.00000	0.00000	0.29000	—	—	(14)
Promotora Aerea Latinoamericana S.A. and Subsidiaries	0 - E	Mexico	51.00000	51.00000	51.00000	96	1,349	396
Aerolane, Linea Aérea Nacionales del Ecuador S.A.	0 - E	Ecuador	0.00000	0.00000	0.00000	—	—	(5,671)
Inversora Cordillera S.A. and Subsidiaries	0 - E	Argentina	0.70422	0.70422	4.22000	364	281	270
Lan Argentina S.A.	0 - E	Argentina	0.13440	1.00000	1.00000	77	61	58
Americonsult de Guatemala S.A.	0 - E	Guatemala	1.00000	1.00000	1.00000	(4)	1	4
Americonsult Costa Rica S.A.	0 - E	Costa Rica	1.00000	1.00000	1.00000	—	5	6
Linea Aérea Carguera de Colombiana S.A.	0 - E	Colombia	10.00000	10.00000	10.00000	(106)	14	(495)
Aerolíneas Regionales de Integración Aires S.A.	0 - E	Colombia	0.80944	0.98307	0.98307	(140)	(335)	(797)
Transportes Aereos de l Mercosur S.A.	0 - E	Paraguay	5.02000	5.02000	5.02000	146	431	(389)
Multiplus S.A.	0 - E	Brazil	27.26000	27.26000	27.26000	41,673	37,283	39,254
Total						41,450	40,542	32,814



# NOTE 15 - INTANGIBLE ASSETS OTHER THAN GOODWILL

The details of intangible assets are as follows:

	Classes of intangible assets (net)		Classes of intangible assets (gross)	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
	ThUS \$	ThUS \$	ThUS \$	ThUS \$
Airports lots	978,849	816,987	978,849	816,987
Loyalty program	326,262	272,312	326,262	272,312
Computer software	157,016	104,258	419,652	324,043
Developing software	91,053	74,887	91,053	74,887
Trademarks (1)	57,133	52,981	63,730	52,981
Other assets	—	—	808	808
Total	<u>1,610,313</u>	<u>1,321,425</u>	<u>1,880,354</u>	<u>1,542,018</u>

Movement in Intangible assets other than goodwill:

	Computer software Net ThUS \$	Developing software ThUS \$	Airport slots (2) ThUS \$	Trademarks and loyalty program (1) (2) ThUS \$	Other assets Net ThUS \$	Total ThUS \$
Opening balance as of January 1, 2014	143,124	46,075	1,361,807	542,221	81	2,093,308
Additions	16,902	60,994	—	—	—	77,896
Withdrawals	(1,365)	(3,576)	—	—	—	(4,941)
Transfer software	22,351	(24,539)	—	—	—	(2,188)
Foreing exchange	(6,763)	(4,904)	(160,779)	(64,017)	—	(236,463)
Amortization	(47,452)	—	—	—	(81)	(47,533)
Closing balance as of December 31, 2014	<u>126,797</u>	<u>74,050</u>	<u>1,201,028</u>	<u>478,204</u>	<u>—</u>	<u>1,880,079</u>
Opening balance as of January 1, 2015	126,797	74,050	1,201,028	478,204	—	1,880,079
Additions	4,954	48,270	—	—	—	53,224
Withdrawals	(4,612)	(162)	—	(1)	—	(4,775)
Transfer software	28,726	(30,426)	—	—	—	(1,700)
Foreing exchange	(14,871)	(16,845)	(384,041)	(152,910)	—	(568,667)
Amortization	(36,736)	—	—	—	—	(36,736)
Closing balance as of December 31, 2015	<u>104,258</u>	<u>74,887</u>	<u>816,987</u>	<u>325,293</u>	<u>—</u>	<u>1,321,425</u>
Opening balance as of January 1, 2016	104,258	74,887	816,987	325,293	—	1,321,425
Additions	6,688	83,672	—	—	—	90,360
Withdrawals	(736)	(191)	—	—	—	(927)
Transfer software	85,029	(74,376)	—	—	—	10,653
Foreing exchange	5,689	7,061	161,862	64,447	—	239,059
Amortization	(43,912)	—	—	(6,345)	—	(50,257)
Closing balance as of December 31, 2016	<u>157,016</u>	<u>91,053</u>	<u>978,849</u>	<u>383,395</u>	<u>—</u>	<u>1,610,313</u>

- (1) After the extensive integration work following the combination between LAN and TAM, during which there has been solid progress in the homologation of the optimization processes of its air connections, in addition to the restructuring and modernization of the fleet of aircraft, the Company has resolved adopt a unique name and identity, and announce that the brand of the group will be LATAM”, which would unite all companies under a single image.

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Given the above, we have proceeded to review the brands useful life, concluding that these should go from an indefinite to defined useful life. The estimated new useful life is 5 years, equivalent to the period for finishing all the image changes necessary.

(2) See Note 2.5

The amortization of the period is shown in the consolidated statement of income in administrative expenses. The accumulated amortization of computer programs as of December 31, 2016 amounts to ThUS\$ 270,041 (ThUS\$ 220,593 at December 31, 2015).

### NOTE 16 - GOODWILL

The Goodwill amount at December 31, 2016 is ThUS\$ 2,710,382 (ThUS\$ 2,280,575 at December 31, 2015 and ThUS\$ 3,313,401 at December 31, 2014). Movement of Goodwill separated by CGU it includes the following:

Movement of Goodwill, separated by CGU:

	Air Transport ThUS\$	Coalition and loyalty program Multiplus ThUS\$	Total ThUS\$
Opening balance as of January 1, 2014	2,985,037	742,568	3,727,605
Increase (decrease) due to exchange rate differences	(360,371)	(87,670)	(448,041)
Others	33,837	—	33,837
Closing balance as of December 31, 2014	2,658,503	654,898	3,313,401
Opening balance as of January 1, 2015	2,658,503	654,898	3,313,401
Increase (decrease) due to exchange rate differences	(823,415)	(209,411)	(1,032,826)
Closing balance as of December 31, 2015	1,835,088	445,487	2,280,575
Opening balance as of January 1, 2016	1,835,088	445,487	2,280,575
Increase (decrease) due to exchange rate differences	341,813	88,261	430,074
Others	(267)	—	(267)
Closing balance as of December 31, 2016	2,176,634	533,748	2,710,382

The Company has two cash- generating units (CGUs), “Air transportation” and, “Coalition and loyalty program Multiplus”. The CGU “Air transport” considers the transport of passengers and cargo, both in the domestic markets of Chile, Peru, Argentina, Colombia, Ecuador and Brazil, and in a developed series of regional and international routes in America, Europe and Oceania, while the CGU “Coalition and loyalty program Multiplus” works with an integrated network associated companies in Brazil.

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of expected cash flows, 5 years after tax, which are based on the budget approved by the Board. Cash flows beyond the budget period are extrapolated using the estimated growth rates, which do not exceed the average rates of long-term growth.

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Management establish rates for annual growth, discount, inflation and exchange for each cash generating, as well as fuel prices, based on their key assumptions. The annual growth rate is based on past performance and management's expectations over market developments in each country where it operates. The discount rates used are in American Dollars for the CGU "Air transportation" and Brazilian Reals for CGU "Program coalition loyalty Multiplus", both of them before tax and reflect specific risks related to each country where the Company operates. Inflation and exchange rates are based on available data for each country and the information provided by the Central Bank of each country, and the fuel price is determined based on estimated production levels, competitive environment market in which they operate and its business strategy.

As of December 31, 2016 the recoverable values were determined using the following assumptions presented below:

		Air transportation CGU	Coalition and loyalty program Multiplus CGU (2)
Annual growth rate (Terminal)	%	1.0 - 2.0	4.0 - 5.0
Exchange rate (1)	R\$/US\$	3.9 - 4.4	3.9 - 4.4
Discount rate based on the weighted average cost of capital (WACC)	%	8.27 - 9.27	—
Discount rate based on cost of equity (Ke)	%	—	12.3 - 13.3
Fuel Price from futures price curves commodities markets	US\$/barril	61 - 76	—

- (1) In line with the expectations of the Central Bank of Brazil  
(2) The flow, as well as annual growth rate and discount, are denominated in real.

The result of the impairment test, which includes a sensitivity analysis of the main variables, showed that the estimated recoverable amount is higher than carrying value of the book value of net assets allocated to the cash generating unit, and therefore impairment was not detected.

CGU's are sensitive to rates for annual growth, discount and exchanges rates. The sensitivity analysis included the individual impact of changes in estimates critical in determining the recoverable amounts, namely:

	Increase Maximum WACC %	Increase Maximum Ke %	Decrease Minimum terminal growth rate %
Air transportation CGU	9.27	—	1.0
Coalition and loyalty program Multiplus CGU	—	13.3	4.0

In none of the previous cases impairment in the cash- generating unit was presented.

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# NOTE 17 - PROPERTY, PLANT AND EQUIPMENT

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

	Gross Book Value		Accumulated depreciation		Net Book Value	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Construction in progress (*)	470,065	1,142,812	—	—	470,065	1,142,812
Land	50,148	45,313	—	—	50,148	45,313
Buildings	190,771	131,816	(60,552)	(40,325)	130,219	91,491
Plant and equipment	10,099,587	9,683,764	(2,350,045)	(2,392,463)	7,749,542	7,291,301
Own aircraft	9,436,684	9,118,396	(2,123,025)	(2,198,682)	7,313,659	6,919,714
Other (**)	662,903	565,368	(227,020)	(193,781)	435,883	371,587
Machinery	39,246	36,569	(26,821)	(21,220)	12,425	15,349
Information technology equipment	163,695	154,093	(123,981)	(110,204)	39,714	43,889
Fixed installations and accessories	178,363	179,026	(94,451)	(90,068)	83,912	88,958
Motor vehicles	96,808	99,997	(67,855)	(64,047)	28,953	35,950
Leasehold improvements	192,100	124,307	(87,559)	(70,219)	104,541	54,088
Other property, plants and equipment	3,005,981	3,279,902	(1,177,351)	(1,150,396)	1,828,630	2,129,506
Financial leasing aircraft	2,905,556	3,151,405	(1,152,190)	(1,120,682)	1,753,366	2,030,723
Other	100,425	128,497	(25,161)	(29,714)	75,264	98,783
<b>Total</b>	<b>14,486,764</b>	<b>14,877,599</b>	<b>(3,988,615)</b>	<b>(3,938,942)</b>	<b>10,498,149</b>	<b>10,938,657</b>

(\*) It includes pre-delivery payments to aircraft manufacturers for ThUS\$ 434,250 (ThUS\$ 1,016,007 as of December 31, 2015)

(\*\*) Mainly considers rotatable and tools.

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### (a) Movement in the different categories of Property, plant and equipment:

	Construction in progress	Land	Buildings net	Plant and equipment net	Information technology equipment net	Fixed installations & accessories net	Motor vehicles net	Leasehold improvements net	Other property, plant and equipment net	Property, Plant and equipment net
	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$
Opening balance as of January 1, 2014	858,650	59,352	171,785	6,807,118	46,219	50,592	1,744	16,769	2,970,557	10,982,786
Additions	29,980	3,440	16,636	1,214,282	22,239	2,190	1,586	—	154,049	1,444,402
Disposals	—	—	—	(660,129) <sup>(1)</sup>	(57)	—	(4)	—	(328)	(660,518)
Retirements	(705)	—	(403)	(39,463)	(205)	(230)	(53)	(50)	(34,282)	(75,391)
Depreciation expenses	—	—	(13,980)	(431,967)	(16,889)	(8,899)	(1,041)	(19,127)	(286,033)	(777,936)
Foreing exchange	733	(4,804)	(12,341)	(59,957)	(3,595)	(1,509)	330	—	(110,727)	(191,870)
Other increases (decreases)	48,621	—	5,309	124,205	3,297	1,639	(597)	58,931	(189,802)	51,603
Changes, total	78,629	(1,364)	(4,779)	146,971	4,790	(6,809)	221	39,754	(467,123)	(209,710)
Closing balance as of December 31, 2014	937,279	57,988	167,006	6,954,089	51,009	43,783	1,965	56,523	2,503,434	10,773,076
Opening balance as of January 1, 2015	937,279	57,988	167,006	6,954,089	51,009	43,783	1,965	56,523	2,503,434	10,773,076
Additions	39,711	—	439	1,304,199	15,322	1,692	280	13,188	64,226	1,439,057
Disposals	—	—	(500)	(76,675) <sup>(2)</sup>	(27)	—	(8)	—	(11)	(77,221)
Retirements	(1,262)	—	(956)	(38,240)	(104)	(476)	(4)	—	(8,902)	(49,944)
Depreciation expenses	—	—	(7,161)	(521,688)	(16,196)	(11,649)	(378)	(13,973)	(174,474)	(745,519)
Foreing exchange	(932)	(11,786)	(18,248)	(129,933)	(6,126)	(13,269)	(638)	(1,659)	(252,709)	(435,300)
Other increases (decreases)	168,016	(889)	(49,089)	(150,677)	11	68,877	308	9	(2,058)	34,508
Changes, total	205,533	(12,675)	(75,515)	386,986	(7,120)	45,175	(440)	(2,435)	(373,928)	165,581
Closing balance as of December 31, 2015	1,142,812	45,313	91,491	7,341,075	43,889	88,958	1,525	54,088	2,129,506	10,938,657
Opening balance as of January 1, 2016	1,142,812	45,313	91,491	7,341,075	43,889	88,958	1,525	54,088	2,129,506	10,938,657
Additions	14,481	—	272	1,301,093	7,392	292	6	54,181	13,013	1,390,730
Disposals	—	—	—	(16,918) <sup>(3)</sup>	(59)	—	(32)	—	(2,972)	(19,981)
Retirements	(284)	—	(68)	(39,816)	(55)	(1,258)	—	—	(2,604)	(44,085)
Depreciation expenses	—	—	(6,234)	(562,131)	(14,909)	(13,664)	(293)	(23,283)	(124,038)	(744,552)
Foreing exchange	5,081	4,835	2,538	51,770	2,924	9,384	223	2,849	93,383	172,987
Other increases (decreases)	(692,025)	—	42,220	(285,198) <sup>(4)</sup>	532	200	(384)	16,706	(277,658)	(1,195,607)
Changes, total	(672,747)	4,835	38,728	448,800	(4,175)	(5,046)	(480)	50,453	(300,876)	(440,508)
Closing balance as of December 31, 2016	470,065	50,148	130,219	7,789,875	39,714	83,912	1,045	104,541	1,828,630	10,498,149

(1) During the first half of 2014 four Boeing 777- 300ER were sold and subsequently leased.

(2) During the first half of 2015 three Airbus A340 aircraft were sold.

During the second half of 2015 seven Dash-200 aircraft were sold.

During the second half of 2015 two Airbus A319 aircraft were sold.

(3) During the first half of 2016 two Airbus A330 aircraft were sold.

(4) During 2016 two Airbus A319 aircraft, two Airbus A320 aircraft, six Airbus A330 and two Boeing 777 aircraft were reclassified to non-current assets and disposal group classified as held for sale (See Note 13).

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### (b) Composition of the fleet:

Aircraft	Model	Aircraft included in Property, plant and equipment		Operating leases		Total fleet	
		As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
Boeing 767	300ER	34	34	3	4	37	38
Boeing 767	300F	8(1)	8(1)	3	3	11(1)	11(1)
Boeing 777	300ER	4	4	6	6	10	10
Boeing 777	Freighter	—	2(2)	2	2	2	4(2)
Boeing 787	800	6	6	4	4	10	10
Boeing 787	900	4	3	8	4	12	7
Airbus A319	100	36	38	12	12	48	50
Airbus A320	200	93	95	53	59	146	154
Airbus A320	NEO	1	—	1	—	2	—
Airbus A321	200	30	26	17	10	47	36
Airbus A330	200	—	8	—	2	—	10
Airbus A350	900	5	1	2	—	7	1
Total		<u>221</u>	<u>225</u>	<u>111</u>	<u>106</u>	<u>332</u>	<u>331</u>

(1) Three aircraft leased to FEDEX

(2) One aircraft leased to DHL

### (c) Method used for the depreciation of Property, plant and equipment:

	Method	Useful life (years)	
		minimum	maximum
Buildings	Straight line without residual value	20	50
Plant and equipment	Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet. (*)	5	23
Information technology equipment	Straight line without residual value	5	10
Fixed installations and accessories	Straight line without residual value	10	10
Motor vehicle	Straight line without residual value	10	10
Leasehold improvements	Straight line without residual value	5	5
Other property, plant and equipment	Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet. (*)	10	23

(\*) Except for the Boeing 767 300ER and Boeing 767 300F fleets which consider a lower residual value due to the extension of their useful life to 22 and 23 years respectively. Additionally certain technical components, which are depreciated based on the basis of cycles and flight hours.

The aircraft with remarketing clause (\*\*) under modality of financial leasing, which are depreciated according to the duration of their contracts, between 12 and 18 years. Its residual values are estimated according to market value at the end of such contracts.

(\*\*) Aircraft with remarketing clause are those that are required to sell at the end of the contract.

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The depreciation charged to income in the period, which is included in the consolidated statement of income, amounts to ThUS\$ 744,552 (ThUS\$ 745,519 at December 31, 2015). Depreciation charges for the year are recognized in Cost of sales and administrative expenses in the consolidated statement of income.

(d) Additional information regarding Property, plant and equipment:

(i) Property, plant and equipment pledged as guarantee:

In the period ended December 31, 2016, direct guarantees by five Airbus A319-100 aircraft, two Airbus A320-200 aircraft, one Airbus A320 NEO aircraft, four Airbus A321-200 aircraft, four Airbus A350-900 aircraft and one Boeing 787-9 aircraft were added.

Description of Property, plant and equipment pledged as guarantee:

Creditor of guarantee	Assets committed	Fleet	As of December 31, 2016		As of December 31, 2015	
			Existing Debt	Book Value	Existing Debt	Book Value
			ThUS \$	ThUS \$	ThUS \$	ThUS \$
Wilmington Trust Company	Aircraft and engines	Airbus A321/A350	596,224	722,979	374,619	478,667
		Boeing 767	811,723	1,164,364	907,356	1,220,541
		Boeing 787	739,031	899,445	712,059	834,567
Banco Santander S.A.	Aircraft and engines	Airbus A319	50,671	91,889	58,527	95,387
		Airbus A320	462,950	709,788	524,682	749,192
		Airbus A321	32,853	44,227	36,334	45,380
BNP Paribas	Aircraft and engines	Airbus A319	134,346	228,384	154,828	229,798
		Airbus A320	128,173	181,838	145,506	192,957
Credit Agricole	Aircraft and engines	Airbus A319	26,014	37,389	37,755	84,129
		Airbus A320	71,794	144,157	115,339	214,726
		Airbus A321	40,609	93,110	50,591	97,257
JP Morgan	Aircraft and engines	Boeing 777	—	—	215,265	263,366
Wells Fargo	Aircraft and engines	Airbus A320	252,428	333,419	279,478	348,271
Bank of Utah	Aircraft and engines	Airbus A320/A350	670,826	709,280	240,094	312,573
Natixis	Aircraft and engines	Airbus A320	45,748	66,738	56,223	81,355
		Airbus A321	377,104	514,625	413,201	542,594
Citibank N.A.	Aircraft and engines	Airbus A320	111,243	166,370	127,135	172,918
		Airbus A321	42,867	70,166	49,464	73,122
HSBC	Aircraft and engines	Airbus A320	—	—	53,583	64,241
KfW IP EX-Bank	Aircraft and engines	Airbus A319	7,494	6,360	—	—
		Airbus A320	28,696	36,066	13,593	16,838
Airbus Financial Services	Aircraft and engines	Airbus A319	30,199	33,823	—	—
PK AirFinance US, Inc.	Aircraft and engines	Airbus A320	54,786	46,341	62,514	48,691
Banco BBVA	Land and buildings		50,381	69,498	—	—
<b>Total direct guarantee</b>			<b>4,766,160</b>	<b>6,370,256</b>	<b>4,628,146</b>	<b>6,166,570</b>

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, 2016 amounted to ThUS\$ 913,494 (ThUS\$ 1,311,088 at December 31, 2015). The book value of assets with indirect guarantees as of December 31, 2016 amounts to ThUS\$ 1,740,815 (ThUS\$ 2,001,605 as of December 31, 2015).

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### (ii) Commitments and others

Fully depreciated assets and commitments for future purchases are as follows:

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Gross book value of fully depreciated property, plant and equipment still in use	116,386	129,766
Commitments for the acquisition of aircraft (*)	15,100,000	19,800,000

(\*) According to the manufacturer's price list.

#### Purchase commitment of aircraft

Manufacturer	Year of delivery						Total
	2017	2018	2019	2020	2021	2022	
Airbus S.A.S.	5	16	14	16	21	2	74
A320-NEO	5	5	8	8	8	—	34
A321	—	1	—	—	—	—	1
A321-NEO	—	6	2	6	5	—	19
A350-1000	—	—	2	2	8	2	14
A350-900	—	4	2	—	—	—	6
The Boeing Company	1	—	6	2	2	—	11
Boeing 777	—	—	2	—	—	—	2
Boeing 787-9	1	—	4	2	2	—	9
Total	6	16	20	18	23	2	85

In April 2015 the change of eight Boeing 787-8 aircraft for eight Boeing 787-8 aircraft was signed.

In September 2015 the change of six Airbus A350-900 aircraft for six Airbus A350-1000 aircraft was signed. Additionally, in November 2015 the change of six Airbus A350-900 aircraft to six Airbus A350-1000 aircraft was signed. In April 2016 the change of four Airbus A320 NEO aircraft to four Airbus A321 NEO aircraft was signed. In August 2016 a cancellation of 12 Airbus A320 NEO aircraft and the change of two Airbus A350-900 to two Airbus A350-1000 were signed.

As of December 31, 2016, as a result of the different aircraft purchase agreements signed with Airbus S.A.S., 54 aircraft Airbus A320 family, with deliveries between 2017 and 2021, and 20 Airbus aircraft A350 family with deliveries between 2017 and 2022 remain to be received.

The approximate amount is ThUS\$ 12,400,000, according to the manufacturer's price list. Additionally, the Company has valid purchase options for 4 Airbus A350 aircraft.

In May 2016 the change of four Boeing 787-8 aircraft for four Boeing 787-9 aircraft was signed.

As of December 31, 2016, and as a result of different aircraft purchase contracts signed with The Boeing Company, a total of nine Boeing 787 Dreamliner aircraft, with delivery dates between 2017 and 2021, and two Boeing 777 with delivery expected for 2019 remain to be received.



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The approximate amount, according to the manufacturer's price list, is ThUS\$ 2,700,000.

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

		2016	For the periods ended December 31, 2015	2014
Average rate of capitalization of capitalized interest costs	%	3.54	2.79	2.84
Costs of capitalized interest	ThUS\$	(696)	22,551	18,426

(iv) Financial leases

The detail of the main financial leases is as follows:

Lessor	Aircraft	Model	As of December 31, 2016	As of December 31, 2015
Agonandra Statutory Trust	Airbus A320	200	—	2
Becacina Leasing LLC	Boeing 767	300ER	1	1
Caiquen Leasing LLC	Boeing 767	300F	1	1
Cernicalo Leasing LLC	Boeing 767	300F	2	2
Chirihue Leasing T rust	Boeing 767	300F	—	2
Cisne Leasing LLC	Boeing 767	300ER	2	2
Codorniz Leasing Limited	Airbus A319	100	2	2
Conure Leasing Limited	Airbus A320	200	2	2
Flamenco Leasing LLC	Boeing 767	300ER	1	1
FLYAFI 1 S.R.L.	Boeing 777	300ER	1	1
FLYAFI 2 S.R.L.	Boeing 777	300ER	1	1
FLYAFI 3 S.R.L.	Boeing 777	300ER	1	1
Forderum Holding B.V. (GECAS)	Airbus A320	200	—	2
Garza Leasing LLC	Boeing 767	300ER	1	1
General Electric Capital Corporation	Airbus A330	200	3	3
Intraelo BET A Corpotation (KFW)	Airbus A320	200	1	1
Juliana Leasing Limited	Airbus A320	200	—	2
Loica Leasing Limited	Airbus A319	100	2	2
Loica Leasing Limited	Airbus A320	200	2	2
Mirlo Leasing LLC	Boeing 767	300ER	1	1
NBB Rio de Janeiro Lease CO and Brasilia Lease LLC (BBAM)	Airbus A320	200	1	1
NBB São Paulo Lease CO. Limited (BBAM)	Airbus A321	200	1	1
Osprey Leasing Limited	Airbus A319	100	8	8
Petrel Leasing LLC	Boeing 767	300ER	1	1
Pilpilen Leasing Limited	Airbus A320	200	4	4
Pochard Leasing LLC	Boeing 767	300ER	2	2
Quetro Leasing LLC	Boeing 767	300ER	3	3
SG Infraestructura Italia S.R.L.	Boeing 777	300ER	1	1
SL Alcyone LT D (Showa)	Airbus A320	200	1	1
TMF Interlease Aviation B.V.	Airbus A330	200	—	1
TMF Interlease Aviation II B.V.	Airbus A319	100	—	5
TMF Interlease Aviation II B.V.	Airbus A320	200	—	2
Tricahue Leasing LLC	Boeing 767	300ER	3	3
Wacapou Leasing S.A	Airbus A320	200	1	1
Total			50	66

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Financial leasing contracts where the Company acts as the lessee of aircrafts establish duration between 12 and 18 year terms and semi-annual, quarterly and monthly payments of obligations.

Additionally, the lessee will have the obligation to contract and maintain active the insurance coverage for the aircrafts, perform maintenance on the aircrafts and update the airworthiness certificates at their own cost.

Fixed assets acquired under financial leases are classified as Other property, plant and equipment. As of December 31, 2016 the Company had fifty aircrafts (sixty six aircraft as of December 31, 2015).

As of December 31, 2016, as a result of the transfer plan fleet of TAM Linhas Aéreas S.A. to LATAM Airlines Group S.A., the Company declined its number of aircraft leasing in five Airbus A319-100, eight Airbus A320-200 and one Airbus A330-200 aircraft.

The book value of assets under financial leases as of December 31, 2016 amounts to ThUS\$ 1,753,366 (ThUS\$ 2,030,723 at December 31, 2015).

The minimum payments under financial leases are as follows:

	As of December 31, 2016			As of December 31, 2015			As of December 31, 2014		
	Gross Value	Interest	Present Value	Gross Value	Interest	Present Value	Gross Value	Interest	Present Value
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
No later than one year	285,168	(32,365)	252,803	360,862	(47,492)	313,370	403,840	(48,197)	355,643
Between one and five years	704,822	(43,146)	661,676	1,003,237	(75,363)	927,874	1,121,190	(97,909)	1,023,281
Over five years	43,713	(120)	43,593	95,050	(1,406)	93,644	261,877	(6,409)	255,468
Total	<u>1,033,703</u>	<u>(75,631)</u>	<u>958,072</u>	<u>1,459,149</u>	<u>(124,261)</u>	<u>1,334,888</u>	<u>1,786,907</u>	<u>(152,515)</u>	<u>1,634,392</u>

## NOTE 18 - CURRENT AND DEFERRED TAXES

In the period ended December 31, 2016, the income tax provision was calculated for such period, applying the rate of 24% for the business year 2016, in accordance with the Law No. 20,780 published in the Official Journal of the Republic of Chile on September 29, 2014.

Among the main changes is the progressive increase of the First Tax Category reaching 27% in 2018 if the “Partially Integrated Taxation System” is chosen. Alternatively, if the Company chooses the “Attributed Income Taxation System” the top rate would reach 25% in 2017.

According with the Law reference above, since LATAM Airlines Group S.A. is a public company, by default should apply the “Partially Integrated Taxation System”(\*), unless in a Company’s Extraordinary Meeting of Shareholders agrees, by a minimum of 2/3 of the votes, to use the “Attributed Income Taxation System”(\*). The deadline for making that decision was the last quarter of 2016.

On February 8, 2016, an amendment to the above mentioned Law was issued (Law 20,899), which simplify the system for paying taxes, between the mainly changes, it is now mandatorily, for public companies, such as Latam Airlines Group S.A. choosing the “Partially Integrated Taxation System”(\*), without any option to elect the “Attributed Income Taxation System”, as describe above.

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The effects of the updating of deferred tax assets and liabilities according to rates changes introduced by Law No. 20,780 depending on their period back were recorded on income for the business year 2014. The total effect on income was ThUS \$ 150,210, which is explained by an increase in deferred tax assets of ThUS\$ 87 and an increase in deferred tax liabilities of ThUS\$ 145,253 and an increase in equity by deferred tax of ThUS\$ 5,044. The net effect on the assets and liabilities by deferred tax was an increase on liabilities for ThUS\$ 145,166.

Assets and deferred tax liabilities are offset if there is a legal right to offset the assets and liabilities, always correspond to the same entity and tax authority.

(\*)The Partially Integrated Taxation System” final income taxation is applied upon effective dividend disbursements or profit withdrawals, and under the “Attributed Income Taxation System” by using the accrual of profits.

### (a) Current taxes

#### (a.1) The composition of the current tax assets is the following:

	Current assets		Non-current assets		Total assets	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Provisional monthly payments (advances)	43,821	43,935	—	—	43,821	43,935
Other recoverable credits	21,556	20,080	20,272	25,629	41,828	45,709
<b>Total assets by current tax</b>	<b>65,377</b>	<b>64,015</b>	<b>20,272</b>	<b>25,629</b>	<b>85,649</b>	<b>89,644</b>

#### (a.2) The composition of the current tax liabilities are as follows:

	Current liabilities		Non-current liabilities		Total liabilities	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Income tax provision	9,632	19,001	—	—	9,632	19,001
Additional tax provision	4,654	377	—	—	4,654	377
<b>Total liabilities by current tax</b>	<b>14,286</b>	<b>19,378</b>	<b>—</b>	<b>—</b>	<b>14,286</b>	<b>19,378</b>

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### (b) Deferred taxes

The balances of deferred tax are the following:

Concept	Assets		Liabilities	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Depreciation	11,735	(14,243)	1,387,760	1,116,748
Leased assets	(35,922)	(25,299)	203,836	226,003
Amortization	(15,820)	(5,748)	61,660	65,416
Provisions	222,253	210,992	(59,096)	(167,545)
Revaluation of financial instruments	—	709	(3,223)	(7,575)
Tax losses	202,536	212,067	(1,126,200)	(797,715)
Intangibles	—	—	430,705	364,314
Others	(202)	(1,883)	20,317	11,919
Total	384,580	376,595	915,759	811,565

The balance of deferred tax assets and liabilities are composed primarily of temporary differences to be reversed in the long term.

### Movements of Deferred tax assets and liabilities

#### (a) From January 1 to December 31, 2014

	Opening balance Assets/(liabilities) ThUS\$	Recognized in consolidated income ThUS\$	Recognized in comprehensive income ThUS\$	Exchange rate variation ThUS\$	Effect from change in tax rate ThUS\$	Others ThUS\$	Ending balance Asset (liability) ThUS\$
Depreciation	(574.997)	(74.623)	—	3.575	(225.595)	—	(871.640)
Leased assets	(193.762)	47.749	—	3.267	(43.029)	—	(185.775)
Amortization	(124.357)	(21.621)	—	1.928	(16.050)	—	(160.100)
Provisions	525.241	(99.262)	—	(53.090)	(21.812)	—	351.077
Revaluation of financial instruments	16.070	(53.675)	47.979	(1.331)	3.763	—	12.806
Tax losses (*)	551.528	147.798	—	(13.968)	163.596	(126.205)	722.749
Intangibles	(593.325)	—	—	70.050	—	—	(523.275)
Others	29.336	7.071	—	(32.361)	(6.039)	11.580	9.587
Total	(364.266)	(46.563)	47.979	(21.930)	(145.166)	(114.625)	(644.571)

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(b) From January 1 to December 31, 2015

	Opening balance <u>Assets/(liabilities)</u> ThUS\$	Recognized in consolidated income ThUS\$	Recognized in comprehensive income ThUS\$	Exchange rate variation ThUS\$	Others ThUS\$	Ending balance <u>Asset (liability)</u> ThUS\$
Depreciation	(871,640)	(267,891)	—	8,540	—	(1,130,991)
Leased assets	(185,775)	(73,330)	—	7,803	—	(251,302)
Amortization	(160,100)	84,330	—	4,606	—	(71,164)
Provisions	351,077	150,362	3,911	(126,813)	—	378,537
Revaluation of financial instruments	12,806	19,760	(21,103)	(3,179)	—	8,284
Tax losses (*)	722,749	320,397	—	(33,364)	—	1,009,782
Intangibles	(523,275)	(8,362)	—	167,323	—	(364,314)
Others	9,587	45,638	—	(62,182)	(6,845)	(13,802)
Total	<u>(644,571)</u>	<u>270,904</u>	<u>(17,192)</u>	<u>(37,266)</u>	<u>(6,845)</u>	<u>(434,970)</u>

(c) From January 1 to December 31, 2016

	Opening balance <u>Assets/(liabilities)</u> ThUS\$	Recognized in consolidated income ThUS\$	Recognized in comprehensive income ThUS\$	Exchange rate variation ThUS\$	Others ThUS\$	Ending balance <u>Asset (liability)</u> ThUS\$
Depreciation	(1,130,991)	(241,435)	—	(3,599)	—	(1,376,025)
Leased assets	(251,302)	14,833	—	(3,289)	—	(239,758)
Amortization	(71,164)	(4,375)	—	(1,941)	—	(77,480)
Provisions	378,537	(149,969)	921	53,448	(1,568)	281,369
Revaluation of financial instruments	8,284	28,294	(34,695)	1,340	—	3,223
Tax losses (*)	1,009,782	304,892	—	14,062	—	1,328,736
Intangibles	(364,314)	4,131	—	(70,522)	—	(430,705)
Others	(13,802)	(30,185)	—	22,234	1,214	(20,539)
Total	<u>(434,970)</u>	<u>(73,814)</u>	<u>(33,774)</u>	<u>11,733</u>	<u>(354)</u>	<u>(531,179)</u>

Deferred tax assets not recognized:

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Tax losses	115,801	15,513
Total Deferred tax assets not recognized	<u>115,801</u>	<u>15,513</u>

Deferred tax assets on tax loss, are recognized to the extent that it is likely probable the realization of future tax benefit By the above at December 31, 2016, the Company has not recognized deferred tax assets of ThUS\$ 115,801 (ThUS\$ 15,513 at December 31, 2015) according with a loss of ThUS\$ 340,591 (ThUS\$ 45,628 at December 31, 2015).

Deferred tax expense and current income taxes:

	2016	For the period ended December 31,	
	ThUS\$	2015	2014
		ThUS\$	ThUS\$
Current tax expense			
Current tax expense	87,307	92,916	97,782
Adjustment to previous period's current tax	2,083	(395)	(2,151)
Total current tax expense, net	<u>89,390</u>	<u>92,521</u>	<u>95,631</u>
Deferred tax expense			
Deferred expense for taxes related to the creation and reversal of temporary differences	73,814	(270,904)	196,676
Reduction (increase) in value of deferred tax assets during the evaluation of its usefulness	—	—	97
Total deferred tax expense, net	<u>73,814</u>	<u>(270,904)</u>	<u>196,773</u>
Income tax expense	<u>163,204</u>	<u>(178,383)</u>	<u>292,404</u>

Composition of income tax expense (income):

	2016	For the period ended December 31,	
	ThUS\$	2015	2014
		ThUS\$	ThUS\$
Current tax expense, net, foreign	80,600	89,460	92,272
Current tax expense, net, Chile	8,790	3,061	3,359
Total current tax expense, net	<u>89,390</u>	<u>92,521</u>	<u>95,631</u>
Deferred tax expense, net, foreign	119,175	(280,445)	168,049
Deferred tax expense, net, Chile	(45,361)	9,541	28,724
Deferred tax expense, net, total	<u>73,814</u>	<u>(270,904)</u>	<u>196,773</u>
Income tax expense	<u>163,204</u>	<u>(178,383)</u>	<u>292,404</u>

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Profit before tax by the legal tax rate in Chile (24% and 22.5% at December 31, 2016 and 2015, respectively)

	For the period ended December 31,			For the period ended December 31,		
	2016 ThUS\$	2015 ThUS\$	2014 ThUS\$	2016 %	2015 %	2014 %
Tax expense using the legal rate (*)	65,449	(89,472)	6,805	24.00	22.50	21.00
Tax effect by change in tax rate (*)	—	—	150,210	—	—	463.55
Tax effect of rates in other jurisdictions	16,333	(21,803)	112,563	5.99	5.48	347.37
Tax effect of non-taxable operating revenues	(62,419)	(106,381)	(60,960)	(22.89)	26.75	(188.12)
Tax effect of disallowable expenses	132,469	38,677	88,643	48.58	(9.73)	273.55
Other increases (decreases) in legal tax charge	11,372	596	(4,857)	4.17	(0.15)	(14.99)
Total adjustments to tax expense using the legal rate	97,755	(88,911)	285,599	35.85	22.35	881.36
Tax expense using the effective rate	163,204	(178,383)	292,404	59.85	44.85	902.36

(\*) On September 29, 2014, Law No. 20,780 “Amendment to the system of income taxation and introduces various adjustments in the tax system.” was published in the Official Journal of the Republic of Chile. Within major tax reforms that this law contains, the First-Category Tax rate is gradually modified from 2014 to 2018 and should be declared and paid in tax year 2015.

Thus, at December 31, 2016 the Company presents the reconciliation of income tax expense and legal tax rate considering the rate increase.

Deferred taxes related to items charged to net equity:

	For the period ended December 31,	
	2016 ThUS\$	2015 ThUS\$
Aggregate deferred taxation of components of other comprehensive income	(33,774)	(17,192)
Aggregate deferred taxation related to items charged to net equity	(807)	(992)

# NOTE 19 - OTHER FINANCIAL LIABILITIES

The composition of Other financial liabilities is as follows:

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
<b>Current</b>		
(a) Interest bearing loans	1,814,647	1,510,146
(b) Hedge derivatives	24,881	134,089
Total current	<u>1,839,528</u>	<u>1,644,235</u>
<b>Non-current</b>		
(a) Interest bearing loans	6,790,273	7,516,257
(b) Hedge derivatives	6,679	16,128
Total non-current	<u>6,796,952</u>	<u>7,532,385</u>

## (a) Interest bearing loans

Obligations with credit institutions and debt instruments:

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
<b>Current</b>		
Loans to exporters	278,164	387,409
Bank loans (1)	290,810	80,188
Guaranteed obligations	578,014	591,148
Other guaranteed obligations	1,908	32,513
Subtotal bank loans	1,148,896	1,091,258
Obligation with the public	312,043	10,999
Financial leases	268,040	324,859
Other loans	85,668	83,030
Total current	<u>1,814,647</u>	<u>1,510,146</u>
<b>Non-current</b>		
Bank loans	294,477	564,128
Guaranteed obligations	4,180,538	4,122,995
Other guaranteed obligations	254,512	—
Subtotal bank loans	4,729,527	4,687,123
Obligation with the public (2)	997,302	1,294,882
Financial leases	754,321	1,015,779
Other loans	309,123	518,473
Total non-current	<u>6,790,273</u>	<u>7,516,257</u>
Total obligations with financial institutions	<u>8,604,920</u>	<u>9,026,403</u>

- (1) On September 29, 2016 TAM Linhas Aéreas S.A. obtained financing for US \$ 200 million, guaranteed with 18% of the shares of Multiplus S.A., percentage adjustable depending on the shares price. Additionally, TAM obtained a Cross Currency Swap for the same amount and period, in order to convert the commitment currency from US\$ to BRL.
- (2) On June 9, 2015 LATAM Airlines Group S.A. has issued and placed on the international market under Rule 144-A and Regulation S of the securities laws of the United States of America, unsecured long-term bonds in the amount of US\$ 500,000,000, maturing 2020, interest rate of 7.25% per annum.



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As reported in the Essential Matter of May 20 and June 5, 2015, the Issuance and placement of the Bonds 144-A shall be: (i) finance the repurchase, conversion and redemption of secured long-term bonds issued by the company TAM Capital 2 Inc., under Rule 144-A and Regulation S of the securities laws of the United States of America, maturing 2020; (ii) in the event there is any remnant fund other general corporate purposes. The aforementioned bonds TAM Capital 2 Inc. were redeemed in whole (US\$ 300,000,000) through a process of exchange for new bonds dated June 9, 2015 and then the remaining bonds were redeemed by running the prepay dated June 18, 2015.

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 date of reprising of the loan.

Currency balances that make the interest bearing loans:

Currency	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Brazilian real	1,253	3,387
Chilean peso (U.F.)	203,194	210,423
US Dollar	8,400,473	8,812,593
Total	<u>8,604,920</u>	<u>9,026,403</u>

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Interest-bearing loans due in installments to December 31, 2016

Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective Rate %	Nominal rate %
				Up to 90 days 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 nominal value ThUS\$	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 accounting value ThUS\$			
Loans to exporters																		
97.032.000-8	BBVA	Chile	US\$	75,000	—	—	—	—	75,000	75,234	—	—	—	—	75,234	At Expiration	1.85	1.85
97.032.000-8	BBVA	Chile	UF	—	50,381	—	—	—	50,381	—	50,324	—	—	—	50,324	At Expiration	5.23	4.43
97.036.000-K	SANTANDER	Chile	US\$	30,000	—	—	—	—	30,000	30,183	—	—	—	—	30,183	At Expiration	2.39	2.39
97.030.000-7	ESTADO	Chile	US\$	40,000	—	—	—	—	40,000	40,098	—	—	—	—	40,098	At Expiration	1.91	1.91
97.003.000-K	BANCO DO BRASIL	Chile	US\$	70,000	—	—	—	—	70,000	70,323	—	—	—	—	70,323	At Expiration	3.08	3.08
97.951.000-4	HSBC	Chile	US\$	12,000	—	—	—	—	12,000	12,002	—	—	—	—	12,002	At Expiration	1.79	1.79
Bank loans																		
97.023.000-9	CORP BANCA	Chile	UF	19,229	57,686	60,186	16,254	—	153,355	19,819	57,686	59,176	16,189	—	152,870	Quarterly	4.06	4.06
0-E	BLADEX	U.S.A.	US\$	—	12,500	30,000	—	—	42,500	—	12,667	29,625	—	—	42,292	Semiannual	5.14	5.14
0-E	DVB BANK SE	U.S.A.	US\$	—	—	28,911	—	—	28,911	3	—	28,911	—	—	28,914	Quarterly	1.86	1.86
97.036.000-K	SANTANDER	Chile	US\$	—	—	158,194	—	—	158,194	542	—	158,194	—	—	158,736	Quarterly	3.55	3.55
Obligations with the public																		
0-E	BANK OF NEWYORK	U.S.A.	US\$	—	—	—	500,000	—	500,000	2,291	—	—	489,885	—	492,176	At Expiration	7.77	7.25
Guaranteed obligations																		
0-E	CREDIT AGRICOLE	France	US\$	11,073	29,252	62,209	32,172	3,711	138,417	11,454	29,252	60,781	31,221	3,631	136,339	Quarterly	2.21	1.81
0-E	BNP PARIBAS	U.S.A.	US\$	10,496	42,401	111,962	118,181	345,078	628,118	12,792	43,023	108,271	116,067	341,481	621,634	Quarterly	2.97	2.96
0-E	WELLS FARGO	U.S.A.	US\$	31,448	95,186	260,112	269,512	400,087	1,056,345	35,211	95,186	233,012	257,387	391,253	1,012,049	Quarterly	2.37	1.68
0-E	WILMINGTON TRUST	U.S.A.	US\$	15,554	49,236	135,254	140,848	626,444	967,336	20,997	49,236	130,792	138,455	622,153	961,633	Quarterly	4.25	4.25
0-E	CITIBANK	U.S.A.	US\$	17,495	53,162	146,932	154,774	175,805	548,168	19,059	53,162	138,257	150,891	172,087	533,456	Quarterly	2.72	1.96
97.036.000-K	SANTANDER	Chile	US\$	5,347	16,204	44,472	46,386	26,165	138,574	5,680	16,204	42,707	45,815	26,063	136,469	Quarterly	1.98	1.44
0-E	BTMU	U.S.A.	US\$	2,787	8,470	23,393	24,635	26,705	85,990	3,001	8,470	22,132	24,149	26,519	84,271	Quarterly	2.31	1.72
0-E	APPLE BANK	U.S.A.	US\$	1,364	4,167	11,516	12,146	13,561	42,754	1,538	4,166	10,889	11,902	13,464	41,959	Quarterly	2.29	1.69
0-E	US BANK	U.S.A.	US\$	14,817	44,958	123,705	129,462	219,666	532,608	17,298	44,958	104,709	120,509	211,895	499,369	Quarterly	3.99	2.81
0-E	DEUTSCHE BANK	U.S.A.	US\$	4,992	15,365	24,725	26,984	45,197	117,263	5,570	15,365	24,023	26,515	44,522	115,995	Quarterly	3.86	3.86
0-E	NATIXIS	France	US\$	12,289	37,388	98,873	82,066	192,235	422,851	13,038	37,388	97,469	81,130	190,048	419,073	Quarterly	2.60	2.57
0-E	PK AIRFINANCE	U.S.A.	US\$	2,018	6,268	18,413	24,944	3,144	54,787	2,071	6,269	18,412	24,944	3,144	54,840	Monthly	2.40	2.40
0-E	KFW IPEX-BANK	Germany	US\$	2,288	7,015	17,869	9,019	—	36,191	2,319	7,015	17,869	9,019	—	36,222	Quarterly	2.55	2.55
0-E	AIRBUS FINANCIAL	U.S.A.	US\$	1,797	5,476	15,262	7,664	—	30,199	1,841	5,477	15,261	7,664	—	30,243	Monthly	2.49	2.49
0-E	INVESTEC	England	US\$	1,298	7,526	19,290	21,667	22,421	72,202	1,771	7,733	18,533	21,368	22,309	71,714	Semiannual	5.67	5.67
—	SWAP Aviones	—	US\$	403	1,067	1,658	158	—	3,286	403	1,067	1,658	158	—	3,286	Quarterly	—	—
Other guaranteed obligations																		
0-E	CREDIT AGRICOLE	France	US\$	—	—	256,860	—	—	256,860	1,908	—	254,512	—	—	256,420	Quarterly	2.85	2.85
Financial leases																		
0-E	ING	U.S.A.	US\$	5,089	15,653	31,151	11,805	—	63,698	5,641	15,652	30,577	11,771	—	63,641	Quarterly	5.62	4.96
0-E	CREDIT AGRICOLE	France	US\$	1,754	5,403	—	—	—	7,157	1,780	5,403	—	—	—	7,183	Quarterly	1.85	1.85
0-E	CITIBANK	U.S.A.	US\$	4,956	15,312	44,177	13,804	—	78,249	5,622	15,312	43,413	13,762	—	78,109	Quarterly	6.40	5.67
0-E	PEFCO	U.S.A.	US\$	15,979	47,048	63,957	3,827	—	130,811	16,852	47,048	63,072	3,819	—	130,791	Quarterly	5.39	4.79
0-E	BNP PARIBAS	U.S.A.	US\$	12,520	38,494	75,958	22,147	—	149,119	13,122	38,494	74,776	22,079	—	148,471	Quarterly	3.69	3.26
0-E	WELLS FARGO	U.S.A.	US\$	4,678	14,261	39,862	42,663	1,862	103,326	5,018	14,260	38,834	42,430	1,861	102,403	Quarterly	3.98	3.54
0-E	DVB BANK SE	U.S.A.	US\$	4,680	9,447	—	—	—	14,127	4,713	9,448	—	—	—	14,161	Quarterly	2.57	2.57
0-E	RRP ENGINE	England	US\$	—	—	6,402	6,955	11,917	25,274	—	—	6,402	6,955	11,917	25,274	Monthly	2.35	2.35
Other loans																		
0-E	BOEING	U.S.A.	US\$	—	—	26,214	—	—	26,214	185	—	26,214	—	—	26,399	At Expiration	2.35	2.35
0-E	CITIBANK (*)	U.S.A.	US\$	20,555	63,942	184,866	101,026	—	370,389	21,541	63,942	182,043	100,866	—	368,392	Quarterly	6.00	6.00
Total				451,906	753,268	2,122,383	1,819,099	2,113,998	7,260,654	480,920	754,207	2,040,524	1,774,950	2,082,347	7,132,948			

(\*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

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Interest-bearing loans due in installments to December 31, 2016

Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Up to 90 days ThUS\$	Nominal values					Up to 90 days ThUS\$	Accounting values					Amortization	Effective rate %	Nominal rate %
					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 nominal value 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 accounting value ThUS\$			
Bank loans																		
0-E	NEDERLANDSCHE CREDITVERZEKERING MAATS CHAPPIJ	Holland	US\$	122	378	1,094	1,234	54	2,882	137	378	1,094	1,233	55	2,897	Monthly	6.01	6.01
0-E	CITIBANK	U.S.A	US\$	—	200,000	—	—	—	200,000	(151)	199,729	—	—	—	199,578	At Expiration	3.39	3.14
Obligation with the public																		
0-E	THE BANK OF NEW YORK	U.S.A	US\$	—	300,000	—	500,000	—	800,000	8,173	301,579	4,119	503,298	—	817,169	At Expiration	8.17	8.00
Financial leases																		
0-E	AFS INVESTMENT IX LLC	U.S.A	US\$	2,086	6,437	18,556	8,369	—	35,448	2,253	6,437	18,556	8,369	—	35,615	Monthly	1.25	1.25
0-E	DVB BANK SE	U.S.A	US\$	118	164	—	—	—	282	119	164	—	—	—	283	Monthly	2.50	2.50
0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A	US\$	3,771	5,075	—	—	—	8,846	3,794	5,075	—	—	—	8,869	Monthly	2.30	2.30
0-E	KFW IPEX-BANK	Germany	US\$	579	1,544	—	—	—	2,123	583	1,544	—	—	—	2,127	Monthly/Quarterly	2.80	2.80
0-E	NATIXIS	France	US\$	2,675	5,732	18,485	38,820	41,731	107,443	3,533	5,732	18,485	38,820	41,731	108,301	Quarterly/Semiannual	4.90	4.90
0-E	WACAPOU LEASING S.A.	Luxemburg	US\$	668	2,038	5,768	6,280	—	14,754	709	2,038	5,768	6,280	—	14,795	Quarterly	3.00	3.00
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	8,547	26,275	74,783	169,730	—	279,335	9,779	26,275	74,783	169,730	—	280,567	Quarterly	4.18	4.11
0-E	BANCO IBM S.A	Brazil	BRL	260	749	22	—	—	1,031	260	749	21	—	—	1,030	Monthly	13.63	13.63
0-E	HP FINANCIAL SERVICE	Brazil	BRL	222	—	—	—	—	222	222	—	—	—	—	222	Monthly	10.02	10.02
0-E	SOCIETE GENERALE	France	BRL	102	307	110	—	—	519	102	307	110	—	—	519	Monthly	13.63	13.63
Total				19,150	548,699	118,818	724,433	41,785	1,452,885	29,513	550,007	122,936	727,730	41,786	1,471,972			
Total consolidated				471,056	1,301,967	2,241,201	2,543,532	2,155,783	8,713,539	510,433	1,304,214	2,163,460	2,502,680	2,124,133	8,604,920			

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Interest-bearing loans due in installments to December 31, 2015

Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective rate %	Nominal rate %
				Up to 90 days 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 nominal value ThUS\$	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 accounting value ThUS\$			
Loans to exporters																		
97.032.000-8	BBVA	Chile	US\$	100,000	—	—	—	—	100,000	100,183	—	—	—	—	100,183	At Expiration	1.00	1.00
97.036.000-K	SANTANDER	Chile	US\$	100,000	—	—	—	—	100,000	100,067	—	—	—	—	100,067	At Expiration	1.44	1.44
97.030.000-7	ESTADO	Chile	US\$	55,000	—	—	—	—	55,000	55,088	—	—	—	—	55,088	At Expiration	1.05	1.05
97.004.000-5	CHILE	Chile	US\$	50,000	—	—	—	—	50,000	50,006	—	—	—	—	50,006	At Expiration	1.42	1.42
97.003.000-K	BANCO DO BRASIL	Chile	US\$	70,000	—	—	—	—	70,000	70,051	—	—	—	—	70,051	At Expiration	1.18	1.18
97.951.000-4	HSBC	Chile	US\$	12,000	—	—	—	—	12,000	12,014	—	—	—	—	12,014	At Expiration	0.66	0.66
Bank loans																		
97.023.000-9	CORPBANCA	Chile	UF	17,631	52,893	105,837	34,774	—	211,135	18,510	52,892	104,385	34,635	—	210,422	Quarterly	4.18	4.18
0-E	BLADDEX	U.S.A.	US\$	—	7,500	27,500	15,000	—	50,000	134	7,500	27,125	14,875	—	49,634	Semiannual	4.58	4.58
0-E	DVB BANK SE	U.S.A.	US\$	—	—	153,514	—	—	153,514	14	—	153,514	—	—	153,528	Quarterly	1.67	1.67
97.036.000-K	SANTANDER	Chile	US\$	—	—	226,712	—	—	226,712	650	—	226,712	—	—	227,362	Quarterly	2.24	2.24
Obligations with the public																		
0-E	BANK OF YORK	U.S.A.	US\$	—	—	—	500,000	—	500,000	2,383	—	—	486,962	—	489,345	At Expiration	7.77	7.25
Guaranteed obligations																		
0-E	CREDIT AGRICOLE	France	US\$	29,633	88,188	204,722	54,074	12,410	389,027	30,447	88,189	203,286	54,074	12,410	388,406	Quarterly	1.83	1.66
0-E	BNP PARIBAS	U.S.A.	US\$	8,162	25,012	70,785	75,028	140,410	319,397	9,243	25,012	70,335	74,917	140,407	319,914	Quarterly	2.29	2.22
0-E	WELLS FARGO	U.S.A.	US\$	30,895	93,511	255,536	264,770	536,039	1,180,751	34,933	93,511	227,704	252,054	525,257	1,133,459	Quarterly	2.27	1.57
0-E	WILMINGTON TRUST	U.S.A.	US\$	—	48,264	85,183	90,694	451,555	675,696	5,691	48,263	81,867	88,977	448,016	672,814	Quarterly	4.25	4.25
0-E	CITIBANK	U.S.A.	US\$	17,042	51,792	143,168	150,792	254,208	617,002	18,545	51,792	133,740	146,362	249,406	599,845	Quarterly	2.40	1.64
97.036.000-K	SANTANDER	Chile	US\$	5,233	15,862	43,552	45,416	49,606	159,669	5,514	15,862	41,434	44,599	49,281	156,690	Quarterly	1.47	0.93
0-E	BTMU	U.S.A.	US\$	2,714	8,250	22,801	24,007	39,182	96,954	2,897	8,250	21,336	23,376	38,789	94,648	Quarterly	1.82	1.22
0-E	APPLE BANK	U.S.A.	US\$	1,333	4,055	11,211	11,828	19,715	48,142	1,478	4,056	10,483	11,513	19,515	47,045	Quarterly	1.72	1.12
0-E	US BANK	U.S.A.	US\$	14,483	43,948	120,924	126,550	285,134	591,039	17,232	43,948	102,607	117,968	277,195	558,950	Quarterly	3.99	2.81
0-E	DEUTSCHE BANK	U.S.A.	US\$	4,767	14,667	32,449	25,826	58,989	136,698	5,342	14,666	32,448	25,826	58,989	137,271	Quarterly	3.40	3.40
0-E	NATIXIS	France	US\$	11,698	35,914	97,434	83,289	241,088	469,423	12,351	35,914	97,434	83,289	241,088	470,076	Quarterly	2.08	2.05
0-E	HSBC	U.S.A.	US\$	1,374	4,180	11,533	12,112	24,384	53,583	1,504	4,180	11,533	12,112	24,384	53,713	Quarterly	2.40	1.59
0-E	PK AIRFINANCE	U.S.A.	US\$	1,882	5,846	17,171	19,744	17,871	62,514	1,937	5,846	17,171	19,744	17,871	62,569	Monthly	2.04	2.04
0-E	KFW IP EX-BANK	Germany	US\$	653	2,028	5,314	3,958	1,640	13,593	655	2,028	5,314	3,958	1,640	13,595	Quarterly	2.45	2.45
—	SWAP Aviones Ilegados	—	US\$	502	1,360	2,521	765	—	5,148	502	1,360	2,521	765	—	5,148	Quarterly	—	—
Other guaranteed obligations																		
0-E	DVB BANK SE	U.S.A.	US\$	8,054	24,438	—	—	—	32,492	8,075	24,438	—	—	—	32,513	Quarterly	2.32	2.32
Financial leases																		
0-E	ING	U.S.A.	US\$	8,108	23,191	36,868	26,831	—	94,998	8,894	23,191	36,066	26,682	—	94,833	Quarterly	5.13	4.57
0-E	CREDIT AGRICOLE	France	US\$	1,666	5,131	7,158	—	—	13,955	1,700	5,131	7,158	—	—	13,989	Quarterly	1.28	1.28
0-E	CITIBANK	U.S.A.	US\$	4,687	14,447	41,726	36,523	—	97,383	5,509	14,447	40,684	36,330	—	96,970	Quarterly	6.40	5.67
0-E	PEFCO	U.S.A.	US\$	15,246	46,858	108,403	22,407	—	192,914	16,536	46,858	106,757	22,324	—	192,475	Quarterly	5.37	4.77
0-E	BNP PARIBAS	U.S.A.	US\$	9,956	30,678	81,373	31,100	—	153,107	10,494	30,678	79,983	30,958	—	152,113	Quarterly	4.08	3.64
0-E	WELLS FARGO	U.S.A.	US\$	4,519	13,784	38,531	41,238	23,556	121,628	4,919	13,784	37,247	40,819	23,486	120,255	Quarterly	3.98	3.54
0-E	DVB BANK SE	U.S.A.	US\$	4,567	13,873	14,127	—	—	32,567	4,625	13,873	14,127	—	—	32,625	Quarterly	2.06	2.06
0-E	BANC OF AMERICA	U.S.A.	US\$	674	2,096	—	—	—	2,770	676	2,096	—	—	—	2,772	Monthly	1.41	1.41
Other loans																		
0-E	BOEING	U.S.A.	US\$	—	—	151,362	—	—	151,362	2,294	—	151,363	—	—	153,657	At Expiration	1.80	1.80
0-E	CITIBANK (*)	U.S.A.	US\$	19,361	60,251	174,178	196,210	—	450,000	20,485	60,251	174,178	192,932	—	447,846	Quarterly	6.00	6.00
Total				611,840	738,017	2,291,593	1,892,936	2,155,787	7,690,173	641,578	738,016	2,218,512	1,846,051	2,127,734	7,571,891			

(\*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

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Interest-bearing loans due in installments to December 31, 2015

Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective rate %	Nominal rate %
				Up to 90 days 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 nominal value ThUS\$	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 accounting value ThUS\$			
Bank loans																		
0-E	NEDER LANDS CHE CREDIETVER ZEKER ING MAATSCHAPPIJ	Holland	US\$	115	356	1,031	1,162	689	3,353	132	356	1,031	1,162	689	3,370	Monthly	6.01	6.01
Obligations with the public																		
0-E	THE BANK OF NEW YORK	U.S.A.	US\$	—	—	300,000	—	500,000	800,000	7,506	1,110	301,722	5,171	501,027	816,536	At Expiration	8.17	8.00
Financial leases																		
0-E	AFS INVESTMENT IX LLC	U.S.A.	US\$	1,972	6,085	17,540	17,908	—	43,505	2,176	6,085	17,540	17,908	—	43,709	Monthly	1.25	1.25
0-E	AIRBUS FINANCIAL	U.S.A.	US\$	3,370	10,397	20,812	15,416	—	49,995	3,461	10,396	20,813	15,416	—	50,086	Monthly	1.43	1.43
0-E	CREDIT AGRICOLE-CIB	U.S.A.	US\$	4,500	—	—	—	—	4,500	4,528	—	—	—	—	4,528	Quarterly	3.25	3.25
0-E	DVB BANK SE	U.S.A.	US\$	118	355	282	—	—	755	120	355	282	—	—	757	Monthly	1.64	1.64
0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A.	US\$	3,654	11,137	8,970	—	—	23,761	3,697	11,137	8,970	—	—	23,804	Monthly	1.25	1.25
0-E	KFW IPEX-BANK	Germany	US\$	3,097	6,401	15,186	12,215	—	36,899	3,163	6,401	15,186	12,215	—	36,965	Monthly/Quarterly	1.72	1.72
0-E	NATIXIS	France	US\$	2,505	5,387	17,359	19,682	70,087	115,020	3,476	5,387	17,360	19,682	70,088	115,993	Quarterly/Semiannual	3.85	3.85
0-E	PK AIR FINANCE US, INC.	U.S.A.	US\$	1,276	21,769	—	—	—	23,045	1,316	21,769	—	—	—	23,085	Monthly	1.75	1.75
0-E	WACAPOU LEASING S.A.	Luxemburg	US\$	383	1,101	2,617	14,267	—	18,368	418	1,101	2,617	14,267	—	18,403	Quarterly	2.00	2.00
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	8,148	25,003	71,311	208,024	—	312,486	9,552	25,003	71,311	208,024	—	313,890	Quarterly	3.63	3.55
0-E	BANCO IBM S.A	Brazil	BRL	217	651	860	—	—	1,728	217	651	860	—	—	1,728	Monthly	14.14	14.14
0-E	HP FINANCIAL SERVICE	Brazil	BRL	168	529	185	—	—	882	169	529	185	—	—	883	Monthly	10.02	10.02
0-E	SOCIETE GENERALE	France	BRL	85	256	434	—	—	775	85	256	434	—	—	775	Monthly	14.14	14.14
Total				29,608	89,427	456,587	288,674	570,776	1,435,072	40,016	90,536	458,311	293,845	571,804	1,454,512			
Total consolidated				641,448	827,444	2,748,180	2,181,610	2,726,563	9,125,245	681,594	828,552	2,676,823	2,139,896	2,699,538	9,026,403			

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### (b) Hedge derivatives

	Current liabilities		Non-current liabilities		Total hedge derivatives	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Accrued interest from the last date of interest rate swap	2,148	4,329	—	—	2,148	4,329
Fair value of interest rate derivatives	9,578	33,518	6,679	16,128	16,257	49,646
Fair value of fuel derivatives	—	56,424	—	—	—	56,424
Fair value of foreign currency derivative	13,155	39,818	—	—	13,155	39,818
Total hedge derivatives	<u>24,881</u>	<u>134,089</u>	<u>6,679</u>	<u>16,128</u>	<u>31,560</u>	<u>150,217</u>

The foreign currency derivatives exchanges are FX forward and cross currency swap.

### Hedging operation

The fair values of net assets/ (liabilities), by type of derivative, of the contracts held as hedging instruments are presented below:

	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$
Cross currency swaps (CCS) (1)	(12,286)	(49,311)
Interest rate swaps (2)	(16,926)	(44,085)
Fuel options (3)	10,088	(50,131)
Currency forward—options US\$/GBP\$ (4)	618	7,432
Currency forward—options US\$/EUR\$ (4)	109	1,438
Currency options R\$/US\$ (4)	(1,752)	933
Currency options CLP/US\$ (4)	—	85

- (1) Covers the significant variations in cash flows associated with market risk implicit in the changes in the 3-month LIBOR interest rate and the exchange rate US\$/UF and US\$/BRL of bank loans. These contracts are recorded as cash flow hedges and fair value.
- (2) Covers the significant variations in cash flows associated with market risk implicit in the increases in the 3 months LIBOR interest rates for long-term loans incurred in the acquisition of aircraft and bank loans. These contracts are recorded as cash flow hedges.
- (3) Covers significant variations in cash flows associated with market risk implicit in the changes in the price of future fuel purchases. These contracts are recorded as cash flow hedges.
- (4) Covers the foreign exchange risk exposure of operating cash flows caused mainly by fluctuations in the exchange rate R\$/US\$ and US\$/GBP. These contracts are recorded as cash flow hedges.

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During the periods presented, the Company only maintains cash flow hedges and fair value (in the case of CCS). In the case of fuel hedges, the cash flows subject to such hedges will impact results in the next six months from the consolidated statement of financial position date, meanwhile in the case of interest rate hedging, the hedges will impact results over the life of the related loans, which are valid initially for 12 years. The hedges on investments will impact results continuously throughout the life of the investment, while the cash flows occur at the maturity of the investment. In the case of currency hedges through a CCS, are generated two types of hedge accounting, a cash flow component by US\$/UF and US\$/BRL, and other fair value by US\$ floating rate component.

During the periods presented, no hedging operations of future highly probable transaction that have not been realized have occurred.

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

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

	2016	For the period ended December 31,	
	ThUS\$	2015	2014
	ThUS\$	ThUS\$	ThUS\$
Debit (credit) recognized in comprehensive income during the period	127,390	80,387	(163,993)
Debit (credit) transferred from net equity to income during the period	(113,403)	(151,244)	(151,520)

## NOTE 20 - TRADE AND OTHER ACCOUNTS PAYABLES

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

	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$
Current		
(a) Trade and other accounts payables	1,117,926	1,025,574
(b) Accrued liabilities at the reporting date	475,142	458,383
Total trade and other accounts payables	<u>1,593,068</u>	<u>1,483,957</u>

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### (a) Trade and other accounts payable:

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Trade creditors	868,833	758,783
Leasing obligation	10,446	18,784
Other accounts payable	238,647	248,007
Total	<u>1,117,926</u>	<u>1,025,574</u>

The details of Trade and other accounts payables are as follows:

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Aircraft Fuel	188,276	148,612
Boarding Fee	149,880	175,900
Airport charges and overflight	90,327	94,139
Handling and ground handling	87,406	88,629
Other personnel expenses	81,632	72,591
Professional services and advisory	79,270	63,302
Land services	74,260	80,387
Marketing	61,053	45,997
Services on board	44,589	32,993
Leases, maintenance and IT services	44,287	25,558
Suppliers' technical purchases	40,305	52,160
Crew	29,074	23,834
Maintenance	25,962	18,573
Achievement of goals	17,801	15,386
Distribution system	15,710	17,531
Airlines	13,264	3,890
Aircraft and engines leasing	10,446	19,146
Aviation insurance	7,694	7,655
Communications	7,500	6,731
SEC agreement (*)	4,719	—
Others	44,471	32,560
Total trade and other accounts payables	<u>1,117,926</u>	<u>1,025,574</u>

(\*) Provision made for payments of fines, on July 25, 2016 LATAM reached agreements with the U.S. Department of Justice ("DOJ") U.S. and the Securities and Exchange Commission ("SEC") both authorities of the United States of America, in force as of this date, regarding the investigation on payments by LAN Airlines S.A. made in 2006-2007 to a consultant who advised on the resolution of labor matters in Argentina. The amount to the SEC agreement is ThUS\$ 6,744 plus interests of ThUS\$ 2,694.

As of December 31, 2016, the balance payable to the SEC is ThUS \$ 4,719.



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### (b) Liabilities accrued:

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Aircraft and engine maintenance	244,949	246,454
Accrued personnel expenses	113,785	108,058
Accounts payable to personnel (*)	89,523	81,368
Others accrued liabilities	26,885	22,503
Total accrued liabilities	<u>475,142</u>	<u>458,383</u>

(\*) Profits and bonds participation (Note 23 letter b)

### NOTE 21 - OTHER PROVISIONS

Other provisions:

	Current liabilities		Non-current liabilities		Total Liabilities	
	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Provision for contingencies (1)						
Tax contingencies	1,425	1,297	313,064	350,418	314,489	351,715
Civil contingencies	993	1,476	56,413	37,555	57,406	39,031
Labor contingencies	225	149	29,307	15,648	29,532	15,797
Other	—	—	15,046	11,910	15,046	11,910
Provision for European Commision investigation (2)	—	—	8,664	8,966	8,664	8,966
Total other provisions (3)	<u>2,643</u>	<u>2,922</u>	<u>422,494</u>	<u>424,497</u>	<u>425,137</u>	<u>427,419</u>

#### (1) Provisions for contingencies:

The tax contingencies correspond to litigation and tax criteria related to the tax treatment applicable to direct and indirect taxes, which are found in both administrative and judicial stage.

The civil contingencies correspond to different demands of civil order filed against the company.

The labor contingencies correspond to different demands of labor order filed against the company.

The Provisions are recognized in the consolidated income statement in administrative expenses or tax expenses, as appropriate.

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- (2) Provision made for proceedings brought by the European Commission for possible breaches of free competition in the freight market.
- (3) Total other provision at December 31, 2016, and at December 31, 2015, include the fair value correspond to those contingencies from the business combination with TAM S.A and subsidiaries, with a probability of loss under 50%, which are not provided for the normal application of IFRS enforcement and that only must be recognized in the context of a business combination in accordance with IFRS 3.

### Movement of provisions:

	Legal claims (1) ThUS\$	European Commission Investigation (2) ThUS\$	Total ThUS\$
Opening balance as of January 1, 2014	1,138,754	11,349	1,150,103
Increase in provisions	42,792	—	42,792
Provision used	(27,597)	—	(27,597)
Difference by subsidiaries conversion	(132,092)	—	(132,092)
Reversal of provision	(315,288)	—	(315,288)
Exchange difference	(1,017)	(1,350)	(2,367)
Closing balance as of December 31, 2014	705,552	9,999	715,551
Opening balance as of January 1, 2015	705,552	9,999	715,551
Increase in provisions	54,675	—	54,675
Provision used	(19,522)	—	(19,522)
Difference by subsidiaries conversion	(220,266)	—	(220,266)
Reversal of provision	(100,740)	—	(100,740)
Exchange difference	(1,246)	(1,033)	(2,279)
Closing balance as of December 31, 2015	418,453	8,966	427,419
Opening balance as of January 1, 2016	418,453	8,966	427,419
Increase in provisions	141,797	—	141,797
Provision used	(21,997)	—	(21,997)
Difference by subsidiaries conversion	79,396	—	79,396
Reversal of provision	(201,425)	—	(201,425)
Exchange difference	249	(302)	(53)
Closing balance as of December 31, 2016	416,473	8,664	425,137

- (1) The accumulated balance includes US\$ 115 million as judicial deposit granted as guarantee, related to the “Fundo Aeroviário” (FA). This deposit was made with the purpose of suspending the application of the tax credit. The company is discussing over the Tribunal the constitutionality about the requirement made by FA in a legal action. Initially it was covered by the effects of a precautionary measure, meaning that, the company was not the obligation to

collect the tax as long as there no judicial decision in this regard. However, the decision taken by a judge in the first instance was publicized in an unfavorable published, reversing the precautionary measure. As the legal claim is still in progress (TAM appealed this first decision), the company needed to make the judicial deposit for the suspension of the enforceability of the tax credit; it deposit was classified in this category deducting the existing provision for that purpose. Finally, if the final decision is favorable to the company, the deposit already made will return to TAM. On the other hand, if the tribunal confirms the first decision, such deposit will be converted in a definitive payment in favor of the Brazilian Government. The procedural stage at December 31, 2016 is disclosed in Note 31 in the case role N° 2001.51.01.012530-0.

(2) European Commission Provision:

This provision was established because of the investigation brought 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 that began in December 2007 regarding possible unfair competition on the air cargo market. This was a joint investigation done by the European and U.S.A. authorities. The global investigation concluded when Lan Cargo S.A. and its subsidiary, Aerolíneas Brasileiras S.A. (“ABSA”) signed a *Plea Agreement* with the U.S.A. Department of Justice. The General Direction of Competition it imposed fines totaling € 799,445,000 (seven hundred and ninety nine million four hundred and forty-five thousand Euros) for infringement of European Union regulations on free competition against eleven (11) airlines, among which you can find LATAM Airlines Group S.A. and Lan Cargo S.A. Jointly, LATAM Airlines Group S.A. and Lan Cargo S.A., have been fined in the amount of € 8,220,000 (eight million two hundred twenty thousand Euros) for said infractions, which was provisioned in the financial statements of LATAM Airlines Group S.A. On January 24, 2011, LATAM Airlines Group S.A. and Lan Cargo S.A. appealed the decision before the Court of Justice of the European Union. On December 16, 2015 The European Commission does not appeal the sentence, but can issue a new decision correcting the failures specified in the Judgment and it has a period of 5 years which is fulfilled in 2021 the Court European resolved the appeal and annulled the European Commission. The procedural stage at December 31, 2016 is disclosed in Note 31, in (ii) lawsuits received by Latam Airlines Group S.A. and Subsidiaries.

# NOTE 22 - OTHER NON-FINANCIAL LIABILITIES

	Current liabilities		Non-current liabilities		Total Liabilities	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Deferred revenues (*)	2,655,086	2,423,703	213,781	272,130	2,868,867	2,695,833
Sales tax	19,402	10,379	—	—	19,402	10,379
Retentions	45,542	33,125	—	—	45,542	33,125
Others taxes	7,465	11,211	—	—	7,465	11,211
Dividends	25,518	3,980	—	—	25,518	3,980
Other sundry liabilities	9,232	7,635	—	—	9,232	7,635
<b>Total other non-financial liabilities</b>	<b>2,762,245</b>	<b>2,490,033</b>	<b>213,781</b>	<b>272,130</b>	<b>2,976,026</b>	<b>2,762,163</b>

(\*) Note 2.20.

The balance comprises, mainly, deferred income by services not yet rendered and programs such as: LATAM Pass, LATAM Fidelidade y Multiplus:

LATAM Pass is the frequent flyer program created by LAN to reward the preference and loyalty of its customers with many benefits and privileges, by the accumulation of kilometers that can be exchanged for free flying tickets or a wide range of products and services. Customers accumulate LATAM Pass kilometers every time they fly with LAN, TAM, in companies that are members of **oneworld®** and other airlines associated with the program, as well as when they buy on the stores or use the services of a vast network of companies that have an agreement with the program around the world.

Thinking on people who travel constantly, TAM created the program LATAM Fidelidade, in order to improve the passenger attention and give recognition to those who choose the company. By using this program, customers accumulate points in a variety of programs loyalty in a single account and can redeem them at all TAM destinations and related airline companies, and even more, participate in the Red Multiplus Fidelidade.

Multiplus is a coalition of loyalty programs, aiming to operate activities of accumulation and redemption of points. This program has an integrated network by associates including hotels, financial institutions, retail companies, supermarkets, vehicle rentals and magazines, among many other partners from different segments.

## NOTE 23 - EMPLOYEE BENEFITS

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Retirements payments	49,680	42,117
Resignation payments	10,097	8,858
Other obligations	22,545	14,296
Total liability for employee benefits	82,322	65,271

(a) The movement in retirements and resignation payments and other obligations:

	Opening balance ThUS\$	Increase (decrease) current service provision ThUS\$	Benefits paid ThUS\$	Change of model ThUS\$	Actuarial (gains) losses ThUS\$	Currency translation ThUS\$	Closing balance ThUS\$
From January 1 to December 31, 2014	45,666	1,507	(2,466)	29,395	—	—	74,102
From January 1 to December 31, 2015	74,102	(13,609)	(3,824)	—	14,631	(6,029)	65,271
From January 1 to December 31, 2016	65,271	19,900	(4,536)	—	1,687	—	82,322

The principal assumptions used in the calculation to the provision in Chile are presented below:

Assumptions	As of December 31, 2016	2015
Discount rate	4.54%	4.84%
Expected rate of salary increase	4.50%	4.50%
Rate of turnover	6.16%	6.16%
Mortality rate	RV-2009	RV-2009
Inflation rate	2.86%	2.92%
Retirement age of women	60	60
Retirement age of men	65	65

The discount rate is determined by reference to free risk 20 years Central Bank of Chile BCP bond. Mortality table RV – 2009, established by Chilean Superintendency of Securities and Insurance and inflation rate performance curve of Central Bank of Chile instruments long term BCU and BCP.

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The obligation is determined based on the actuarial value of the accrued cost of the benefit and it is sensibility to main actuarial assumptions used for the calculation. The Following is a sensitivity analysis based on increased (decreased) on the discount rate, increased wages, rotation and inflation:

	Effect on the liability	
	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
<u>Discount rate</u>		
Change in the accrued liability an closing for increase in 100 p.b.	(5,665)	(4,669)
Change in the accrued liability an closing for decrease of 100 p.b.	5,952	5,345
<u>Rate of wage growth</u>		
Change in the accrued liability an closing for increase in 100 p.b.	6,334	5,309
Change in the accrued liability an closing for decrease of 100 p.b.	(5,644)	(4,725)

(b) The liability for short-term:

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Profit-sharing and bonuses (*)	<u>89,523</u>	<u>81,368</u>

(\*) Accounts payables to employees (Note 20 letter b)

The participation in profits and bonuses correspond to an annual incentives plan for achievement of objectives.

(c) Employment expenses are detailed below:

	For the periods ended		
	2016 ThUS\$	December 31, 2015 ThUS\$	2014 ThUS\$
Salaries and wages	1,549,402	1,631,320	1,656,565
Short-term employee benefits	132,436	171,366	361,328
Termination benefits	79,062	51,684	84,179
Other personnel expenses	190,233	218,435	248,030
Total	<u>1,951,133</u>	<u>2,072,805</u>	<u>2,350,102</u>

## NOTE 24 - ACCOUNTS PAYABLE, NON-CURRENT

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Aircraft and engine maintenance	347,085	371,419
Fleet financing (JOL)	—	35,042
Provision for vacations and bonuses	12,080	10,365
Other sundry liabilities	226	224
Total accounts payable, non-current	<u>359,391</u>	<u>417,050</u>

## NOTE 25 - EQUITY

### (a) Capital

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

The paid capital of the Company at December 31, 2016 amounts to ThUS\$ 3,149,564 (\*) divided into 606,407,693 common stock of a same series (ThUS\$ 2,545,705, divided into 545,547,819 shares as of December 31, 2015), a single series nominative, ordinary character with no par value. There are no special series of shares and no privileges. The form of its stock certificates and their issuance, exchange, disablement, loss, replacement and other similar circumstances, as well as the transfer of the shares, is governed by the provisions of Corporations Law and its regulations.

(\*) Include a deduction for issuance costs ThUS\$ 4,793 and adjustment by 10,282 placement shares for ThUS\$ 156.

### (b) Subscribed and paid shares

As of December 31, 2015, the Company's subscribed and paid-in capital was represented by 545,558,101 shares, all common shares, without par value.

On August 18, 2016, the Company held an extraordinary meeting of shareholders in which it was approved to increase the capital by issuing 61,316,424 shares of payment, all ordinary shares, without par value. As of December 31, 2016, 60,849,592 shares had been placed against this increase, according to the following breakdown: (a) 30,499,685 shares subscribed and paid at the end of the preferred subscription period, which expired on, December 2016, raising the equivalent of US\$ 304,996,850; And (b) 30,349,907 additional shares subscribed on December 28, 2016, earning the equivalent of US\$ 303,499,070.

As a result of the last placement, as of December 31, 2016, the number Company shares subscribed and paid amounts to 606,407,693.

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At December 31, 2016, the Company's capital stock is represented by 608,374,525 shares, all common shares, without no par value, which is divided into: (a) the 606,407,693 subscribed and paid shares mentioned above; And (b) 1,966,832 shares pending subscription and payment, of which: (i) 1,500,000 shares are allocated to compensation stock option plans; And (ii) 466,832 correspond to the balance of shares pending placement of the last capital increase.

It should be noted that during the year the Company's capital stock was expressed in 613,164,243 shares, all ordinary shares, without nominal value, that is, 551,847,819 shares already authorized at the beginning of the year and 61,316,424 shares authorized in the last Capital increase dated August 18, 2016. However, on December 21, 2016, the deadline for the subscription and payment of 4,789,718 shares that were destined to compensation plans for workers expired, so that the Company's capital stock was reduced to 608,374,525 shares.

The following table shows the movement of the authorized and fully paid shares described above:

Movement of authorized shares	Nro. Of shares
Authorized shares as of January 1, 2015	551,847,819
No movement of authorized shares during 2015	—
Authorized shares as of December 31, 2015	<u>551,847,819</u>
Authorized shares as of January 1, 2016	551,847,819
Increase capital approved at Extraordinary Shareholders meeting dated August 18, 2016	61,316,424
Full capital decrease due to maturity of the subscription and payment period of the compensation plan 2011, December 21, 2016 (*)	<u>(4,789,718)</u>
Authorized shares as of December 31, 2016	<u>608,374,525</u>

(\*) See Note 34 (a.1)



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### Movement fully paid shares

	N° of shares	Movement value of shares (1) ThUS\$	Cost of issuance and placement of shares (2) ThUS\$	Paid-in Capital ThUS\$
increase (decrease) through transfers and other changes				
Paid shares as of January 1, 2015	545,547,819	2,552,066	(6,361)	2,545,705
No movement of paid shares during 2015	—	—	—	—
Paid shares as of December 31, 2015	545,547,819	2,552,066	(6,361)	2,545,705
Paid shares as of January 1, 2016	545,547,819	2,552,066	(6,361)	2,545,705
Placement capital increase				
Approved at Extraordinary Shareholders meeting dated August 18, 2016	60,849,592	608,496	—	608,496
Capital reserve	—	—	(4,793)	(4,793)
Increase (decrease) by transfers and other changes (4)	10,282	156	—	156
Paid shares as of December 31, 2016	606,407,693(3)	3,160,718	(11,154)	3,149,564

- (1) Amounts reported represent only those arising from the payment of the shares subscribed.
- (2) Decrease of capital by capitalization of reserves for cost of issuance and placement of shares established according to Extraordinary Shareholder's Meetings, where such decreases were authorized.
- (3) At December 31, 2016, the difference between authorized shares and fully paid shares are 1,966,832 shares, of which 1,500,000 correspond to compensation plans for executives of LATAM Airlines Group S.A. and subsidiaries (see Note 34(a.1)) and 466,832 correspond to the shares issued and unsubscribed from the capital increase approved at the Extraordinary Shareholders' Meeting held on August 18, 2016.
- (4) In January 2014, these 10,282 shares were placed and charged to the Compensation plan 2011 (See Note 34 (a.1))

#### (c) Treasury stock

At December 31, 2016, the Company held no treasury stock, the remaining of ThUS\$ (178) corresponds to the difference between the amount paid for the shares and their book value, at the time of the full right decrease of the shares which held in its portfolio.

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(d) Reserve of share-based payments

Movement of Reserves of share-based payments:

Periods	Opening balance ThUS\$	Stock option plan ThUS\$	Deferred tax ThUS\$	Deferred tax by tax effect of change in legal rate (Tax reform) (*) ThUS\$	Net movement of the period ThUS\$	Closing balance ThUS\$
From January 1 to December 31, 2014	21,011	14,728	(3,389)	(2,708)	8,631	29,642
From January 1 to December 31, 2015	29,642	8,924	(2,919)	—	6,005	35,647
From January 1 to December 31, 2016	35,647	3,698	(807)	—	2,891	38,538

(\*) On September 29, 2014, Law No. 20,780 “Amendment to the system of income taxation and introduces various adjustments in the tax system.” was published in the Official Journal of the Republic of Chile. Within major tax reforms that law contains is modified gradually from 2014 to 2018 the First-Category Tax rate to be declared and paid starting in tax year 2015.

These reserves are related to the “Share-based payments” explained in Note 34.

(e) Other sundry reserves

Movement of Other sundry reserves:

Periods	Opening balance ThUS\$	Transactions with non-controlling interest ThUS\$	Legal reserves ThUS\$	Closing balance ThUS\$
From January 1 to December 31, 2014	2,657,800	(21,526)	(526)	2,635,748
From January 1 to December 31, 2015	2,635,748	—	(1,069)	2,634,679
From January 1 to December 31, 2016	2,634,679	—	5,602	2,640,281

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Balance of Other sundry reserves comprises the following:

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2014 ThUS\$
Higher value for TAM S.A. share exchange (1)	2,665,692	2,665,692	2,665,692
Reserve for the adjustment to the value of fixed assets (2)	2,620	2,620	2,620
Transactions with non-controlling interest (3)	(25,911)	(25,891)	(25,891)
Cost of issuance and placement of shares	9	(4,793)	(5,264)
Others	(2,129)	(2,949)	(1,409)
Total	<u>2,640,281</u>	<u>2,634,679</u>	<u>2,635,748</u>

- (1) Corresponds to the difference in the shares value of TAM S.A. acquired (under subscriptions) by Sister Holdco S.A. and Holdco II S.A. (under the Exchange Offer), as stipulated in the Declaration of Posting of Merger by Absorption and the fair value of these exchange shares of LATAM Airlines Group S.A. at June 22, 2012.
- (2) Corresponds to the technical revaluation of fixed assets authorized by the Superintendence of Securities and Insurance in 1979, 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.
- (3) The balance at December 31, 2016, correspond to the loss generated by the participation of Lan Pax Group S.A. and Inversiones Lan S.A. in the acquisition of shares of Aerovías de Integración Regional Aires of ThUS\$ (3,480) and ThUS\$ (20), respectively; the acquisition of TAM S.A. of the minority holding of Aerolinhas Brasileiras S.A. of ThUS\$ (885) and the acquisition of minority interest of Aerolane S.A. by Lan Pax group S.A. through Holdco Ecuador S.A. for US\$ (21,526).

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(f) Reserves with effect in other comprehensive income.

Movement of Reserves with effect in other comprehensive income:

	Currency translation reserve	Cash flow hedging reserve	Actuarial gain or loss on defined benefit plans reserve	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2014	(589,991)	(34,508)	—	(624,499)
Derivatives valuation gains (losses)	—	(165,231)	—	(165,231)
Deferred tax	—	40,647	—	40,647
Tax effect on deferred tax by change legal tax rate (Tax reform)(*)	—	7,752	—	7,752
Difference by subsidiaries conversion	(603,880)	—	—	(603,880)
Closing balance as of December 31, 2014	(1,193,871)	(151,340)	—	(1,345,211)
Opening balance as of January 1, 2015	(1,193,871)	(151,340)	—	(1,345,211)
Derivatives valuation gains (losses)	—	82,730	—	82,730
Deferred tax	—	(21,900)	—	(21,900)
Actuarial reserves by employee benefit plans	—	—	(14,627)	(14,627)
Deferred tax actuarial IAS by employee benefit plans	—	—	3,910	3,910
Difference by subsidiaries conversion	(1,382,170)	—	—	(1,382,170)
Closing balance as of December 31, 2015	(2,576,041)	(90,510)	(10,717)	(2,677,268)
Opening balance as of January 1, 2016	(2,576,041)	(90,510)	(10,717)	(2,677,268)
Derivatives valuation gains (losses)	—	126,360	—	126,360
Deferred tax	—	(34,344)	—	(34,344)
Actuarial reserves by employee benefit plans	—	—	(3,104)	(3,104)
Deferred tax actuarial IAS by employee benefit plans	—	—	921	921
Difference by subsidiaries conversion	489,486	—	—	489,486
Closing balance as of December 31, 2016	(2,086,555)	1,506	(12,900)	(2,097,949)

(\*) On September 29, 2014, Law No. 20,780 “Amendment to the system of income taxation and introduces various adjustments in the tax system.” was published in the Official Journal of the Republic of Chile. Within major tax reforms that law contains is modified gradually from 2014 to 2018 the First- Category Tax rate to be declared and paid starting in tax year 2015.

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### (f.1) Currency translation reserve

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

### (f.2) Cash flow hedging reserve

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

### (g) Retained earnings

Movement of Retained earnings:

Periods	Opening balance ThUS\$	Result for the period ThUS\$	Dividends ThUS\$	Other increase (decreases) ThUS\$	Closing balance ThUS\$
From January 1 to December 31, 2014	795,303	(259,985)	—	872	536,190
From January 1 to December 31, 2015	536,190	(219,274)	—	1,034	317,950
From January 1 to December 31, 2016	317,950	69,220	(20,766)	—	366,404

### (h) Dividends per share

Description of dividend	Minimum mandatory dividend 2016	Final dividend dividend 2015
Date of dividend	12-31-2016	12-31-2015
Amount of the dividend (ThUS\$)	20,766	—
Number of shares among which the dividend is distributed	606,407,693	545,547,819
Dividend per share (US\$)	0.0342	—

As of December 31, 2016 and 2015, the Company has not been paid dividends.

## NOTE 26 - REVENUE

The detail of revenues is as follows:

	2016	For the periods ended December 31, 2015	2014
	ThUS\$	ThUS\$	ThUS\$
Passengers LAN	4,104,348	4,241,918	4,464,761
Passengers TAM	3,773,367	4,168,696	5,915,361
Cargo	1,110,625	1,329,431	1,713,379
Total	<u>8,988,340</u>	<u>9,740,045</u>	<u>12,093,501</u>

## NOTE 27 - COSTS AND EXPENSES BY NATURE

(a) Costs and operating expenses

The main operating costs and administrative expenses are detailed below:

	2016	For the periods ended December 31, 2015	2014
	ThUS\$	ThUS\$	ThUS\$
Aircraft fuel	2,056,643	2,651,067	4,167,030
Other rentals and landing fees	1,077,407	1,109,826	1,327,238
Aircraft rentals	568,979	525,134	521,384
Aircraft maintenance	366,153	437,235	452,731
Comissions	269,296	302,774	365,508
Passenger services	286,621	295,439	300,325
Other operating expenses	1,424,595	1,293,320	1,487,672
Total	<u>6,049,694</u>	<u>6,614,795</u>	<u>8,621,888</u>

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### (b) Depreciation and amortization

Depreciation and amortization are detailed below:

	2016	For the period ended December 31, 2015	2014
	ThUS\$	ThUS\$	ThUS\$
Depreciation (*)	910,071	897,670	943,731
Amortization	50,257	36,736	47,533
Total	<u>960,328</u>	<u>934,406</u>	<u>991,264</u>

(\*) Include the depreciation of Property, plant and equipment and the maintenance cost of aircraft held under operating leases. The amount of maintenance cost included within the depreciation line item at December 31, 2016 is ThUS\$ 345,651 and ThUS\$ 345,192 for the same period of 2015.

### (c) Personnel expenses

The costs for personnel expenses are disclosed in Note 23 liability for employee benefits.

### (d) Financial costs

The detail of financial costs is as follows:

	2016	For the period ended December 31, 2015	2014
	ThUS\$	ThUS\$	ThUS\$
Bank loan interest	352,405	331,511	330,298
Financial leases	32,573	42,855	72,242
Other financial instruments	31,358	38,991	27,494
Total	<u>416,336</u>	<u>413,357</u>	<u>430,034</u>

Costs and expenses by nature presented in this note plus the Employee expenses disclosed in Note 23, are equivalent to the sum of cost of sales, distribution costs, administrative expenses, other expenses and financing costs presented in the consolidated statement of income by function.

### (e) Restructuring Costs

As part of the ongoing process of reviewing its fleet plan, in December 2015 the company recognized a negative impact on results of US\$ 80 million before tax associated with the output of the rest of the A330 fleet, including engines and technical materials is recognized. These expenses are recognized at "Other Gain and Losses" of the Consolidated Statement of Income by Function.

# NOTE 28—OTHER INCOME, BY FUNCTION

Other income by function is as follows:

	2016	For the period ended December 31, 2015	2014
	ThUS\$	ThUS\$	ThUS\$
Coalition and loyalty program Multiplus	174,197	154,958	160,255
Tours	133,575	113,225	109,788
Aircraft leasing	65,011	46,547	31,104
Customs and warehousing	24,548	25,457	22,368
Maintenance	17,090	11,669	15,421
Duty free	11,141	16,408	18,076
Other miscellaneous income	113,186	17,517	20,633
Total	<u>538,748</u>	<u>385,781</u>	<u>377,645</u>

# NOTE 29—FOREIGN CURRENCY AND EXCHANGE RATE DIFFERENCES

The functional currency of LATAM Airlines Group S.A. is the US dollar, also it has subsidiaries whose functional currency is different to the US dollar, such as the Chilean peso, Argentine peso, Colombian peso and Brazilian real.

The functional currency is defined as the currency of the primary economic environment in which an entity operates and in each entity and all other currencies are defined as foreign currency.

Considering the above, the balances by currency mentioned in this note correspond to the sum of foreign currency of each of the entities that make LATAM Airlines Group S.A. and Subsidiaries.



(a) Foreign currency

The foreign currency detail of balances of monetary items in current and non-current assets is as follows:

Current assets	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$
Cash and cash equivalents	201,416	182,089
Argentine peso	4,438	11,611
Brazilian real	9,705	8,810
Chilean peso	30,221	17,739
Colombian peso	1,137	1,829
Euro	1,695	10,663
U.S. dollar	128,694	112,422
Strong bolivar	61	2,986
Other currency	25,465	16,029
Other financial assets, current	14,573	124,042
Argentine peso	12	108,592
Brazilian real	734	1,263
Chilean peso	585	563
Colombian peso	—	1,167
U.S. dollar	12,879	12,128
Strong bolivar	76	22
Other currency	287	307

Current assets	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
Other non—financial assets, current	107,789	126,130
Argentine peso	16,086	14,719
Brazilian real	20,158	15,387
Chilean peso	1,619	10,265
Colombian peso	713	486
Euro	1,563	1,983
U.S. dollar	50,157	61,577
Strong bolivar	3	—
Other currency	17,490	21,713
Trade and other accounts receivable, current	251,204	247,229
Argentine peso	54,356	30,563
Brazilian real	30,675	11,136
Chilean peso	90,482	55,169
Colombian peso	9,720	1,195
Euro	21,923	30,006
U.S. dollar	14,086	29,937
Strong bolivar	43	7,225
Other currency	29,919	81,998
Accounts receivable from related entities, current	554	181
Chilean peso	554	181
Tax current assets	28,198	22,717
Argentine peso	1,798	2,371
Brazilian real	2,462	5
Chilean peso	6,333	3,615
Colombian peso	1,418	1,275
Euro	273	14
U.S. dollar	177	1,394
Peruvian sol	14,387	12,572
Other currency	1,350	1,471
Total current assets	603,734	702,388
Argentine peso	76,690	167,856
Brazilian real	63,734	36,601
Chilean peso	129,794	87,532
Colombian peso	12,988	5,952
Euro	25,454	42,666
U.S. Dollar	205,993	217,458
Strong bolivar	183	10,233
Other currency	88,898	134,090

Non-current assets	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$
Other financial assets, non-current	26,772	20,767
Argentine peso	—	22
Brazilian real	2,769	1,478
Chilean peso	83	77
Colombian peso	285	162
Euro	6,966	614
U.S. dollar	14,920	16,696
Other currency	1,749	1,718
Other non—financial assets, non-current	19,069	60,215
Argentine peso	142	169
Brazilian real	6,029	4,454
U.S. dollar	8,309	50,108
Other currency	4,589	5,484
Accounts receivable, non-current	7,356	9,404
Chilean peso	7,356	4,251
U.S. dollar	—	5,000
Other currency	—	153
Deferred tax assets	2,110	2,632
Colombian peso	117	336
Other currency	1,993	2,296
Total non-current assets	55,307	93,018
Argentine peso	142	191
Brazilian real	8,798	5,932
Chilean peso	7,439	4,328
Colombian peso	402	498
Euro	6,966	614
U.S. dollar	23,229	71,804
Other currency	8,331	9,651

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The foreign currency detail of balances of monetary items in current liabilities and non-current is as follows:

Current liabilities	Up to 90 days		91 days to 1 year	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other financial liabilities, current	287,175	94,199	455,086	141,992
Chilean peso	55,962	54,655	108,010	52,892
U.S. dollar	231,213	39,544	347,076(*)	89,100
Trade and other accounts payables, current	585,149	482,402	16,097	14,981
Argentine peso	20,838	20,772	907	2,072
Brazilian real	40,740	37,572	27	16
Chilean peso	60,701	40,219	12,255	10,951
Colombian peso	9,049	5,271	578	155
Euro	23,445	5,275	5	618
U.S. dollar	374,431	310,565	962	839
Strong bolivar	761	2,627	—	—
Peruvian sol	33,701	28,293	1,093	87
Mexican peso	1,535	15,248	—	225
Pound sterling	1,769	7,819	246	—
Uruguayan peso	6,899	6,005	—	—
Other currency	11,280	2,736	24	18
Accounts payable to related entities, current	220	447	—	—
Chilean peso	23	83	—	—
U.S. dollar	8	22	—	—
Other currency	189	342	—	—
Other provisions, current	—	—	511	457
Chilean peso	—	—	28	21
Other currency	—	—	483	436
Tax liabilities, current	(145)	36	2,442	9,037
Argentine peso	—	—	2,501	9,036
Brazilian real	(3)	—	—	—
Chilean peso	—	—	(25)	—
U.S. dollar	—	27	—	—
Other currency	(142)	9	(34)	1

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Current liabilities	Up to 90 days		91 days to 1 year	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other non-financial liabilities, current	33,439	40,432	—	—
Argentine peso	13,463	(2,387)	—	—
Brazilian real	430	4,297	—	—
Chilean peso	14,999	32,228	—	—
Colombian peso	578	145	—	—
Euro	168	2,706	—	—
U.S. dollar	684	(3,238)	—	—
Strong bolivar	2	2,490	—	—
Other currency	3,115	4,191	—	—
Total current liabilities	905,838	617,516	474,136	166,467
Argentine peso	34,301	18,385	3,408	11,108
Brazilian real	41,167	41,869	27	16
Chilean peso	131,685	127,185	120,268	63,864
Colombian peso	9,627	5,416	578	155
Euro	23,613	7,981	5	618
U.S. dollar	606,336	346,920	348,038	89,939
Strong bolivar	763	5,117	—	—
Other currency	58,346	64,643	1,812	767

(\*) See Note 19.a (2)

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Non-current liabilities	More than 1 to 3 years		More than 3 to 5 years		More than 5 years	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other financial liabilities, non-current	178,793	561,217	747,218	328,480	41,785	571,804
Chilean peso	59,177	104,385	16,189	34,635	—	—
U.S. dollar	119,616	456,832	731,029	293,845	41,785	571,804
Accounts payable, non-current	195,333	239,029	268	168	28	8
Chilean peso	10,178	8,058	268	168	28	8
U.S. dollar	183,904	229,005	—	—	—	—
Other currency	1,251	1,966	—	—	—	—
Other provisions, non-current	39,513	27,780	—	—	—	—
Argentine peso	635	797	—	—	—	—
Brazilian real	23,541	11,009	—	—	—	—
Chilean peso	38	—	—	—	—	—
Colombian peso	569	198	—	—	—	—
Euro	8,664	8,966	—	—	—	—
U.S. dollar	6,066	6,810	—	—	—	—
Provisions for employees benefits, non-current	68,774	56,306	—	—	—	—
Brazilian real	28	—	—	—	—	—
Chilean peso	68,380	56,306	—	—	—	—
U.S. dollar	366	—	—	—	—	—
Other non-financial liabilities, non-current	3	—	—	—	—	—
Colombian peso	3	—	—	—	—	—
Total non-current liabilities	482,416	884,332	747,486	328,648	41,813	571,812
Argentine peso	635	797	—	—	—	—
Brazilian real	23,569	11,009	—	—	—	—
Chilean peso	137,773	168,749	16,457	34,803	28	8
Colombian peso	572	198	—	—	—	—
Euro	8,664	8,966	—	—	—	—
U.S. dollar	309,952	692,647	731,029	293,845	41,785	571,804
Other currency	1,251	1,966	—	—	—	—

General summary of foreign currency:	As of December 31, 2016	As of December 31, 2015
	ThUS\$	ThUS\$
<b>Total assets</b>	<b>659,041</b>	<b>795,406</b>
Argentine peso	76,832	168,047
Brazilian real	72,532	42,533
Chilean peso	137,233	91,860
Colombian peso	13,390	6,450
Euro	32,420	43,280
U.S. dollar	229,222	289,262
Strong bolivar	183	10,233
Other currency	97,229	143,741
<b>Total liabilities</b>	<b>2,651,689</b>	<b>2,568,775</b>
Argentine peso	38,344	30,290
Brazilian real	64,763	52,894
Chilean peso	406,211	394,609
Colombian peso	10,777	5,769
Euro	32,282	17,565
U.S. dollar	2,037,140	1,995,155
Strong bolivar	763	5,117
Other currency	61,409	67,376
<b>Net position</b>		
Argentine peso	38,488	137,757
Brazilian real	7,769	(10,361)
Chilean peso	(268,978)	(302,749)
Colombian peso	2,613	681
Euro	138	25,715
U.S. dollar	(1,807,918)	(1,705,893)
Strong bolivar	(580)	5,116
Other currency	35,820	76,365

## (b) Exchange differences

Exchange differences recognized in the income statement, except for financial instruments measured at fair value through profit or loss, for the period ended December 31, 2016 and 2015, generated a debit of ThUS\$ 121,651 and a charge ThUS\$ 467,896, respectively.

Exchange differences recognized in equity as reserves for currency translation differences for the period ended December 31, 2016 and 2015, represented a debit of ThUS\$ 494,362 and a charge ThUS\$ 1,409,439, respectively.

The following shows the current exchange rates for the U.S. dollar, on the dates indicated:

	2016	As of December 31, 2015	2014
Argentine peso	15.84	12.97	8.55
Brazilian real	3.25	3.98	2.66
Chilean peso	669.47	710.16	606.75
Colombian peso	3,000.25	3,183.00	2,389.50
Euro	0.95	0.92	0.82
Strong bolivar	673.76	198.70	12.00
Australian dollar	1.38	1.37	1.22
Boliviano	6.86	6.85	6.86
Mexican peso	20.63	17.34	14.74
New Zealand dollar	1.44	1.46	1.28
Peruvian Sol	3.35	3.41	2.99
Uruguayan peso	29.28	29.88	24.25



## NOTE 30—EARNINGS / (LOSS) PER SHARE

		For the period ended December 31,	
	2016	2015	2014
Basic earnings / (loss) per share			
Earnings / (loss) attributable to owners of the parent (ThUS\$)	69,220	(219,274)	(259,985)
Weighted average number of shares, basic	546,559,599	545,547,819	545,547,819
Basic earnings / (loss) per share (US\$)	0.12665	(0.40193)	(0.47656)
		For the period ended December 31,	
	2016	2015	2014
Diluted earnings / (loss) per share			
Earnings / (loss) attributable to owners of the parent (ThUS\$)	69,220	(219,274)	(259,985)
Weighted average number of shares, basic	546,559,599	545,547,819	545,547,819
Weighted average number of shares, diluted	546,559,599	545,547,819	545,547,819
Diluted earnings / (loss) per share (US\$)	0.12665	(0.40193)	(0.47656)

In the calculation of diluted earnings per share have not been considered the compensation plan disclosed in Note 34 (a.1), because the average market price is lower than the price of options.

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### NOTE 31 – CONTINGENCIES

#### I. Lawsuits

#### 1) Lawsuits filed by LATAM Airlines Group S.A. and Subsidiaries

Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
Atlantic Aviation Investments LLC (AAI).	Supreme Court of the State of New York County of New York.	07-6022920	Atlantic Aviation Investments LLC. (“AAI”), an indirect subsidiary LATAM Airlines Group S.A., incorporated under the laws of the State of Delaware, sued in August 29th, 2007 Varig Logistics S.A. (“Variglog”) for non-payment of four documented loans in credit agreements governed by New York law. These contracts establish the acceleration of the loans in the event of sale of the original debtor, VRG Linhas Aéreas S.A.	In implementation stage in Switzerland, the conviction stated that Variglog should pay the principal, interest and costs in favor of AAI. It keeps the embargo of Variglog funds in Switzerland with AAI. In Brazil a Settlement Agreement was signed and it is awaiting for approval from the Bankruptcy Court of that country and Variglog has asked Switzerland to recognize the judgment that declared the state of judicial recovery and subsequent bankruptcy.	17,100 Plus interests and costs
Lan Argentina S.A.	National Administrative Court.	36337/13	ORSNA Resolution No. 123 which directs Lan Argentina to vacate the hangar located in the Airport named Aeroparque Metropolitano Jorge Newberry, Argentina.	On February 25, 2016, Lan Argentina S.A. and ORSNA informed the Court of their decision to put an end to the lawsuit and guarantee use of the hangar by Lan. The parties agreed to maintain the precautionary measure in effect allowing Lan to use the hangar indefinitely until the parties reach a final agreement. The court agreed, so the precautionary measure was extended indefinitely. Resolution 112/2016 of the National Airport Regulatory Agency (ORSNA) was published on December 30, 2016, which terminated the hangar dispute. This latest resolution repealed the previous resolution, 123/16, that ordered vacation of the LAN hangar at AEP.  Consequently, the legal structure created by the ORSNA through the 2012 Resolution was left without any effect in 2016. Apart from the matter now having been resolved both materially and judicially, this resolution puts a definitive end to the hangar dispute.	-0-

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### 2) Lawsuits received by LATAM Airlines Group S.A. and Subsidiaries

Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
LATAM Airlines Group S.A. y Lan Cargo S.A.	European Commission.	—	Investigation of alleged infringements to free competition of cargo airlines, especially fuel surcharge. On December 26 <sup>th</sup> , 2007, the General Directorate for Competition of the European Commission notified Lan Cargo S.A. and LATAM Airlines Group S.A. the instruction process against twenty five cargo airlines, including Lan Cargo S.A., for alleged breaches of competition in the air cargo market in Europe, especially the alleged fixed fuel surcharge and freight.	<p>On April 14<sup>th</sup>, 2008, the notification of the European Commission was replied. The appeal was filed on January 24, 2011.</p> <p>On May 11, 2015, we attended a hearing at which we petitioned for the vacation of the Decision based on discrepancies in the Decision between the operating section, which mentions four infringements (depending on the routes involved) but refers to LATAM in only one of those four routes; and the ruling section (which mentions one single conjoint infraction).</p> <p>On November 9<sup>th</sup>, 2010, the General Directorate for Competition of the European Commission notified Lan Cargo S.A. and LATAM Airlines Group S.A. the imposition of a fine in the amount of THUS\$ 8,664. (8.220.000 Euros)</p> <p>This fine is being appealed by Lan Cargo S.A. and LATAM Airlines Group S.A. On December 16, 2015, the European Court of Justice revoked the Commission's decision because of discrepancies. The European Commission did not appeal the resolution, but rather confirmed, on May 20, 2016, that it will issue a new decision curing the rulings specified in the Decision. It has a period of 5 years to do this, or until 2021.</p>	8,664

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Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
Lan Cargo S.A. y LATAM Airlines Group S.A.	In the High Court of Justice Chancery División (England) Ovre Romerike District Court (Norway) y Directie Juridische Zaken Afdeling Ceveil Recht (Netherlands) , Cologne Regional Court (Landgericht Köln Germany).	—	Lawsuits filed against European airlines by users of freight services in private lawsuits as a result of the investigation into alleged breaches of competition of cargo airlines, especially fuel surcharge. Lan Cargo S.A. and LATAM Airlines Group S.A., have been sued in court proceedings directly and/or in third party, based in England, Norway, the Netherlands and Germany.	Cases are in the uncovering evidence stage.	-0-
Aerolinhas Brasileiras S.A.	Federal Justice.	0008285-53.2015.403.6105	An action seeking to quash a decision and petitioning for early protection in order to obtain a revocation of the penalty imposed by the Brazilian Competition Authority (CADE) in the investigation of cargo airlines alleged fair trade violations, in particular the fuel surcharge.	This action was filed by presenting a guaranty – policy – in order to suspend the effects of the CADE's decision regarding the payment of the following fines: (i) ABSA: ThUS\$10,438; (ii) Norberto Jochmann: ThUS\$201; (iii) Hernan Merino: ThUS\$ 102; (iv) Felipe Meyer :ThUS\$ 102. The action also deals with the affirmative obligation required by the CADE consisting of the duty to publish the condemnation in a widely circulating newspaper. This obligation had also been stayed by the court of federal justice in this process. Awaiting CADE's statement.	10,438
Aerolinhas Brasileiras S.A.	Federal Justice.	0001872-58.2014.4.03.6105	An annulment action with a motion for preliminary injunction, was filed on 28/02/2014, in order to cancel tax debts of PIS, CONFINS, IPI and II, connected with the administrative process 10831.005704/2006.43.	We have been waiting since August 21, 2015 for a statement by Serasa on TAM's letter of indemnity and a statement by the Union. The statement was authenticated on January 29, 2016. A petition on evidence and replications were filed on June 20, 2016.	11,140

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Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
Tam Linhas Aéreas S.A.	Department of Federal Revenue of Brazil	19515.722556/2012-21	Alleged irregularities in the SAT payments for the periods 01/2009 to 13/2009.	A judgment by the Administrative Council of Tax Appeals (CARF) has been pending since February 27, 2015.	2,151
Tam Linhas Aéreas S.A.	Department of Federal Revenue of Brazil	19515.721155/2014-15	Alleged irregularities in the SAT payments for the periods 01/2010 to 13/2010.	A decision was rendered in favor of Tam Linhas Aéreas S.A. on August 22, 2016. The Attorney General has said it will not appeal.	25,515
Tam Linhas Aéreas S.A.	Department of Federal Revenue of Brazil	19515.720476/2015-83	Alleged irregularities in the SAT payments for the periods 01/2011 to 12/2012	A judgment by CARF is pending since April 12, 2016.	52,414
Tam Linhas Aéreas S.A.	Court of the Second Region.	2001.51.01.012530-0	Ordinary judicial action brought for the purpose of declaring the nonexistence of legal relationship obligating the company to collect the Air Fund.	Unfavorable court decision in first instance. Currently expecting the ruling on the appeal filed by the company.  In order to suspend chargeability of Tax Credit a Guaranty Deposit to the Court was delivered for MUS\$115.  The court decision requesting that the Expert make all clarifications requested by the parties in a period of 30 days was published on March 29, 2016. The plaintiffs' submitted a petition on June 21, 2016 requesting acceptance of the opinion of their consultant and an urgent ruling on the dispute. No amount additional to the deposit that has already been made is required if this case is lost.	115,265
Tam Linhas Aéreas S.A.	Administrative Council of Tax Appeals	19.515.002963/2009-12, 19515.722555/2012-86, 19515.721154/2014-71, 19515.720475/2015-39	Collection of contributions to the Aviation Fund for the periods from 01/2004 to 12/2004, from 12/2006 to 12/2008, from 01/2009 to 12/2010, and from 01/2011 to 10/2012.	A judgment is pending by CARF since February 5, 2016.	65,788

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Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
Tam Linhas Aéreas S.A.	Internal Revenue Service of Brazil.	16643.000087/2009-36	This is an administrative proceeding arising from an infraction notice issued on 15.12.2009, by which the authority aims to request social contribution on net income (CSL) on base periods 2004 to 2007, due to the deduction of expenses related to suspended taxes.	The appeal filed by the company was dismissed in 2010. In 2012 the voluntary appeal was also dismissed. Consequently, the special appeal filed by the company awaits judgment of admissibility, since 2012.	22,225
Tam Linhas Aéreas S.A.	Internal Revenue Service of Brazil.	10880.725950/2011-05	Compensation credits of the Social Integration Program (PIS) and Contribution for Social Security Financing (COFINS) Declared on DCOMPs.	The objection ( <i>manifestação de inconformidade</i> ) filed by the company was rejected, which is why the voluntary appeal was filed. The case was assigned to the 1st Ordinary Group of Brazil's Administrative Council of Tax Appeals (CARF) on June 8, 2015. TAM's appeal was included in the CARF session held August 25, 2016.	43,341
Aerovías de Integración Regional, AIRES S.A.	United States Court of Appeals for the Eleventh Circuit, Florida, U.S.A.	2013-20319 CA 01	<p>The July 30<sup>th</sup> , 2012 LAN COLOMBIA AIRLINES initiated a legal process in Colombia against Regional One INC and Volvo Aero Services LLC, to declare that these companies are civilly liable for moral and material damages caused to LAN COLOMBIA AIRLINES arising from breach of contractual obligations of the aircraft HK-4107.</p> <p>The June 20<sup>th</sup> , 2013 AIRES SA And / Or LAN AIRLINES COLOMBIA was notified of the lawsuit filed in U.S. for Regional One INC and Dash 224 LLC for damages caused by the aircraft HK-4107 arguing failure of LAN COLOMBIA AIRLINES customs duty to obtain import declaration when the aircraft in April 2010 entered Colombia for maintenance required by Regional One.</p>	<p>This case is being heard by the 45th Civil Court of the Bogota Circuit. In an interim decree issued August 16, 2016, the hearing under article 101 was set for February 2, 2017, this hearing was postponed at request of the parties and the Judge must resolve on a new date. When a reconciliation will be attempted, facts of the case will be set, the parties will conduct depositions and evidence will be decreed.</p> <p>The Federal Court of the State of Florida decided on March 26, 2016 to approve Lan Colombia Airlines's request to suspend the proceedings in the USA until the claim under way in Colombia is decided. The U.S. Court judge also closed the case administratively. The Federal Court of Appeal ratified the case closing in the U.S.A. on April 1, 2015. On October 1, 2015, Regional One petitioned that the U.S. court reopen the case. Lan Colombia Airlines presented its arguments and the Court sustained them on August 23, 2016, ratifying the closing of the case in the United States, so it continues to be closed.</p>	12,443

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Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
Tam Linhas Aéreas S.A.	Internal Revenue Service of Brazil	10880.722.355/2014-52	On August 19th , 2014 the Federal Tax Service issued a notice of violation stating that compensation credits Program (PIS) and the Contribution for the Financing of Social Security COFINS by TAM are not directly related to the activity of air transport.	An administrative objection was filed on September 17th, 2014. A first-instance ruling was rendered on June 1, 2016 that was partially favorable. The separate fine was revoked. A voluntary appeal was filed on June 30, 2016, which is pending a decision by CARF.	53,967
Tam Viagens S.A.	Department of Finance to the municipality of São Paulo.	67.168.795 / 67.168.833 / 67.168.884 / 67.168.906 / 67.168.914 / 67.168.965	A claim was filed alleging infraction and seeking a fine because of a deficient basis for calculation of the service tax (ISS) because the company supposedly made incorrect deductions.	We received notice of the petition on December 22, 2015. The objection was filed on January 19, 2016. The company was notified on November 23, 2016 of the decision that partially sustained the interim infringement ruling. An ordinary appeal was filed on December 19, 2016 before the Municipal Tax Council of Sao Paulo and a judgment is pending.	89,624
Tam Linhas Aéreas S.A.	Labor Court of São Paulo.	0001734- 78.2014.5.02.0045	Action filed by the Ministry of Labor, which requires compliance with legislation on breaks, extra hours and others.	Early stage. Eventually could affect the operations and control of working hours of employees. The company won in the first instance, but an appeal by the Union is expected.	16,211
TAM S.A.	Conselho Administrativo de Recursos Fiscais.	13855.720077/2014-02	Notice of an alleged infringement presented by Secretaria da Receita Federal do Brasil requiring the payment of IRPJ and CSLL, taxes related to the income earned by TAM on March, 2011, in relation of the reduction of the statute capital of Multiplus S.A.	On January 12, 2014, it was filed an appeal against the object of the notice of infringement. Currently, the company is waiting for the court judgment regarding the appeal filed in the Conselho Administrativo de Recursos Fiscais (CARF) The case will be put into the system again for re-assignment for hearing and reporting because of the departure of Eduardo de Andrade, a CARF council member.	104,423

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Company	Court	Case Number	Origin	Stage of trial	Amounts Committed (*) ThUS\$
Tam Linhas Aereas S.A.	1º Civil Court of Comarca of Bauru/ SP.	0049304- 37.2009.8.26.0071/1	That action is filed by the current complainants against the defendant, TAM Linhas Aéreas S / A, for receiving compensation for material and moral damages suffered as a result of an accident with one of its aircraft, which landed on adjacent lands to the Bauru airport, impacting the vehicle of Ms. Savi Gisele Marie de Seixas Pinto and William Savi de Seixas Pinto, causing their death. The first was the wife and mother of the complainants and the second, son and brother, respectively.	Currently under the enforcement phase of the sentence. ThUS\$4.770 in cash was deposited in guarantee. A procedural agreement was made for 23 million reais (ThUS\$7,057) on September 23, 2016.	7,057
Aerolinhas Brasileiras S.A.	Labor Court of Campinas.	0010498- 37.2014.5.15.0095	Lawsuit filed by the National Union of aeronauts, requiring weekly rest payment (DSR) scheduled stopovers, displacement and moral damage.	An agreement for ThUS\$2,732 was reached with the Union on August 2, 2016. Payment is now being made.	16.365
TAM Linhas Aéreas S.A.	Sao Paulo Labor Court, Sao Paulo	0000009- 45.2016.5.02.090	The Ministry of Labor filed an action seeking that the company adapt the ergonomics and comfort of seats.	The case will be closed next month because the Ministry of Labor withdrew its complaint.	15,917

- In order to deal with any financial obligations arising from legal proceedings in effect at December 31, 2016, whether civil, tax, or labor, LATAM Airlines Group S.A. and Subsidiaries, has made provisions, which are included in Other non-current provisions that are disclosed in Note 21.

- The Company has not disclosed the individual probability of success for each contingency in order to not negatively affect its outcome.

(\*) The Company has reported the amounts involved only for the lawsuits for which a reliable estimation can be made of the financial impacts and of the possibility of any recovery, pursuant to Paragraph 86 of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.



II. Governmental Investigations.

- 1) On July 25, 2016, LATAM reached agreements with the U.S. *Department of Justice* (“DOJ”) and the U.S. *Securities and Exchange Commission* (“SEC”) regarding the investigation of payments for US\$1,150,000 by Lan Airlines S.A. in 2006-2007 to a consultant advising it in the resolution of labor matters in Argentina.

The purpose of the investigation was to determine whether these payments violated the U.S. Foreign Corrupt Practices Act (“FCPA”) that: (i) forbids bribery of foreign government authorities in order to obtain a commercial advantage; and (ii) requires the companies that must abide by the FCPA to keep appropriate accounting records and implant an adequate internal control system. The FCPA is applicable to LATAM because of its ADR program in effect on the U.S. securities market.

After an exhaustive investigation, the DOJ and SEC concluded that there was no violation of the bribery provisions of the FCPA, which is consistent with the results of LATAM’s internal investigation. However, the DOJ and SEC consider that LAN accounted for these payments incorrectly and, consequently, infringed the part of the FCPA requiring companies to keep accurate accounting records. These authorities also consider that LAN’s internal controls in 2006-2007 were weak, so LAN would have also violated the provisions in the FCPA requiring it to maintain an adequate internal control system.

The agreements signed, included the following:

(a) The agreement with the DOJ involves: (i) entering into a Deferred Prosecution Agreement (“DPA”), which is a public contract under which the DOJ files public charges alleging an infringement of the FCPA accounting regulations. LATAM is not obligated to answer these charges, the DOJ will not pursue them for a period of 3 years, and the DOJ will dismiss the charges after expiration of that 3-year period provided LATAM complies with all terms of the DPA. In exchange, LATAM admitted events described in the DOJ charges for infringement to the FCPA rules on accounting records and agreed to pay the negotiated fine explained below and abide by other terms stipulated in the agreement; (ii) clauses in which LATAM admits that the payments to the consultant in Argentina were incorrectly accounted for and that at the time those payments were made (2006-2007), it did not have adequate internal controls in place; (iii) LATAM’s agreement to have an outside consultant monitor, evaluate and report to the DOJ on the effectiveness of LATAM’s compliance program for a period of 27 months; and LATAM’s agreement to continue evaluating and reporting directly to the DOJ on the effectiveness of its compliance program for a period of 9 months after the consultant’s work concludes; and (iv) paying a fine estimated to total approximately ThUS\$ 12,750.

(b) The agreement with the SEC involves: (i) accepting a Cease and Desist Order, which is an administrative resolution of the SEC closing the investigation, in which LATAM will accept certain obligations and statements of fact that are described in the document; (ii) accepting the same obligations regarding the consultant mentioned above; and (iii) paying the sum of ThUS\$ 6,744, plus interest of ThUS\$ 2,694.

As at December 31, 2016, a balance of ThUS\$ 4,719 was payable to the SEC, as reported in Note 20—Trade payables and other payables.

- 2) LATAM Airlines Ecuador was given notice on August 26, 2016 of an investigation of LATAM Airlines Ecuador and two other airlines begun, at its own initiative, by one of the Investigative Departments of the Ecuadoran Market Power Control Commission, limited to alleged signs of conscious parallelism in relation to specific fares on one domestic route in Ecuador from August 2012 to February 2013. The Investigative Department had 180 days (due February 21, 2017) extendable for another 180 days, to resolve on whether to close the investigation or file charges against two or more of the parties involved, only event in which a process will be opened. On February 21, 2017, the period of 180 days was extended for another 180 days requesting additional information. LATAM Airlines Ecuador is cooperating with the authority and has hired a law firm and an economist expert in the subject to advise the company during this process.
- 3) LATAM received two Information Requests from the Central-North Metropolitan Region Prosecutor's Office, one on October 25, 2016 and the other on November 11, 2016, requesting information relating to the investigation of payments made by Lan Airlines S.A. to a consultant advising it on the solution to labor matters in Argentina in the years 2006-2007. The information requested in both Requests has been provided.

#### NOTE 32 - COMMITMENTS

##### (a) Loan covenants

With respect to various loans signed by the Company for the financing of Boeing 767, 767F, 777F and 787 aircraft, which carry the guarantee of the United States Export-Import Bank, limits have been set on some of the Company's financial indicators on a consolidated basis. Moreover, and related to these same contracts, restrictions are also in place on the Company's management in terms of its ownership and disposal of assets.

The Company and its subsidiaries do not maintain financial credit contracts with banks in Chile that indicate some limits on financial indicators of the Company or its subsidiaries.

On March 30, 2016, LATAM structured a Revolving Credit Facility granted by with aircraft, engines, spare parts and supplies for a total amount available of US\$ 325 million, this line includes restrictions minimum liquidity level as the consolidated company and individual level as for companies LATAM Airlines Group S.A. and TAM Linhas Aereas S.A.

At December 31, 2016, the Company is in compliance with all indicators detailed above.

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(b) Commitments under operating leases as lessee

Details of the main operating leases are as follows:

Lessor	Aircraft	As of December 31, 2016	As of December 31, 2015
Aircraft 76B-26329 Inc.	Boeing 767	1	1
Aircraft 76B-27615 Inc.	Boeing 767	1	1
Aircraft 76B-28206 Inc.	Boeing 767	1	1
Aviación Centaurus, A.I.E.	Airbus A319	3	3
Aviación Centaurus, A.I.E.	Airbus A321	1	1
Aviación Real A.I.E.	Airbus A319	1	1
Aviación Real A.I.E.	Airbus A320	1	1
Aviación Tritón A.I.E.	Airbus A319	3	3
Avolon Aerospace AOE 19 Limited	Airbus A320	1	1
Avolon Aerospace AOE 20 Limited	Airbus A320	1	1
Avolon Aerospace AOE 6 Limited	Airbus A320	1	1
Avolon Aerospace AOE 62 Limited	Boeing 777	1	1
AWAS 5125 Trust	Airbus A320	—	1
AWAS 5178 Limited	Airbus A320	—	1
AWAS 5234 Trust	Airbus A320	1	1
Baker & Spice Aviation Limited	Airbus A320	1	1
Bank of America	Airbus A321	2	3
CIT Aerospace International	Airbus A320	2	2
ECAF I 1215 DAC	Airbus A320	1	1
ECAF I 2838 DAC	Airbus A320	1	1
ECAF I 40589 DAC	Boeing 777	1	1
Eden Irish Aircr Leasing MSN 1459	Airbus A320	1	1
GECAS Sverige Aircraft Leasing Worldwide AB	Airbus A320	1	3
GFL Aircraft Leasing Netherlands B.V.	Airbus A320	1	1
IC Airlease One Limited	Airbus A321	1	—
International Lease Finance Corporation	Boeing 767	—	1
JSA Aircraft 38484, LLC	Boeing 787	1	1
JSA Aircraft 7126, LLC	Airbus A320	1	—
JSA Aircraft 7128, LLC	Airbus A321	1	—
JSA Aircraft 7239, LLC	Airbus A321	1	—
JSA Aircraft 7298, LLC	Airbus A321	1	—
Macquarie Aerospace Finance 5125-2 Trust	Airbus A320	1	—
Macquarie Aerospace Finance 5178 Limited	Airbus A320	1	—
Magix Airlease Limited	Airbus A320	1	2
MASL Sweden (1) AB	Airbus A320	—	1
MASL Sweden (2) AB	Airbus A320	—	1

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Lessor	Aircraft	As of December 31, 2016	As of December 31, 2015
MASL Sweden (7) AB	Airbus A320	—	1
MASL Sweden (8) AB	Airbus A320	1	1
Merlin Aviation Leasing (Ireland) 18 Limited	Airbus A320	1	—
NBB Cuckoo Co., Ltd	Airbus A321	1	1
NBB Grosbeak Co., Ltd	Airbus A321	1	1
NBB Redstart Co. Ltd	Airbus A321	1	—
NBB-6658 Lease Partnership	Airbus A321	1	1
NBB-6670 Lease Partnership	Airbus A321	1	1
Orix Aviation Systems Limited	Airbus A320	5	2
PAAL Aquila Company Limited	Airbus A321	2	—
PAAL Gemini Company Limited	Airbus A321	1	—
SASOF II (J) Aviation Ireland Limited	Airbus A319	1	1
Shenton Aircraft Leasing Limited	Airbus A320	1	1
SKY HIGH V LEASING COMPANY LIMITED	Airbus A320	—	1
Sky High XXIV Leasing Company Limited	Airbus A320	5	5
Sky High XXV Leasing Company Limited	Airbus A320	2	2
SMBC Aviation Capital Limited	Airbus A320	6	7
SMBC Aviation Capital Limited	Airbus A321	2	2
Sunflower Aircraft Leasing Limited	Airbus A320	—	2
TC-CIT Aviation Ireland Limited	Airbus A320	1	1
Volito Aviation August 2007 AB	Airbus A320	2	2
Volito Aviation November 2006 AB	Airbus A320	2	2
Volito November 2006 AB	Airbus A320	2	2
Wells Fargo Bank North National Association	Airbus A319	3	3
Wells Fargo Bank North National Association	Airbus A320	2	2
Wells Fargo Bank Northwest National Association	Airbus A320	7	7
Wells Fargo Bank Northwest National Association	Airbus A330	—	2
Wells Fargo Bank Northwest National Association	Boeing 767	3	3
Wells Fargo Bank Northwest National Association	Boeing 777	6	6
Wells Fargo Bank Northwest National Association	Boeing 787	11	7
Wells Fargo Bank Northwest National Association	Airbus A350	2	—
Wilmington Trust Company	Airbus A319	1	1
<b>Total</b>		<b>111</b>	<b>106</b>

The rentals are shown in results for the period for which they are incurred.

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

	As of December 31, 2016 ThUS\$	As of December 31, 2015 ThUS\$
No later than one year	533,319	513,748
Between one and five years	1,459,362	1,281,454
Over five years	1,262,509	858,095
Total	<u>3,255,190</u>	<u>2,653,297</u>

The minimum lease payments charged to income are the following:

	2016 ThUS\$	For the period ended December 31, 2015 ThUS\$	2014 ThUS\$
Minimum operating lease payments	568,979	525,134	521,384
Total	<u>568,979</u>	<u>525,134</u>	<u>521,384</u>

In the first quarter of 2015, two Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand, two Airbus A320-200 aircraft were returned. In the second quarter of 2015, two Airbus A321-200 aircraft and one Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand, one Airbus A320-200 aircraft and two Airbus A330-200 aircraft were returned. In the third quarter of 2015, five Airbus A321-200 aircraft and one Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand, one Airbus A330-200 aircraft was returned. In the fourth quarter of 2015, one Airbus A330-200 aircraft was returned.

In the first quarter of 2016, two Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand and one Airbus A320-200 aircraft was returned. In the second quarter of 2016, three Airbus A321-200 aircraft were leased for a period of ten years each and two Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand, one Airbus A320-200 aircraft and one Boeing 767-300ER aircraft were returned. In the third quarter of 2016, three Airbus A321-200 aircraft and one Airbus A320- NEO aircraft were leased for a period of ten years each, and one Airbus A350-900 aircraft was leased for a period of twelve years. On the other hand and one Airbus A320-200 aircraft was returned. In the fourth quarter of 2016, one Airbus A350-900 aircraft was leased for a period of twelve years and one Airbus A321-200 aircraft was leased for a period of ten years. On the other hand, three Airbus A320-200 aircraft and two Airbus A330-200 aircraft were returned.

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.

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At December 31, 2016 the Company has existing letters of credit related to operating leasing as follows:

Creditor Guarantee	Debtor	Type	Value ThUS\$	Release date
GE Capital Aviation Services Limited	Lan Cargo S.A.	Two letter of credit	7,530	Sep 17, 2017
Wells Fargo Bank North N.A.	Lan Cargo S.A.	One letter of credit	5,000	May 25, 2017
Bank of America	LAT AM Airlines Group S.A.	Three letter of credit	1,044	Jul 2, 2017
Engine Lease Finance Corporation	LAT AM Airlines Group S.A.	One letter of credit	4,750	Oct 8, 2017
GE Capital Aviation Services Ltd.	LAT AM Airlines Group S.A.	Eight letter of credit	34,665	Feb 7, 2017
International Lease Finance Corp	LAT AM Airlines Group S.A.	Three letter of credit	1,450	Feb 4, 2017
ORIX Aviation Systems Limited	LAT AM Airlines Group S.A.	One letter of credit	3,255	Aug 31, 2017
SMBC Aviation Capital Ltd.	LAT AM Airlines Group S.A.	Two letter of credit	13,569	Aug 14, 2017
Wells Fargo Bank	LAT AM Airlines Group S.A.	Nine letter of credit	15,160	Feb 8, 2017
CIT Aerospace International	Tam Linhas Aéreas S.A.	One letter of credit	6,000	Oct 25, 2017
RBS Aerospace Limited	Tam Linhas Aéreas S.A.	One letter of credit	13,096	Jan 29, 2017
Wells Fargo Bank North N.A.	Tam Linhas Aéreas S.A.	One letter of credit	5,500	Jul 14, 2017
			<u>111,019</u>	

### (c) Other commitments

At December 31, 2016 the Company has existing letters of credit, certificates of deposits and warranty insurance policies as follows:

Creditor Guarantee	Debtor	Type	Value ThUS\$	Release date
Servicio Nacional de Aduana del Ecuador	Líneas Aéreas Nacionales del Ecuador S.A.	Four letter of credit	1,705	Aug 5, 2017
Corporación Peruana de Aeropuertos y Aviación Comercial	Lan Perú S.A.	Six letter of credit	3,813	Jan 31, 2017
Lima Airport Partners S.R.L.	Lan Perú S.A.	Twenty two letter of credit	3,805	Mar 3, 2017
Superintendencia Nacional de Aduanas y de Administración Tributaria	Lan Perú S.A.	Four letter of credit	33,500	Mar 20, 2017
Ae na Aeropuertos S.A.	LATAM Airlines Group S.A.	Four letter of credit	2,014	Nov 15, 2017
American Alternative Insurance Corporation	LATAM Airlines Group S.A.	Six letter of credit	3,490	Apr 5, 2017
Deutsche Bank A.G.	LATAM Airlines Group S.A.	One letter of credit	30,000	Mar 31, 2017
Dirección General de Aeronáutica Civil	LATAM Airlines Group S.A.	Fifty two letter of credit	18,477	Jan 31, 2017
Empresa Pública de Hidrocarburos del Ecuador	LATAM Airlines Group S.A.	One letter of credit	5,500	Jun 17, 2017
JP Morgan Chase	LATAM Airlines Group S.A.	One letter of credit	10,000	Jun 17, 2017
Metropolitan Da de County	LATAM Airlines Group S.A.	Ten letter of credit	2,553	Mar 13, 2017
The Royal Bank of Scotland plc	LATAM Airlines Group S.A.	One letter of credit	5,000	May 20, 2017
4ª Va ra Mista de Bayeux	Tam Linhas Aéreas S.A.	One insurance policies guarantee	1,060	Mar 25, 2021
6ª Va ra Federal da Subseção	Tam Linhas Aéreas S.A.	Two insurance policies guarantee	24,969	Jan 4, 2018
8ª Va ra Federal da Subseção de Campinas SP	Tam Linhas Aéreas S.A.	One insurance policies guarantee	12,894	May 19, 2020
Conselho Administrativo de Conselhos Federais	Tam Linhas Aéreas S.A.	One insurance policies guarantee	6,704	Oct 20, 2021
Fundação de Proteção de Defesa do Consumidor Procon	Tam Linhas Aéreas S.A.	Two insurance policies guarantee	3,276	Jan 21, 2021
União Federal Va ra Comarca de DF	Tam Linhas Aéreas S.A.	Two insurance policies guarantee	2,696	Nov 9, 2020
União Federal Va ra Comarca de SP	Tam Linhas Aéreas S.A.	One insurance policies guarantee	19,557	Feb 22, 2021
			<u>191,013</u>	

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# NOTE 33—TRANSACTIONS WITH RELATED PARTIES

(a) Details of transactions with related parties as follows:

Tax No.	Related party	Nature of relationship with related parties	Country of origin	Nature of related parties transactions	Currency	Transaction amount with related parties As of December 31,		
						2016 ThUS\$	2015 ThUS\$	2014 ThUS\$
96.810.370-9	Inversiones Costa Verde Ltda. yCPA.	Related director	Chile	Tickets sales	CLP	6	15	31
96.847.880-K	Technical Training Latam S.A.	Associate (*)	Chile	Leases as lessor	CLP	—	—	209
				Training services received	CLP	—	—	(785)
				Training services received	US \$	—	—	(743)
65.216.000-K	Comunidad Mujer	Related director	Chile	Services provided for advertising	CLP	(12)	(10)	(11)
78.591.370-1	Bethia S.A and subsidiaries	Related director	Chile	Tickets sales	CLP	9	2	9
				Services received of cargo transport	CLP	(394)	(259)	(646)
				Services received from National and International Courier	CLP	(285)	(227)	(496)
				Services provided of cargo transport	CLP	192	30	—
				Other services received	CLP	—	—	(10)
65.216.000-K	Viajes Falabella Ltda.	Related director	Chile	Sales commissions	CLP	(727)	(50)	—
79.773.440-3	Transportes San Felipe S.A	Related director	Chile	Services received of transfer of passengers	CLP	(84)	(127)	(70)
				Tickets sales	CLP	3	7	26
87.752.000-5	Granja Marina Tornagaleones S.A.	Common shareholder	Chile	Tickets sales	CLP	76	117	155
Foreign	Consultoria Administrativa Profesional S.A. de C.V.	Associate	Mexico	Professional counseling services received	MXN	(2,563)	(1,191)	—
Foreign	Inversora Aeronáutica Argentina	Related director	Argentina	Leases as lessor	ARS	(264)	(269)	(334)
Foreign	TAM Aviação Executiva e Taxi Aéreo S/A	Related director	Brazil	Revenue billboard advertising maintaining	US \$	—	1	12
				Services provided by sale of tickets	BRL	2	2	—
				Services provided of cargo transport	BRL	(122)	(63)	(12)
Foreign	Prismah Fidelidade S.A.	Joint Venture	Brazil	Services received at airports	BRL	7	5	—
				Professional counseling servies received	BRL	—	—	(119)
Foreign	Made In Everywhere	Related director	Brazil	Services received of transport	BRL	—	—	(2)
Foreign	Repr. Com. Distr. Ltda.							

(\*) Subsidiary from October, 2014

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The balances of Accounts receivable and accounts payable to related parties are disclosed in Note 9.

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

### (b) Compensation of key management

The Company has defined for these purposes that key management personnel are the executives who define the Company's policies and major guidelines and who directly affect the results of the business, considering the levels of Vice-Presidents, Chief Executives and Directors (Senior).

	2016	For the period ended December 31, 2015	2014
	ThUS\$	ThUS\$	ThUS\$
Remuneration	16,514	17,185	19,507
Management fees	556	547	1,213
Non-monetary benefits	778	864	990
Short-term benefits	23,459	19,814	—
Share-based payments	8,085	10,811	16,086
Total	<u>49,392</u>	<u>49,221</u>	<u>37,796</u>

### NOTE 34—SHARE-BASED PAYMENTS

#### (a) Compensation plan for increase of capital

Compensation plans implemented by providing options for the subscription and payment of shares that have been granted by LATAM Airlines Group S.A. to employees of the Company and its subsidiaries, are recognized in the financial statements in accordance with the provisions of IFRS 2 “Share-based Payment”, showing the effect of the fair value of the options granted under compensation in linear between the date of grant of such options and the date on which these irrevocable.

##### (a.1) Compensation plan 2011

On December 21, 2016, the subscription and payment period of the 4,800,000 shares corresponding to the compensation plan approved at the Extraordinary Shareholders' Meeting held on December 21, 2011, expired.



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Of the total shares allocated to the 2011 Compensation Plan, only 10,282 shares were subscribed and paid, having been placed on the market in January 2014. In view of the above, at the expiration date, the 2011 Compensation Plan had a balance of 4,789,718 shares pending of subscription and payment, which was deducted from the authorized capital of the Company.

	Number of share options
Share options in agreements of share-based payments, as of January 1, 2015	4,202,000
Share options granted	406,000
Share options cancelled	(90,000)
Share options in agreements of share-based payments, as of December 31, 2015	4,518,000
Share options in agreements of share-based payments, as of January 1, 2016	4,518,000
Executives resign options (*)	(4,172,000)
Share options expired	(346,000)
Share options in agreements of share- based payments, as of December 31, 2016	—

These options was valued and recorded at fair value at the grant date, determined by the “Black-Scholes-Merton”. The effect on income to December 2016 corresponds to ThUS\$ 2,989 (ThUS\$ 10,811 at December 31, 2015).

### (a.2) Compensation plan 2013

At the Extraordinary Shareholders’ Meeting held on June 11, 2013, the Company’s shareholders approved motions including increasing corporate equity, of which 1,500,000 shares were allocated to compensation plans for employees of the Company and its subsidiaries, in conformity with the stipulations established in Article 24 of the Corporations Law. With regard to this compensation, a defined date for implementation does not exist.

### (b) Compensation plan 2016-2018

The Company implemented a retention plan long-term for executives, which lasts until December 2018, with a vesting period between October 2018 and March 2019, which consists of an extraordinary bonus whose calculation formula is based on the variation the value to experience the action of LATAM Airlines Group S.A. for a period of time.

This benefit is recognized in accordance with the provisions of IFRS 2 “Share-based Payments” and has been considered as cash settled award and therefore recorded at fair value as a liability, which is updated to the closing date of each financial statement with effect on profit or loss.

	Unit bases granted
Units bases, balance at December 31, 2016	4,719,720

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The fair value has been determined on the basis of the best estimate of the future value of the Company share multiplied by the number of units granted bases.

At December 31, 2016, the carrying amount of ThUS\$ 4,442, is classified under “Administrative expenses” in the Consolidated Statement of Income by Function.

### (c) Subsidiaries compensation plans

#### (c.1) Stock Options

TAM Linhas Aereas S.A. and Multiplus S.A., both subsidiaries of TAM S.A., have outstanding stock options at December 31, 2016, which amounted to 96,675 shares and 394,698 shares, respectively (at December 31, 2015, the distribution of outstanding stock options amounted to 394,698 for Multiplus S.A. and 96,675 shares TAM Linhas Aéreas S.A.).

##### T AM Linhas Aéreas S.A.

Description	4th Grant 05-28-2010	T total
Outstanding option number as December 31, 2015	96,675	96,675
Outstanding option number as December 31, 2016	96,675	96,675

##### Multiplus S.A.

Description	3rd Grant 03-21-2012	4th Grant 04-03-2013	4nd Extraordinary Grant 11-20-2013	Total
Outstanding option number as December 31, 2015	102,621	255,995	159,891	518,507
Outstanding option number as December 31, 2016	84,249	173,399	137,050	394,698

The Options of TAM Linhas Aéreas S.A., under the plan’s terms, are divided into three equal parts and employees can run a third of its options after three, four and five years respectively, as long as they remain employees of the company. The agreed term of the options is seven years.

For Multiplus S.A., the plan’s terms provide that the options granted to the usual prizes are divided into three equal parts and employees may exercise one-third of their two, three and four, options respectively, as long as they keep being employees of the company. The agreed term of the options is seven years after the grant of the option. The first extraordinary granting was divided into two equal parts, and only half of the options may be exercised after three years and half after four years. The second extraordinary granting was also divided into two equal parts, which may be exercised after one and two years respectively.

Both companies have an option that contains a “service condition” in which the exercise of options depends exclusively on the delivery services by employees during a predetermined period. Terminated employees will be required to meet certain preconditions in order to maintain their right to the options.

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The acquisition of the share's rights, in both companies is as follows:

Company	Number of shares Accrued options		Number of shares Non accrued options	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
TAM Linhas Aéreas S.A.	—	—	96,675	96,675
Multiplus S.A.	—	—	394,698	518,507

In accordance with IFRS 2 - Share-based payments, the fair value of the option must be recalculated and recorded as a liability of the Company once payment is made in cash (cash-settled). The fair value of these options was calculated using the "Black-Scholes-Merton" method, where the cases were updated with information LATAM Airlines Group S.A. There is no value recorded in liabilities and in income at December 31, 2016 (at December 31, 2015 not exist value recorded in liabilities and in incomes).

### (c.2) Payments based on restricted stock

In May of 2014 the Management Council of Multiplus S.A. approved a plan to grant restricted stock, a total of 91,103 ordinary, registered book entry securities with no face value, issued by the Company to beneficiaries.

The quantity of restricted stock units was calculated based on employees' expected remunerations divided by the average price of shares in Multiplus S.A. traded on the BM&F Bovespa exchange in the month prior to issue, April of 2014. This benefits plan will only grant beneficiaries the right to the restricted stock when the following conditions have been met:

- Compliance with the performance goal defined by this Council of Administration as return on Capital Invested.
- The Beneficiary must remain as an administrator or employee of the Company for the period running from the date of issue to the following dates described, in order to obtain rights over the following fractions: (i) 1/3 (one third) after the 2nd year from the issue date; (ii) 1/3 (one third) after the 3rd year from the issue date; (iii) 1/3 (one third) after the 4th year from the issue date.

Number shares in circulation

	Opening balance	Granted	Exercised	Not acquired due to breach of employment retention conditions	Closing balance
From January 1 to December 31, 2015	91,103	119,731	—	(34,924)	175,910
From January 1 to December 31, 2016	175,910	138,282	(15,811)	(60,525)	237,856

# NOTE 35—STATEMENT OF CASH FLOWS

(a) The Company has done significant non-cash transactions mainly with financial leases, which are detailed in Note 17 letter (d), additional information in numeral (iv) Financial leases.

(b) Other inflows (outflows) of cash:

	For the periods ended December 31,		
	2016 ThUS\$	2015 ThUS\$	2014 ThUS\$
Hedging margin guarantees	1,184	87,842	(64,334)
Change reservation systems	—	11,000	—
Bank commissions, taxes paid and other	(769)	(5,137)	(47,724)
SEC agreement	(4,719)	—	—
Fuel derivatives premiums	(6,840)	(20,932)	(7,075)
Tax paid on bank transaction	(10,668)	(7,176)	—
DOJ fine	(12,750)	—	—
Court deposits	(33,635)	(6,314)	—
Currency hedge	(39,534)	1,802	(1,153)
Fuel hedge	(50,029)	(243,587)	(45,365)
Guarantees	(51,559)	(2,125)	(86,006)
Others	50	—	—
Total Other inflows (outflows) Operation flow	<u>(209,269)</u>	<u>(184,627)</u>	<u>(251,657)</u>
Recovery loans convertible into shares	8,896	20,000	—
Certificate of bank deposits	—	3,497	(17,399)
Tax paid on bank transaction	(3,716)	(12,921)	—
Others	(4,337)	—	—
Total Other inflows (outflows) Investment flow	<u>843</u>	<u>10,576</u>	<u>(17,399)</u>
Credit card loan manager	—	3,227	23,864
Early redemption of bonds TAM 2020	—	(15,328)	—
Guarantees bonds emission	—	(26,111)	—
Settlement of derivative contracts	(29,828)	(35,891)	(42,962)
Loan guarantee	(74,186)	—	—
Aircraft Financing advances	(125,149)	(28,144)	8,669
Others	—	2,490	(3,348)
Total Other inflows (outflows) Financing flow	<u>(229,163)</u>	<u>(99,757)</u>	<u>(13,777)</u>

(c) Dividends:

	For the periods ended December 31,		
	2016 ThUS\$	2015 ThUS\$	2014 ThUS\$
Multiplus S.A	(40,823)	(34,632)	(34,962)
Lan Perú S.A	(400)	(400)	(400)
Total dividends paid (*)	<u>(41,223)</u>	<u>(35,032)</u>	<u>(35,362)</u>

(\*) Dividends paid to minority shareholders

## NOTE 36 - THE ENVIRONMENT

LATAM Airlines Group S.A. manages environmental issues at the corporate level, centralized in Environmental Management. There is a commitment to the highest level to monitor the company and minimize their impact on the environment, where continuous improvement and contribute to the solution of global climate change problems, generating added value to the company and the region, are the pillars of his administration.

One function of Environmental Management, in conjunction with the various areas of the Company, is to ensure environmental compliance, implementing a management system and environmental programs that meet the increasingly demanding requirements globally; well as continuous improvement programs in their internal processes that generate environmental and economic benefits and to join the currently completed.

The Environment Strategy LATAM Airlines Group S.A. is called Climate Change Strategy and it is based on the aim of being a world leader in Climate Change and Eco-efficiency, which is implemented under the following pillars:

- i. Carbon Footprint
- ii. Eco-Efficiency
- iii. Sustainable Alternative Energy
- iv. Standards and Certifications

For 2016, were established the following topics:

1. Advance in the implementation of an Environmental Management System;
2. Manage the Carbon Footprint of our emissions by ground operations;
3. Corporate Risk Management;
4. Corporate strategy to meet the global target of aviation to have a carbon neutral growth by 2020.

Thus, during 2016, we have worked in the following initiatives:

- Advance in the implementation of an Environmental Management System for main operations of the Company, with an emphasis on Santiago. It is highlighted that the company during 2016 has recertified a certified management system, under ISO 14.001 at its facility in Miami.
- Certification of stage 2 of IATA Environmental Assessment (IEnvA), the most advanced of this certification, been the third airline in the world to achieve this certification.
- Preparation of the environmental chapter for reporting sustainability of the Company, to measure progress on environmental issues.
- Answer to the Dow Jones Sustainability Index 2016 questionnaire, which the company responds annually.
- Measurement and external verification of the Corporate Carbon Footprint.

It is highlighted that in the 2016 LATAM Airlines Group maintained its selection in the index Dow Jones Sustainability in the global category, being the only two airlines that belong to this select group.

NOTE 37 - EVENTS SUBSEQUENT TO THE DATE OF THE FINANCIAL STATEMENTS

On January 18, 2017, the Company was notified of a civil suit filed by Inversiones Ranco Tres S.A., represented by Mr. Jorge Enrique Said Yarur against LATAM Airlines Group S.A., for supposed non-compliance of contractual obligations from the social contract of the Company, as well as the directors Ramón Eblen Kadiz, Jorge Awad Mehech, Juan Jose Cueto Plaza and main executives of the Company, Enrique Cueto Plaza and Ignacio Cueto Plaza, for the supposed noncompliance of their duties as directors and main executives of the Company. LATAM has hired specialist lawyers to answer the lawsuit. On March 10, 2017, the Court rejected the dilatory exceptions presented by LATAM.

On March 8th, 2017, LATAM received a third Requirement of Information from the Central-North Metropolitan Region Prosecutor's Office requesting information relating to the investigation of payments made by Lan Airlines S.A. to a consultant advising it on the solution to labor matters in Argentina in the years 2006-2007.

Subsequent at December 31, 2016 until the date of issuance of these financial statements, there is no knowledge of financial facts or otherwise, that could significantly affect the balances or interpretation thereof.

LATAM Airlines Group S.A. and Subsidiaries' consolidated financial statements as at December 31, 2016, have been approved by the Board of Director's in an extraordinary meeting held on March 15, 2017.

NOTE 38 - CONSOLIDATION SCHEDULE

In accordance with SEC rule SX 3-10 the Company is presenting consolidation schedules as Senior Notes issued by TAM Capital (issuer), a 100% subsidiary of TAM S.A., in 2007 are fully and unconditionally guaranteed by TAM S.A (guarantor) and by TAM Linhas Aéreas (guarantor) which is also a 100% subsidiary of TAM S.A.. The consolidation schedules separately present the financial information for LATAM Airlines Group S.A. (parent company), TAM S.A. (guarantor), TAM Linhas Aéreas S.A. (guarantor) and other consolidated subsidiaries of LATAM Airlines Group S.A. (non-guarantors).

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	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$
<b>Assets</b>							
Current assets							
Cash and cash equivalents	585,754	11,170	2	104,676	247,725	—	949,327
Other financial assets	9,770	17,626	—	227,141	751,960	(293,669)	712,828
Other non-financial assets	67,456	65	—	83,701	60,051	969	212,242
Trade and other accounts receivable	385,969	4,612	—	420,788	301,283	(4,763)	1,107,889
Accounts receivable from related entities	531,372	1,284	—	183,751	607,980	(1,323,833)	554
Inventories	115,963	—	—	121,062	4,339	(1)	241,363
Tax assets	15,581	5,918	—	4,776	39,103	(1)	65,377
Total current assets other than non-current assets (or disposal groups) classified as held for sale	1,711,865	40,675	2	1,145,895	2,012,441	(1,621,298)	3,289,580
Non-current assets and disposal groups held for sale	261,798	—	—	33,140	31,673	10,584	337,195
Total current assets	1,973,663	40,675	2	1,179,035	2,044,114	(1,610,714)	3,626,775
Non-current assets							
Other financial assets	81,785	476,175	—	332,647	2,001	(790,483)	102,125
Other non-financial assets	120,467	53	—	198,059	24,903	(106,138)	237,344
Accounts receivable	5,111	—	—	4	3,139	—	8,254
Accounts receivable from related parties	507,234	—	408,628	64,311	859,387	(1,839,560)	—
Equity accounted investments	1,112,426	14,143	—	—	375,774	(1,502,343)	—
Intangible assets other than goodwill	143,009	38,332	—	1,063,917	365,054	1	1,610,313
Goodwill	2,621,493	—	—	—	86,013	2,876	2,710,382
Property, plant and equipment	8,807,343	19	—	795,031	615,260	280,496	10,498,149
Current tax assets, long term portion	—	—	—	—	20,272	—	20,272
Deferred tax assets	—	17,731	—	331,119	90,149	(54,419)	384,580
Total non-current assets	13,398,868	546,453	408,628	2,785,088	2,441,952	(4,009,570)	15,571,419
Total assets	15,372,531	587,128	408,630	3,964,123	4,486,066	(5,620,284)	19,198,194

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	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$
<b>Liabilities and shareholder's equity</b>							
<b>Current liabilities</b>							
Other financial liabilities	1,212,181	—	303,831	285,600	37,815	101	1,839,528
Trade and other accounts payable	391,925	147	—	697,865	518,960	(15,829)	1,593,068
Accounts payable to related parties	247,258	44	—	424,444	631,183	(1,302,660)	269
Other provisions	31	—	—	—	2,612	—	2,643
Tax liabilities	8,343	—	—	—	5,943	—	14,286
Other non-financial liabilities	1,502,973	423	—	690,345	568,567	(63)	2,762,245
<b>Total current liabilities</b>							
other than non-current liabilities (or disposal groups) classified as held for sale	3,362,711	614	303,831	2,098,254	1,765,080	(1,318,451)	6,212,039
<b>Non-current liabilities and disposal groups held for sale</b>							
	—	—	—	—	24,792	(14,640)	10,152
<b>Total current liabilities</b>	<b>3,362,711</b>	<b>614</b>	<b>303,831</b>	<b>2,098,254</b>	<b>1,789,872</b>	<b>(1,333,091)</b>	<b>6,222,191</b>
<b>Non-current liabilities</b>							
Other financial liabilities	5,706,157	—	—	394,790	701,838	(5,833)	6,796,952
Accounts payable	171,467	—	—	183,904	4,019	1	359,391
Accounts payable to related parties	769,260	30,142	107,957	308,984	638,321	(1,854,664)	—
Provision for losses on investments	547,335	—	—	—	9,914	(557,249)	—
Other provisions	17,298	—	—	479,219	30,915	(104,938)	422,494
Deferred tax liabilities	475,850	—	—	246,443	171,449	22,017	915,759
Employee benefits	48,794	—	—	1,046	32,483	(1)	82,322
Other non-financial liabilities	177,000	—	—	36,781	—	—	213,781
<b>Total non-current liabilities</b>	<b>7,913,161</b>	<b>30,142</b>	<b>107,957</b>	<b>1,651,167</b>	<b>1,588,939</b>	<b>(2,500,667)</b>	<b>8,790,699</b>
<b>Total liabilities</b>	<b>11,275,872</b>	<b>30,756</b>	<b>411,788</b>	<b>3,749,421</b>	<b>3,378,811</b>	<b>(3,833,758)</b>	<b>15,012,890</b>
<b>Equity</b>							
Share capital	3,149,564	1,545,189	133,139	1,839,233	1,179,356	(4,696,917)	3,149,564
Retained earnings	366,404	(1,354,337)	(136,297)	(1,434,402)	(388,780)	3,313,816	366,404
Share premium	—	22,996	—	—	501,197	(524,193)	—
Treasury shares	(178)	—	—	—	—	—	(178)
Other reserves	580,870	342,524	—	(190,131)	(184,518)	32,125	580,870
Parent's ownership interest	4,096,660	556,372	(3,158)	214,700	1,107,255	(1,875,169)	4,096,660
Non-controlling interest	—	—	—	—	—	88,644	88,644
<b>Total non-current liabilities</b>	<b>4,096,660</b>	<b>556,372</b>	<b>(3,158)</b>	<b>214,700</b>	<b>1,107,255</b>	<b>(1,786,525)</b>	<b>4,185,304</b>
<b>Total liabilities</b>	<b>15,372,532</b>	<b>587,128</b>	<b>408,630</b>	<b>3,964,121</b>	<b>4,486,066</b>	<b>(5,620,283)</b>	<b>19,198,194</b>



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	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$
<b>Assets</b>							
Current assets							
Cash and cash equivalents	301.109	859	67	142.439	309.023	—	753.497
Other financial assets	108.263	416	—	105.439	581.773	(144.543)	651.348
Other non-financial assets	123.332	718	—	150.204	55.501	261	330.016
Trade and other accounts receivable	367.322	3.897	—	151.458	274.301	(4)	796.974
Accounts receivable from related entities	451.061	1.072	82.218	533.629	1.049.892	(2.117.689)	183
Inventories	146.241	—	—	75.238	3.429	—	224.908
Tax assets	15.711	5.824	—	11.264	31.216	—	64.015
Total current assets other than non-current assets (or disposal groups) classified as held for sale	1.513.039	12.786	82.285	1.169.671	2.305.135	(2.261.975)	2.820.941
Non-current assets and disposal groups held for sale	609	—	—	277	1.074	—	1.960
Total current assets	1.513.648	12.786	82.285	1.169.948	2.306.209	(2.261.975)	2.822.901
Non-current assets							
Other financial assets	71.776	425.952	—	221.155	1.620	(631.045)	89.458
Other non-financial assets	84.249	730	—	114.080	33.107	3.297	235.463
Accounts receivable	2.105	—	—	5.521	3.089	—	10.715
Accounts receivable from related parties	506.672	—	304.535	1	1.007.074	(1.818.282)	—
Equity accounted investments	1.065.985	11.804	—	—	392.937	(1.470.726)	—
Intangible assets other than goodwill	101.212	31.993	—	879.356	308.862	2	1.321.425
Goodwill	2.194.449	—	—	—	83.250	2.876	2.280.575
Property, plant and equipment	8.917.026	19	—	881.138	836.100	304.374	10.938.657
Current tax assets, long term portion	—	—	—	—	25.629	—	25.629
Deferred tax assets	—	15.747	—	311.059	82.901	(33.112)	376.595
Total non-current assets	12.943.474	486.245	304.535	2.412.310	2.774.569	(3.642.616)	15.278.517
Total assets	14.457.122	499.031	386.820	3.582.258	5.080.778	(5.904.591)	18.101.418

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	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$
<b>Liabilities and shareholder's equity</b>							
<b>Current liabilities</b>							
Other financial liabilities	1.459.629	—	3.318	124.778	56.415	95	1.644.235
Trade and other accounts payable	398.351	722	—	624.410	452.436	8.038	1.483.957
Accounts payable to related parties	328.618	804	75.437	786.235	951.720	(2.142.367)	447
Other provisions	29	—	—	10.776	2.894	(10.777)	2.922
Tax liabilities	12.755	—	—	—	6.623	—	19.378
Other non-financial liabilities	1.404.126	558	—	588.839	496.542	(32)	2.490.033
<b>Total current liabilities</b>	<b>3.603.508</b>	<b>2.084</b>	<b>78.755</b>	<b>2.135.038</b>	<b>1.966.630</b>	<b>(2.145.043)</b>	<b>5.640.972</b>
<b>Non-current liabilities</b>							
Other financial liabilities	5.785.018	—	299.775	527.207	927.846	(7.461)	7.532.385
Accounts payable	129.759	—	—	229.006	58.285	—	417.050
Accounts payable to related parties	797.109	24.395	—	—	972.543	(1.794.047)	—
Provision for losses on investments	518.975	—	—	—	19.343	(538.318)	—
Other provisions	13.768	73	—	389.120	21.535	1	424.497
Deferred tax liabilities	478.596	—	—	151.950	153.957	27.062	811.565
Employee benefits	37.854	—	—	—	27.417	—	65.271
Other non-financial liabilities	236.000	—	—	36.130	—	—	272.130
<b>Total non-current liabilities</b>	<b>7.997.079</b>	<b>24.468</b>	<b>299.775</b>	<b>1.333.413</b>	<b>2.180.926</b>	<b>(2.312.763)</b>	<b>9.522.898</b>
<b>Total liabilities</b>	<b>11.600.587</b>	<b>26.552</b>	<b>378.530</b>	<b>3.468.451</b>	<b>4.147.556</b>	<b>(4.457.806)</b>	<b>15.163.870</b>
<b>Equity</b>							
Share capital	2.545.705	1.289.676	111.123	1.371.505	728.944	(3.501.248)	2.545.705
Retained earnings	317.950	(1.126.588)	(102.833)	(1.191.909)	(219.031)	2.640.361	317.950
Share premium	—	19.194	—	—	501.209	(520.403)	—
Treasury shares	(178)	—	—	—	—	—	(178)
Other reserves	(6.942)	290.197	—	(65.641)	(81.070)	(143.486)	(6.942)
Parent's ownership interest	2.856.535	472.479	8.290	113.955	930.052	(1.524.776)	2.856.535
Non-controlling interest	—	—	—	—	—	81.013	81.013
<b>Total non-current liabilities</b>	<b>2.856.535</b>	<b>472.479</b>	<b>8.290</b>	<b>113.955</b>	<b>930.052</b>	<b>(1.443.763)</b>	<b>2.937.548</b>
<b>Total liabilities</b>	<b>14.457.122</b>	<b>499.031</b>	<b>386.820</b>	<b>3.582.406</b>	<b>5.077.608</b>	<b>(5.901.569)</b>	<b>18.101.418</b>

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	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$
Revenue	2,723,927	—	—	3,842,983	2,838,907	(417,477)	8,988,340
Cost of sales	(2,715,888)	—	—	(3,389,650)	(2,566,040)	1,704,541	(6,967,037)
Gross margin	8,039	—	—	453,333	272,867	1,287,064	2,021,303
Other income	1,302,707	—	—	113,116	1,018,836	(1,895,911)	538,748
Distribution costs	(262,038)	—	—	(264,886)	(329,094)	108,592	(747,426)
Administrative expenses	(345,552)	(534)	—	(344,929)	(687,878)	505,939	(872,954)
Other expenses	(199,791)	(1,354)	(20)	(59,965)	(118,470)	5,862	(373,738)
Other gains/(losses)	(49,532)	790	—	(4,993)	(5,999)	(12,900)	(72,634)
Gains (losses) from operating activities	453,833	(1,098)	(20)	(108,324)	150,262	(1,354)	493,299
Financial income	(5,043)	(104)	13,976	21,272	103,491	(58,643)	74,949
Financial costs	(336,386)	(4)	(25,643)	(52,168)	(58,505)	56,370	(416,336)
Revenue and losses from associated companies	(38,438)	7,052	—	(80,810)	—	112,196	—
Exchange differences	(37,365)	—	(12)	223,109	(67,769)	3,688	121,651
Resut for readjustable units	272	—	—	—	39	—	311
Income / (loss) before taxes	36,873	5,846	(11,699)	3,079	127,518	112,257	273,874
Income tax expense / benefit	32,347	(3,739)	—	(101,551)	(73,605)	(16,656)	(163,204)
NET INCOME / (LOSS) FOR THE YEAR	69,220	2,107	(11,699)	(98,472)	53,913	95,601	110,670
Income / (loss) attributable to owners of the parent	69,220	2,107	(11,699)	(98,472)	53,913	54,151	69,220
Income / (loss) attributable to non-controlling	—	—	—	—	—	41,450	41,450
NET INCOME / (LOSS)	69,220	2,107	(11,699)	(98,472)	53,913	95,601	110,670
Total comprehensive income / (loss)	648,539	195	(13,199)	(90,953)	147,049	3,912	695,543
Comprehensive income / (loss) attributable to owners of the parent	648,539	195	(13,199)	(90,953)	123,583	(19,626)	648,539
Comprehensive income / (loss) attributable to non-controlling interest	—	—	—	—	23,466	23,538	47,004
Total comprehensive income / (loss)	648,539	195	(13,199)	(90,953)	147,049	3,912	695,543

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	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$
Revenue	2.759.969	—	—	4.224.290	3.228.372	(472.586)	9.740.045
Cost of sales	(2.670.774)	—	—	(3.745.752)	(2.928.504)	1.708.321	(7.636.709)
Gross margin	89.195	—	—	478.538	299.868	1.235.735	2.103.336
Other income	1.132.663	—	—	181.922	1.017.029	(1.945.833)	385.781
Distribution costs	(287.089)	—	—	(303.936)	(346.840)	154.561	(783.304)
Administrative expenses	(325.567)	(1.257)	—	(337.064)	(784.628)	570.510	(878.006)
Other expenses	(189.244)	(951)	(4)	(24.325)	(118.091)	8.628	(323.987)
Other gains/(losses)	(81.244)	161	—	(33.019)	45.423	13.399	(55.280)
Gains (losses) from operating activities	338.714	(2.047)	(4)	(37.884)	112.761	37.000	448.540
Financial income	9.222	1.472	14.986	58.670	65.700	(74.970)	75.080
Financial costs	(296.205)	—	(25.264)	(62.918)	(111.450)	82.480	(413.357)
Revenue and losses from associated companies	(217.530)	(165.774)	—	32.134	—	351.207	37
Exchange differences	(40.151)	(10)	4.680	(472.122)	49.177	(9.470)	(467.896)
Resut for readjustable units	23	—	—	—	457	1	481
Income / (loss) before taxes	(205.927)	(166.359)	(5.602)	(482.120)	116.645	386.248	(357.115)
Income tax expense / benefit	(13.347)	(2.790)	—	200.507	(37.385)	31.398	178.383
NET INCOME / (LOSS) FOR THE YEAR	(219.274)	(169.149)	(5.602)	(281.613)	79.260	417.646	(178.732)
Income / (loss) attributable to owners of the parent	(219.274)	(169.149)	(5.602)	(281.613)	79.260	377.104	(219.274)
Income / (loss) attributable to non-controlling	—	—	—	—	—	40.542	40.542
NET INCOME / (LOSS)	(219.274)	(169.149)	(5.602)	(281.613)	79.260	417.646	(178.732)
Total comprehensive income / (loss)	(1.551.330)	(168.932)	(4.162)	(302.015)	(57.568)	544.400	(1.539.607)
Comprehensive income / (loss) attributable to owners of the parent	(1.551.330)	(168.932)	(4.162)	(302.015)	(92.830)	567.938	(1.551.331)
Comprehensive income / (loss) attributable to non-controlling interest	—	—	—	—	35.262	(23.538)	11.724
Total comprehensive income / (loss)	(1.551.330)	(168.932)	(4.162)	(302.015)	(57.568)	544.400	(1.539.607)

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	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2014 ThUS\$	As of December 31, 2014 ThUS\$	As of December 31, 2014 ThUS\$	As of December 31, 2014 ThUS\$	As of December 31, 2014 ThUS\$	As of December 31, 2014 ThUS\$	As of December 31, 2014 ThUS\$
Revenue	3.055.416	—	—	6.391.949	3.564.135	(917.999)	12.093.501
Cost of sales	(3.075.475)	(408)	—	(5.202.839)	(3.450.252)	2.104.473	(9.624.501)
Gross margin	(20.059)	(408)	—	1.189.110	113.883	1.186.474	2.469.000
Other income	1.014.024	—	—	20.891	1.253.142	(1.910.412)	377.645
Distribution costs	(318.825)	—	—	(397.445)	(365.581)	124.779	(957.072)
Administrative expenses	(350.817)	(3.423)	—	(452.014)	(850.026)	675.620	(980.660)
Other expenses	(197.055)	(1.126)	(9)	(110.890)	(122.798)	30.857	(401.021)
Other gains/(losses)	(71.175)	(170)	—	24.828	(122.589)	202.630	33.524
Gains (losses) from operating activities	56.093	(5.127)	(9)	274.480	(93.969)	309.948	541.416
Financial income	6.353	(732)	13.789	46.414	134.249	(109.573)	90.500
Financial costs	(297.138)	(581)	(25.083)	(156.890)	(106.994)	156.652	(430.034)
Equity accounted investments	86.715	179.647	—	(7.530)	(4.280)	(261.007)	(6.455)
Exchange differences	(88.909)	339	2.198	(81.447)	35.754	1.864	(130.201)
Result for readjustable units	—	—	—	—	7	—	7
Income / (loss) before taxes	(236.886)	173.546	(9.105)	75.027	(35.233)	97.884	65.233
Income tax expense / benefit	(23.099)	1.140	—	(33.461)	(105.194)	(131.790)	(292.404)
NET INCOME / (LOSS) FOR THE YEAR	(259.985)	174.686	(9.105)	41.566	(140.427)	(33.906)	(227.171)
Income / (loss) attributable to owners of the parent	(259.985)	174.686	(9.105)	41.566	(140.427)	(66.720)	(259.985)
Income / (loss) attributable to non-controlling	—	—	—	—	—	32.814	32.814
NET INCOME / (LOSS)	(259.985)	174.686	(9.105)	41.566	(140.427)	(33.906)	(227.171)
Total comprehensive income / (loss)	(980.697)	93.514	(9.105)	101.097	(269.379)	70.947	(993.623)
Comprehensive income / (loss) attributable to owners of the parent	(980.697)	93.514	(9.105)	101.097	(269.379)	83.874	(980.696)
Comprehensive income / (loss) attributable to non-controlling interest	—	—	—	—	—	(12.927)	(12.927)
Total comprehensive income / (loss)	(980.697)	93.514	(9.105)	101.097	(269.379)	70.947	(993.623)

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	LATAM S.A. (parent company and guarantor)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$	As of December 31, 2016 ThUS\$
Cash flows from operating activities							
Receipts from sales of goods and services	10,286,552	(518)	21,433	3,923,956	10,504,664	(14,817,498)	9,918,589
Other receipts from operating activities	68,543	—	—	—	1,816	—	70,359
Payments to suppliers for the supply of goods and services	(8,780,152)	(2,457)	(3,072)	(3,421,614)	(9,446,856)	14,898,030	(6,756,121)
Payments to and on behalf of employees	(426,969)	(3,914)	—	(794,100)	(595,296)	—	(1,820,279)
Other payments for operating activities	(40,689)	—	—	40,738	(150,246)	(12,642)	(162,839)
Interest received	3,037	—	2,674	(13,117)	54,597	(35,949)	11,242
Income taxes refunded (paid)	973	(1,023)	—	1,454	(60,960)	—	(59,556)
Other inflows (outflows) of cash	(106,911)	(947)	(1)	(168,159)	58,826	7,923	(209,269)
Net cash flows from operating activities	1,004,384	(8,859)	21,034	(430,842)	366,545	39,864	992,126
Cash flows from (used in) investing activities							
Other cash receipts from sales of equity or debt instruments of other entities	69,466	81,610	—	1,996,724	821,931	—	2,969,731
Other payments to acquire equity or debt instruments of other entities	—	(97,586)	—	(1,933,835)	(675,312)	—	(2,706,733)
Loans to related parties	—	—	—	—	(9,844)	9,844	—
Proceeds from sale of property, plant and equipment	94,247	—	—	12,161	(2,774)	(27,550)	76,084
Purchases of property, plant and equipment	(764,342)	—	—	(86,752)	162,816	(6,092)	(694,370)
Amounts raised from sale of intangible assets	—	—	—	—	1	—	1
Purchases of intangible assets	(62,531)	—	—	(19,554)	(6,502)	—	(88,587)
Proceeds from related parties	—	—	6,107	—	48,361	(54,468)	—
Dividends received	—	—	—	—	1,517	(1,517)	—
Other inflows (outflows) of cash	—	(36)	—	(3,626)	(53)	4,558	843
Net cash flows from investing activities	(663,160)	(16,012)	6,107	(34,882)	340,141	(75,225)	(443,031)
Cash flows from (used in) financing activities							
Proceeds from issue of shares	6 08,496	—	—	—	28,628	(28,628)	608,496
Proceeds from term loans	1,381,792	—	—	199,322	238,902	—	1,820,016
Proceeds from short term loans	279,593	—	—	—	—	—	279,593
Loans from related parties	—	—	—	—	9,844	(9,844)	—
Repayment of loans	(1,682,589)	—	—	(474)	(438,059)	(8)	(2,121,130)
Payments of finance lease liabilities	(151,219)	—	—	(79,162)	(33,907)	(50,292)	(314,580)
Repayment of loans to related parties	(40,586)	—	(6,107)	—	(7,626)	54,319	—
Dividends Paid	—	—	—	—	(45,030)	3,807	(41,223)
Interest paid	(304,423)	—	(22,295)	(44,669)	(64,589)	37,688	(398,288)
Other inflows (outflows) of cash	(149,814)	59	—	(6,264)	(70,017)	(3,127)	(229,163)
Net cash flows from (used in) financing activities	(58,750)	59	(28,402)	68,753	(381,854)	3,915	(396,279)
Net increase (decrease) in, cash and cash equivalents before effect of exchange rate	282,474	(24,812)	(1,261)	(396,971)	324,832	(31,446)	152,816
Effects of variation in the exchange rate on cash and cash equivalents	—	35,123	1,196	359,209	(352,514)	—	43,014
Net increase (decrease) in cash and cash equivalents	282,474	10,311	(65)	(37,762)	(27,682)	(31,446)	195,830
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	301,109	859	67	142,439	309,023	—	753,497
CASH AND CASH EQUIVALENTS AT END OF PERIOD	583,583	11,170	2	104,677	281,341	(31,446)	949,327

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	LATAM S.A. (parent company and guarantor)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$	As of December 31, 2015 ThUS\$
Cash flows from operating activities							
Receipts from sales of goods and services	5,506,889	(17,705)	—	5,442,905	5,041,794	(4,601,486)	11,372,397
Other receipts from operating activities	73,596	—	—	—	14,641	—	88,237
Payments to suppliers for the supply of goods and services	(3,936,180)	(392)	(22,537)	(3,853,193)	(3,869,722)	4,652,442	(7,029,582)
Payments to and on behalf of employees	(389,722)	(883)	—	(922,865)	(851,714)	—	(2,165,184)
Other payments for operating activities	(209,137)	(70)	—	9,241	(151,211)	—	(351,177)
Interest received	10,076	1,647	14,986	17,311	80,425	(81,071)	43,374
Income taxes refunded (paid)	1,838	3,902	—	(255,152)	191,449	—	(57,963)
Other inflows (outflows) of cash	(153,925)	(25,176)	(4)	(48,194)	30,876	11,796	(184,627)
Net cash flows from operating activities	903,435	(38,677)	(7,555)	390,053	486,538	(18,319)	1,715,475
Cash flows from (used in) investing activities							
Cash flows used to obtain control of subsidiaries or other businesses	—	432,360	—	—	(432,360)	—	—
Other cash receipts from sales of equity or debt instruments of other entities	42,266	1,535	—	30,992	444,667	—	519,460
Other payments to acquire equity or debt instruments of other entities	(108,464)	—	—	(81,332)	(514,319)	—	(704,115)
Other proceeds selling the shares of profit of investments accounted for using the equit	—	(295,111)	—	—	295,111	—	—
Loans to related parties	(63,326)	—	—	—	(26,461)	89,787	—
Proceeds from sale of property, plant and equipment	20,617	—	—	58,700	(22,200)	—	57,117
Purchases of property, plant and equipment	(1,195,216)	—	—	(194,464)	10,943	(191,012)	(1,569,749)
Amounts raised from sale of intangible assets	—	29,444	—	—	(29,353)	—	91
Purchases of intangible assets	(27,463)	—	—	(11,869)	(9,846)	(3,271)	(52,449)
Proceeds from related parties	—	—	—	—	59,551	(59,551)	—
Dividends received	4,889	—	—	—	4,211	(9,100)	—
Other inflows (outflows) of cash	—	—	—	3,497	7,079	—	10,576
Net cash flows from investing activities	(1,326,697)	168,228	—	(194,476)	(212,977)	(173,147)	(1,739,069)
Cash flows from (used in) financing activities							
Proceeds from issue of shares	—	—	—	—	89,761	(89,761)	—
Payments to acquire or redeem the entity's shares	—	—	—	66	(319)	253	—
Proceeds from term loans	1,487,939	—	—	—	150,031	153,514	1,791,484
Proceeds from short term loans	205,000	—	—	—	—	—	205,000
Loans from related parties	28,932	—	—	—	393,460	(422,392)	—
Repayment of loans	(707,307)	—	—	(440)	(556,046)	—	(1,263,793)
Payments of finance lease liabilities	(169,700)	—	—	(128,075)	(33,024)	(11,815)	(342,614)
Repayment of loans to related parties	(337,693)	—	—	—	(49,809)	387,502	—
Dividends Paid	(9)	—	—	82,204	(125,181)	7,954	(35,032)
Interest paid	(277,233)	—	—	(53,156)	(151,124)	97,865	(383,648)
Other inflows (outflows) of cash	(95,541)	—	—	8,250	7,369	(19,835)	(99,757)
Net cash flows from (used in) financing activities	134,388	—	—	(91,151)	(274,882)	103,285	(128,360)
Net increase (decrease) in, cash and cash equivalents before effect of exchange rate	(288,874)	129,551	(7,555)	104,426	(1,321)	(88,181)	(151,954)
Effects of variation in the exchange rate on cash and cash equivalents	(38,384)	(128,735)	7,225	(7,056)	83,005	—	(83,945)
Net increase (decrease) in cash and cash equivalents	(327,258)	816	(330)	97,370	81,684	(88,181)	(235,899)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	628,367	43	397	44,326	316,263	—	989,396
CASH AND CASH EQUIVALENTS AT END OF PERIOD	301,109	859	67	141,696	397,947	(88,181)	753,497

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	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2014 ThUS\$	As of December 31, 2014 ThUS\$	As of December 31, 2014 ThUS\$	As of December 31, 2014 ThUS\$	As of December 31, 2014 ThUS\$	As of December 31, 2014 ThUS\$	As of December 31, 2014 ThUS\$
Cash flows from operating activities							
Receipts from sales of goods and services	5,959,058	(45,594)	—	6,147,010	6,256,083	(4,948,719)	13,367,838
Other receipts from operating activities	89,995	—	—	—	7,063	(127)	96,931
Payments to suppliers for the supply of goods and services	(4,221,845)	(3,328)	—	(4,715,944)	(5,348,418)	5,466,528	(8,823,007)
Payments to and on behalf of employees	(461,680)	(2,857)	—	(1,225,709)	(703,860)	(39,546)	(2,433,652)
Other payments for operating activities	(150,833)	—	—	6,791	(48,934)	(335,238)	(528,214)
Interest received	8,980	—	13,789	—	27,785	(38,965)	11,589
Income taxes refunded (paid)	(6,909)	(5,058)	—	614	(84,254)	(12,782)	(108,389)
Other inflows (outflows) of cash	(126,540)	4,327	(9)	15,146	(5,507)	(139,074)	(251,657)
Net cash flows from operating activities	1,090,226	(52,510)	13,780	227,908	99,958	(47,923)	1,331,439
Cash flows from (used in) investing activities							
Cash flows from losing control of subsidiaries or other businesses	—	—	—	—	3,024	(3,024)	—
Cash flows used to obtain control of subsidiaries or other businesses	(250,350)	(118,120)	—	33,782	(154,930)	490,136	518
Other cash receipts from sales of equity or debt instruments of other entities	—	228	—	80,405	342,908	100,829	524,370
Other payments to acquire equity or debt instruments of other entities	(36,477)	—	—	—	(138,920)	(299,259)	(474,656)
Loans to related parties	(126,630)	—	12,948	—	(55,146)	168,828	—
Proceeds from sale of property, plant and equipment	—	—	—	186,015	562,272	(184,021)	564,266
Purchases of property, plant and equipment	(1,269,024)	—	—	(255,636)	(224,816)	309,031	(1,440,445)
Amounts raised from sale of intangible assets	—	8,224	—	—	—	(8,224)	—
Purchases of intangible assets	—	—	—	(30,933)	(23,831)	(995)	(55,759)
Other cash receipts from related parties	—	—	—	(75,082)	22,380	52,702	—
Dividends received	9,685	—	—	—	752	(10,437)	—
Other inflows (outflows) of cash	—	—	—	(397)	(15,527)	(1,475)	(17,399)
Net cash flows from investing activities	(1,672,796)	(109,668)	12,948	(61,846)	318,166	614,091	(899,105)
Cash flows from (used in) financing activities							
Proceeds from issue of shares	156,321	219,110	—	262,702	156,402	(638,214)	156,321
Payments to acquire or redeem the entity's shares	—	—	—	—	—	4,661	4,661
Proceeds from long term loans	706,661	4,162	—	89,598	336,159	(93,760)	1,042,820
Proceeds from short term loans	597,000	—	—	84,944	6,151	(84,944)	603,151
Loans from related parties	—	—	—	—	169,746	(169,746)	—
Repayment of loans	(1,147,651)	—	—	(419,887)	(706,576)	(41,006)	(2,315,120)
Payments of finance lease liabilities	(131,484)	—	—	(181,779)	(56,262)	(24,606)	(394,131)
Repayment of loans to related parties	(9,310)	—	—	—	(3,483)	12,793	—
Dividends Paid	—	—	—	—	(13,983)	(21,379)	(35,362)
Interest paid	(246,598)	(581)	(24,479)	(49,536)	(168,938)	121,343	(368,789)
Other inflows (outflows) of cash	(37,641)	—	—	—	—	23,864	(13,777)
Net cash flows from (used in) financing activities	(112,702)	222,691	(24,479)	(213,958)	(280,784)	(910,994)	(1,320,226)
Net increase (decrease) in, cash and cash equivalents before effect of exchange rate	(695,272)	60,513	2,249	(47,896)	137,340	(344,826)	(887,892)
Effects of variation in the exchange rate on cash and cash equivalents	(45,080)	(60,573)	(1,941)	(29,882)	(173,817)	203,678	(107,615)
Net increase (decrease) in cash and cash equivalents	(740,352)	(60)	308	(77,778)	(36,477)	(141,148)	(995,507)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,368,719	103	89	122,104	325,718	168,170	1,984,903
CASH AND CASH EQUIVALENTS AT END OF PERIOD	628,367	43	397	44,326	289,241	27,022	989,396





**BY-LAWS  
LATAM AIRLINES GROUP S.A.**

**SECTION ONE: Name, Registered Office and Purpose**

**Article 1:** A corporation is incorporated that will be governed by the rules applicable to open corporations and will be called LATAM Airlines Group S.A., although it may also indistinctively use the fictitious names of “LATAM Airlines”, “LATAM Airlines Group”, “LATAM Group”, “LAN Airlines”, “LAN Group” y/o “LAN”

**Article 2:** The Company will have its registered offices in the city of Santiago, borough of the same name, although it may establish agencies, branches, offices or establishments in other places in the country or abroad.

**Article 3:** The duration of the Company will be indefinite.

**Article 4:** The Company shall engage in:

- (a) the trade of any form of air and/or ground transportation, whether passenger, cargo, or mail, and of everything relating directly or indirectly to that activity, in the country or abroad, for its own account or others;
- (b) the rendering of services relating to the maintenance and repair of aircraft, whether own or third parties;
- (c) the development and exploitation of other activities derived from the business purpose and/or linked, related, cooperative or complementary thereto;
- (d) the trade and development of activities relating to travel, tourism and lodging; and
- (e) holding interests in companies of any type or kind that facilitate the business of the Company.

**SECTION TWO: Capital, Shares and Shareholders**

**Article 5:** The capital of the Company is US\$3,225,431,270.99,, divided into 613,164,243 shares in one single series, with no par value. There are no special series of shares nor privileges. The form of share certificates, their issuance, exchange, ruin, misplacement, replacement and other circumstances thereof as well as the transfer of shares shall be governed by the provisions in the Corporations Law and its Regulations.



**Article 6:** Shareholders may stipulate agreements limiting the free transfer of shares, but those agreements shall be deposited with the Company and be available to other shareholders and interested third parties, and they shall be annotated in the shareholders registry in order to be valid.

### **SECTION THREE: Management**

**Article 7:** The Company will be managed by the Board of Directors that will be elected by the Shareholders Meeting.

**Article 8:** The Board will be comprised of nine members and will hold office for two years. Members may be reelected. There will be no need to be a shareholder in order to be a director. The Board will appoint a Chairman and a Vice Chairman from among its members. The Vice Chairman shall substitute for the Chairman in the event of the latter's absence or impediment. The Board of Directors may appoint an Interim Chairman whenever the Chairman and Vice Chairman are absent or suffer from an impediment. The absences or impediments behind such substitution shall not have to be proven to third parties.

**Article 9:** The entire Board of Directors shall be elected at the next Regular Shareholders Meeting to be held by the Company whenever there is a vacancy in a Directorship. The Board may appoint a replacement in the interim.

**Article 10.** Directors will be compensated for their office. Whether they will be compensated and the amount thereof will be determined annually by the Regular Shareholders Meeting.

**Article 11:** Board meetings shall be installed by the presence of a majority of Directors. Resolutions will be adopted by an absolute majority of the Directors present, save resolutions that require a higher majority according to the law or these by-laws.

Any tie shall be decided by the vote of the Chairman of the Meeting. The Chief Executive Officer of the Company shall act as Secretary or the person expressly appointed by the Board of Directors to that position.

**Article 12:** The Board shall hold regular meetings on the days and at the times it determines. In any case, it shall meet at least once a month. Special meetings may be held when they are convened specially by the Chairman together with two directors and/or at the request of an absolute majority of directors, in which case the meeting must necessarily be held.

**Article 13:** The Board represents the Company judicially and extrajudicially and shall be vested, in order to fulfill the business purpose, which shall not be necessary to prove to third parties, with all powers of administration and disposition that the Law, Regulations and these by-laws do not reserve for the shareholders meeting. There will be no need to grant any special power of attorney, including for those acts or contracts regarding which the laws require such an event, as provided in article 40 of the Law. The foregoing is without prejudice to the judicial representation pertaining to the Chief Executive Officer of the Company.



The Board of Directors may delegate part of its authority to the General Manager, Managers, attorneys of the Company, to one director or a committee of directors, and to other people for certain special purposes.

**Article 14.** The deliberations and resolutions of the Board of Directors shall be written down in a minutes book that will be signed on each occasion by the directors who attended the meeting and by the Secretary.

A director who wishes to circumvent his liability for any act or resolution of the Board shall have his opposition recorded in the minutes and that opposition shall be disclosed by the Chairman at the next Regular General Shareholders Meeting.

Should a director die or be unable for any reason to sign the corresponding minutes, a record of that fact shall be left at the foot of the minutes.

The minutes shall be deemed approved as from the time they have been signed by the aforesaid persons, and from that moment the resolutions indicated therein may be implemented.

**Article 15:** The Company will have an Executive Vice President and a Manager, who will be the legal representative of the Company. Both positions will be appointed by the Board of Directors and may be held by one same person. The Executive Vice President shall have the powers conferred thereupon by the Board of Directors. The Manager shall have the powers delegated thereto by the Board of Directors, notwithstanding those corresponding thereto by the Law and in particular:

(i) he shall represent the Company judicially with the powers listed in both subparagraphs of article seventh of the Code of Civil Procedure, which are deemed expressly set out.

(ii) he shall execute and enter into all acts and contracts, whether civil, commercial, administrative or otherwise, conducive to the purposes of the Company within the limits on amount set by the Board; and

(iii) generally, he shall implement resolutions of the Board and execute all acts for which he has been expressly delegated authority, in the form, amount and conditions that are determined. The Board shall appoint one or more persons who may individually validly represent the company in all notifications made thereto in absence of the Manager, which the interested party shall not have to evidence.



#### **SECTION FOUR: Shareholders Meetings**

**Article 16:** Shareholders shall meet in a regular meeting once a year between February 1 and April 30.

**Article 17:** Matters for a regular meeting are:

1. the annual appointment of the independent external auditors to examine the accounting, inventory, balance sheet and other financial statements of the Company;
2. the examination of the situation of the Company and of the reports by the external auditors and approval, amendment or rejection of the annual report, balance sheet and financial statements and exhibits;
3. the approval of the distribution of fiscal year profits and the payment of dividends;
4. the election or revocation of the board, liquidators and auditors of management;
5. the determination of the annual compensation of directors;
6. acknowledgement of the resolutions adopted by the Board in which there was opposition of one or more directors.
7. acknowledgement of the resolutions approving acts or contracts in which one or more directors had or have an interest personally or as the representative of another person; and
8. generally, any matter of corporate interest not reserved for a Special Shareholders Meeting.

**Article 18:** Matters for a Special Shareholders Meeting are:

1. the amendment of the Company's by-laws;
2. the issuance of bonds or debentures convertible to shares;
3. the grant of real or personal guarantees to secure third-party obligations when those third parties are not subsidiaries; and
4. the other matters surrendered to the debate thereof by the by-laws and the law.



**Article 19:** Notices of meetings shall be given by a prominent advertisement that will be published at least 3 times on different days in a newspaper in the corporate domicile determined by the meeting or, failing agreement, or when compliance therewith is impossible, in the Official Gazette, in the time, form and conditions determined by the Companies Regulations.

In addition to the preceding notice, a notice should be sent by mail to each shareholder a minimum of 15 days in advance of the date of the meeting, which shall contain a reference to the matters to be discussed thereat.

The notice shall mention the resolutions of the Board that the Meeting must study according to Article 44 of the Law. Meetings attended by all issued shares may be validly held even though the formalities required for notice have not been completed.

**Article 20:** Regular and Special Shareholders Meeting shall be validly installed by representatives of a majority of the issued shares. If that number is not present, a new notice will be given and the Regular or Special Shareholders Meeting will be validly installed by the shareholders attending.

Special Shareholders Meetings shall be held before a notary. Second notices may only be published once the meeting has failed under a first notice or second notice, as the case may be, and a new shareholders meeting shall be convened, regardless, within 45 days after the date set for the meeting that was not held under a first notice.

Notices shall be published in the same period indicated above.

**Article 21:** Resolutions of both Regular and Special Shareholders Meeting shall be adopted by the affirmative vote of at least an absolute majority of the shares represented at the meeting. In any case, the resolutions indicated in the second subparagraph of article 67 of the Corporations Law shall require the affirmative vote of two-thirds of the issued and voting shares. Only shareholders registered in the Shareholders Registry five days in advance of the date of the respective meeting may attend meetings and exercise their right to speak and vote. Directors shall be elected in one single voting, and the persons who earn the nine highest majorities shall be deemed elected. Shareholders may distribute their votes among candidates in the manner they deem convenient. In order to proceed with voting, save unanimously resolution otherwise, the Chairman and Secretary, together with the persons previously designated by the meeting to sign the minutes thereof, shall record in a document the votes that are cast out loud by the shareholders present, in the order of the attendance list. Any shareholder shall have the right, however, to vote on a ballot signed thereby, stating whether he signs personally or on behalf of another.

Notwithstanding the foregoing, in order to facilitate the conduct or quickness of the voting, the Chairman or the Superintendency, as the case maybe, may order that voting be taken alternatively and indistinctively out loud or by ballot. When counting votes from the annotations made by the aforesaid persons, the Chairman may read the votes out loud in order for all those present to calculate the votes themselves or to confirm the true outcome through such annotation and ballots.



The Secretary shall add up the votes and the Chairman shall proclaim the top majorities until completing the number to be elected.

The Secretary will put all papers in an envelope that he will close and seal by the company seal, which will be filed with the Company for at least two years.

**Article 22:** Shareholders may be represented at meetings by other shareholders or by third parties in the form and conditions set down in the Regulations. The proxy granted for the meeting not held shall be deemed valid for the new meeting held instead provided the first meeting was not held due to a lack of quorum.

**Article 23:** Attendees at meetings shall sign an attendance sheet that will indicate after their signature the number of shares held by the signatory, the number of shares represented by the signatory and the name of the principal.

**Article 24:** Deliberations and resolutions of Shareholders Meetings shall be set down in a Special Minutes Book that will be kept by the Secretary. Minutes will be signed by the Chairman or by his substitute, by the Secretary and by three Shareholders on behalf of attendees, elected by the meeting.

An abstract of the events of the meeting shall be written in minutes and the following data necessarily recorded: the name of the shareholders present, the number of shares owned or represented by each, a succinct account of any observations, an account of the motions submitted to discussion and the outcome of voting, and the list of shareholders who have voted against those motions, if anyone has requested nominal voting.

Only under the unanimous consent of attendees may the record of some event occurring at the meeting be eliminated from the minutes, provided it relates to corporate interests.

The minutes containing the election of directors shall indicate the names of all shareholders present and specify the number of shares voted by each, personally or on behalf of another, and the general outcome of the voting.

A copy of these minutes will be sent to the Superintendency of Securities and Insurance. The Company shall notify the Superintendency of the appointment of directors who are replaced within three business days.



## **SECTION FIVE: Annual Report, Balance Sheet and Profits**

**Article 25:** A General Balance Sheet of the Company's assets and liabilities shall be prepared as of December 31st of each year, which will contain the indications required by the laws and regulations.

**Article 26:** At the Regular General Shareholders Meeting, the Board of Directors shall advise shareholders of the status of the Company's business and present an annual report containing explanatory and analytical information on the transactions performed in the most recent fiscal year, accompanied by the general balance sheet, profit and loss statement and report presented by the external auditors.

All sums earned during the fiscal year by the Chairman and Director shall be placed in separate lines within the profit and loss accounts in such balance sheet.

**Article 27:** Dividends shall be paid exclusively against net profits from the fiscal year or retained earnings in balance sheets approved by the Shareholders Meeting. Should the Company have accumulated losses, profits earned in the fiscal year shall be first allocated to absorbing those losses. A cash dividend shall be paid annually to shareholders in proportion to their shares, amounting to at least 30% of the net profits from each fiscal year, save resolution otherwise adopted unanimously by the respective meeting.

**Article 28.** The annual report, balance sheet and inventory, minutes, books and other items supporting them and the report that the external auditors must present shall be available to shareholders for examination at the management's offices for 15 days prior to the date set for the Regular General Shareholders Meeting. For this purpose, the Company shall keep printed or typed copies of those documents in that office. The Company shall send each of the shareholders registered in the respective Registry a copy of the balance sheet and of the annual report of the Company on a date that is no later than the date of the first notice convening a Regular Shareholders Meeting, including the opinion of the auditors and the respective notes, all without prejudice to the provisions in the second and third subparagraphs of article 75 of the law.

**Article 29:** The Company shall publish the information determined by the Superintendency of Securities and Insurance on its duly audited general balance sheets and profit and loss statements in a widely circulated newspaper in the corporate domicile no less than 10 nor more than 20 days in advance of the date of the Regular Shareholders Meeting that will decide on them. In that same period, the Company shall submit the number of counterparts of such documents to the Superintendency of Securities and Insurance as determined thereby. If the balance sheet and profit and loss statements are modified by the meeting, the changes will be published in the same newspaper within 15 days following the date of the meeting, notwithstanding that they must also be sent to the Shareholders registered in the Registry. The balance sheet shall contain the name of the Chairman, directors, managers and indicate the share transactions performed by such individuals during the fiscal year.



**Article 30:** When the condition of corporate funds allow and the Board deems it convenient, interim dividends may be paid to Shareholders during the fiscal year on account of profits from that year, under the personal liability of directors approving the resolution, provided there are no cumulative losses.

#### **SECTION SIX: Audit of Management**

**Article 31:** The Regular Shareholders Meeting shall appoint independent external auditors annually to examine the accounting, inventories, balance sheets and other financial statements of the Company, under the obligation to report in writing on fulfillment of their mandate to the next Regular Shareholders Meeting.

#### **SECTION SEVEN: Arbitration**

**Article 32:** Any matter arising among shareholders as such or among them and the company or its managers shall be resolved without form of trial or further remedy by an arbitrator ex aequo et bono appointed by mutual consent of the parties involved, and failing consent, by the ordinary courts, in which case the arbitrator shall be a conciliator in regard to procedure and an arbiter in regard to the ruling. The appointment shall fall upon an attorney who is or has been a deputy justice of the Supreme Court of Justice for at least one year. Notwithstanding the foregoing, the plaintiff in any dispute may remove the hearing thereof from the venue of arbitrators and submit to the decision of the Ordinary Courts.

#### **TRANSITORY ARTICLES**

**Sole Transitory Article:** The capital of the Company is US\$3,225,431,270.99, divided into 613,164,243 shares of common stock of one single series, with no par value per share, which has been, or will be, subscribed and paid as follows:

- (One) The sum of US\$2,541,013,880.07, divided into 545,558,101 shares, which have been fully subscribed and paid prior to the date hereof.
- (Two) The sum of US\$47,631,103.67, divided into 4,789,718 shares to be allocated to compensation plans for the employees of the Company and its subsidiaries, as provided in Article 24 of the Corporations Law. These shares shall be subscribed and paid no later than December 21, 2016. The Board has been fully authorized to: create and implement the stock option plans for subscription and payment of these shares in one or several stages; set the subscription price of these shares according to the resolutions of the Special Shareholders Meeting in accordance with the applicable Corporation Law regulation and, in general, solve all situations, modalities, complementations, amendments and details which may be presented or required regarding the bylaws amendment relating to this capital increase and related matters.





The shareholders are not entitled to a right of first refusal with respect to these shares, as provided in the third subparagraph of said Article 24. The price for these shares shall be paid entirely at the time of subscription, in cash, by check, bank check, electronic money transfer or any other instrument or effect representing money payable upon demand;

(Three) The sum of US\$23,622,047.25, divided into 1,500,000 shares to be allocated to compensation plans for the employees of the Company and its subsidiaries, as provided in Article 24 of the Corporations Law. These shares must be subscribed and paid no later than June 18, 2018. The Board has been fully authorized to: create and implement the stock option plans for subscription and payment of these shares in one or several stages; set the subscription price of these shares according to the resolutions of the Special Shareholders Meeting in accordance with the applicable Corporation Law regulation and in general, solve all situations, modalities, complementations, amendments and details which may be presented or required regarding the bylaws amendment relating to this capital increase and related matters. The shareholders are not entitled to a right of first refusal with respect to these shares, as provided in the third subparagraph of said Article 24. The price of these shares shall be paid entirely at the time of subscription, in cash, by check, bank check, electronic money transfer or any other instrument or effect representing money payable upon demand; and

(Four) The sum of US\$613,164,240, divided into 61,316,424 shares of common stock to be subscribed and paid on account of the capital increase approved at the Special Shareholders Meeting of the Company held on August 18, 2016.

Regarding this capital increase for an aggregate of US\$613,164,240, represented by said 61,316,424 shares:

- (A) The shares must be issued, subscribed and paid on or before August 18, 2019;
- (B) The shares shall be subscribed at a price of US\$10 per share. The price of these shares must be paid entirely at the moment of subscription, in USD, either in cash or via electronic transfer of funds; or in CLP, the legal tender, according to the observed exchange rate that the Central Bank of Chile reports in the Official Journal of Chile on the date of said payment, either by check, bank draft, electronic transfer or by any other means or instrument representing money payable on demand;
- (C) These shares will be offered for a period of 30 days from the publication of the right of first refusal notice, to shareholders registered in the Shareholders Registry as of midnight of the fifth business day prior to the date of publication of the right of first refusal notice, in proportion to the shares registered in each such shareholder's name. Shareholders may waive or assign their right to subscribe all or part of the shares in accordance with the Corporate Law



Regulations. If a shareholder or assignee of the option fails to act within the right of first refusal period, such shareholder or assignee will be deemed to have waived its right to subscribe;

(D) Any balance of shares not subscribed after following the above procedure, either as a result of such shares not being subscribed by shareholders in exercise of their right of first refusal or as a result of those rights being waived in whole or in part, or as a result of fractions of shares remaining unsubscribed after proration among shareholders, may be offered freely to other shareholders and/or third parties, and particularly, as it was announced in the summon, to Qatar Airways, on the dates and in the amounts deemed pertinent by the Board, which will be broadly empowered to determine the procedures for such offer; and

(E) The Company's Board of Directors has been amply empowered, within the framework of the resolutions adopted by the August 18, 2016 Special Shareholders Meeting, to proceed to issue all of the shares representing said capital increase all at once or in parts, at the Board's discretion; to conduct or order all proceedings necessary to register the capital increase shares in the Securities Registry of the Securities and Insurance Commission, including all types of requests, measures, procedures, presentations, declarations and other measures relating to the registration and placement of the shares; and once the capital increase has been registered, to decide on the exchange and placement thereof in whole or in part and on the listing thereof on one or more stock exchanges; to represent the Company or instruct that it be represented before any type of authority, entity or person, including, but not limited to, government, regulatory or oversight entities, stock exchanges or others related to the securities market; to determine all matters relating to the options forming part of the compensation plans, including, but not limited to, the periods during which the options will be valid, the periods, opportunities, form and other conditions for acceptance or exercise thereof, the employees that will be benefitted thereby, the number of shares assigned to each option and all other matters relating to the foregoing; to grant the powers of attorney necessary or convenient to implement all or part of the foregoing; and, in general, to resolve all situations, modalities, supplements, amendments and details that may arise or be required in relation to this bylaw reform and related matters approved by the June 18, 2016 Special Shareholders Meeting.

Supplemental Agreement No. 6

to

Purchase Agreement No. 3256

between

THE BOEING COMPANY

and

LATAM AIRLINES GROUP S.A.

Relating to Boeing Model 787-916/787-816 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of May 27, 2016, (“**Supplemental Agreement Number 6” or “SA-6”**”) by and between THE BOEING COMPANY, a Delaware corporation (**Boeing**), and LATAM Airlines Group S.A. (formerly having the legal name LAN Airlines S.A. and doing business as LAN Airlines), a Chilean corporation (**Customer**);

W I T N E S S E T H:

WHEREAS, the parties entered into Purchase Agreement No. 3256, dated as of October 29, 2007 relating to the purchase and sale of Boeing Model 787-916 and Model 787-816 Aircraft (the Purchase Agreement) as amended by Supplemental Agreements No. 1, 2, 3, 4 and 5;

WHEREAS, Customer and Boeing wish to document the conversion of four (4) Model 787-816 Aircraft to (4) Model 787-916 Aircraft; and

WHEREAS, Customer and Boeing wish to slide delivery of two (2) Model 787-916 Aircraft from 1 Q 2018 and 2Q 2018 to 3Q 2018 and 4Q 2018 respectively; and

[\*\*\*]

AGREEMENT:

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Purchase Agreement as follows:

P.A. No. 3256

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

SA6-1  
**BOEING PROPRIETARY**

1. Table of Contents. The Table of Contents of the Purchase Agreement is deleted in its entirety and is replaced by the new Table of Contents and is attached as Exhibit 1 to this SA-6.
2. Articles – N/A in this SA-6.
3. Tables
  - 3.1 Table 1-ROLLS 787-916 Rev 3 is deleted in its entirety and replaced by Table 1-ROLLS 787-916 Rev 4, which incorporates the four (4) additional 787-916 Aircraft.
  - 3.2 Table 1-ROLLS 787-816 Rev 3 is deleted in its entirety as all four (4) 787-816 Aircraft have been converted to 787-916 Aircraft.
4. Exhibits and Supplemental Exhibits
  - 4.1 N/A in this SA-6.

5. Letter Agreements

[\*\*\*]

P.A. No. 3256

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

SA6-2  
**BOEING PROPRIETARY**

6. Miscellaneous

[\*\*\*]

7. Confidential Treatment.

Boeing and Customer understand that the commercial and financial information contained in this Supplemental Agreement Number 6 is considered by the parties as confidential (***Confidential Information***) and both agree not to disclose such Confidential Information except as provided herein. In addition to the parties' respective officers, directors and employees who need to know the Confidential Information and who understand the obligation to keep it confidential, the parties may disclose Confidential Information (1) to the extent required by law, including without limitation judicial order or by a requirement of a governmental agency and (2) to its agents, auditors and advisors who need to know the Confidential Information for purposes of enabling each party to understand, perform its obligations under, or receive the benefits of, this Supplemental Agreement Number 6 and who have agreed not to use or disclose the Confidential Information for any other purpose without the other party's prior written consent. In the event that a party concludes that disclosure of Confidential Information contained in this Supplemental Agreement Number 6 is required by applicable law, the party will so advise the other party promptly in writing and endeavor to protect the confidentiality of such Confidential Information to the widest extent possible. In the event of a legal dispute with Boeing, nothing herein will preclude Customer from sharing with its legal counsel information necessary for purposes of enabling counsel to advise or represent Customer provided that so long as Customer causes its legal counsel to maintain the confidentiality of information that is the subject of this Article. Except as provided in the assignment provisions of Article 10 of the Special Matters Letter Agreement 6-1162-ILK-03 1 0R6, Customer will not disclose this Supplemental Agreement Number 6 for purposes of financing payments without the prior written consent of Boeing, which consent will be provided once the financier enters into a Non Disclosure Agreement with Boeing in form and substance reasonably satisfactory to Boeing, which will include agreeing not to disclose or use Confidential Information except for the purpose set forth herein. This provision shall not apply to any Confidential Information that is in the public domain except that a party will be liable to the other for breach of its obligations under this provision if the Confidential Information entered the public domain as a consequence of a wrongful act or omission on its part.

Unless the context otherwise requires, all capitalized terms used herein and not otherwise defined shall have the same meanings as in the Purchase Agreement. The Purchase

P.A. No. 3256

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

SA6-3  
**BOEING PROPRIETARY**

Agreement will be deemed to be amended to the extent provided herein and as so amended will continue in full force and effect. In the event of any inconsistency between the above provisions and the provisions contained in the referenced exhibits to this Supplemental Agreement Number 6, the terms of the exhibits will control.

This Supplemental Agreement will become effective upon execution and receipt by both Parties on or before May 31, 2016, and shall have no effect if executed after such date.

THE BOEING COMPANY

LATAM AIRLINES GROUP S.A.

By: /s/ David Hilby  
David Hilby

By: /s/ ANDRES DEL VALLE E.  
ANDRES DEL VALLE E.

Its: Attorney-In-Fact

Its: Senior Vice president Corporate Finance  
LATAM Airlines Group

By: /s/ ROBERTO ALVO  
ROBERTO ALVO

Its: CEO International & Alliances  
LATAM AIRLINES GROUP



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SUPPLEMENTAL EXHIBITS

SA  
NUMBER

AE1.	Escalation Adjustment/Airframe and Optional Features
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BFE2.	Buyer Furnished Equipment Variables for Accelerated Aircraft
CS1.	Customer Support Variables
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EE1.GENx	Engine Escalation and Engine Warranty
SLP1.	Service Life Policy Components

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LETTER AGREEMENTS

3256-01	787 Spare Parts Initial Provisioning
3256-02	Open Configuration Matters
3256-03	787 e-Enabling Letter Agreement
3256-04	787 Spare Parts Commitment
	[***]

SA-1 & SA-2  
(Art 7.1)

SA-1& SA-2  
(Art 7.2)

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

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BOEING PROPRIETARY

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LETTER AGREEMENTS

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6-1162-ILK-0317	Option Aircraft	
6-1162-ILK-0318	Alternate Engine Selection	SA1 & SA2 (Art 2)
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6-1162-ILK-0327	Performance Guarantees 787-916/-816	SA-2 (Art7. 10)
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6-1167-MAG-0496	Aircraft Performance Guarantees for 787-816 Table 6 Aircraft	SA-3
“[***]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.		SA-4
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		BOEING PROPRIETARY

[\*\*\*]

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

TOC-4  
**BOEING PROPRIETARY**

SA-4

**Table 1 Rev 4 to  
SA-6  
Purchase Agreement No. PA-03256  
787-916 Aircraft Delivery, Description, Price and Advance Payments**

<b>Airframe Model/MTOW:</b>	787-9	557000 pounds
<b>Engine Model/Thrust:</b>	TRENT1000-J	74400 pounds
<b>Airframe Price:</b>		\$ 156,849,000
<b>Optional Features:</b>		\$ 3,839,800
<b>Sub-Total of Airframe and Features:</b>		\$ 160,688,800
<b>Engine Price (Per Aircraft):</b>		\$ 26,084,646
<b>Aircraft Basic Price (Excluding BFE/SPE):</b>		\$ 186,773,446
<b>Buyer Furnished Equipment (BFE) Estimate:</b>		\$ 0
<b>In-Flight Entertainment (IFE) Estimate:</b>		\$ 6,129,500
<b>Deposit per Aircraft:</b>		\$ 155,000

<b>Detail Specification:</b>	787B1-4102-O (9/5/2014)	
<b>Airframe Price Base</b>		
<b>Year/Escalation Formula:</b>	Jul-06	ECI-MFG/CPI
<b>Engine Price Base</b>		
<b>Year/Escalation Formula:</b>	Jul-06	787 ECI-MFG CPI Eng
<b>Airframe Escalation Data:</b>		
<b>Base Year Index (ECI):</b>	180.3	
<b>Base Year Index (CPI):</b>	195.4	
<b>Engine Escalation Data:</b>		
<b>Base Year Index (ECI):</b>	180.300	
<b>Base Year Index (CPI):</b>	195.400	

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	Escalation Factor (Engine)	Manufacturer Serial Number	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery):			
						At Signing 1%	24 Mos. 4%	21/18/12/9/6 Mos. 5%	Total 30%
Aug-2015	1	1.308	1.205	38478	\$ 247,743,000	\$2,322,430	\$ 9,909,720	\$ 12,387,150	\$74,322,900
Sep-2015	1	1.3112	1.2066	38479	\$ 248,299,000	\$2,327,990	\$ 9,931,960	\$ 12,414,950	\$74,489,700
Dec-2015	1	1.3209	1.2139	38461	\$ 250,048,000	\$2,345,480	\$10,001,920	\$ 12,502,400	\$75,014,400
Jan-2016	1	1.3242	1.2165	38459	\$ 250,646,000	\$2,351,460	\$10,025,840	\$ 12,532,300	\$75,193,800
Mar-2016	1	1.3307	1.2214	38467	\$ 251,818,000	\$2,363,180	\$10,072,720	\$ 12,590,900	\$75,545,400
May-2016	1	1.3373	1.2265	38474	\$ 253,012,000	\$2,375,120	\$10,120,480	\$ 12,650,600	\$75,903,600
Jun-2016	1	1.3406	1.2289	38482	\$ 253,605,000	\$2,381,050	\$10,144,200	\$ 12,680,250	\$76,081,300
Aug-2017	1	1.3876	1.2665	38468	\$ 262,138,000	\$2,466,380	\$10,485,520	\$ 13,106,900	\$78,641,400
Aug-2018	2	1.4293	1.3038	38460, 38463	\$ 269,812,000	\$2,543,120	\$10,792,480	\$ 13,490,600	\$80,943,000
Nov-2018	2	1.4399	1.3117	38462, 38465	\$ 271,721,000	\$2,562,210	\$10,868,840	\$ 13,586,050	\$81,516,300
1Q 2019	1	1.4506	1.3224	38481	\$ 273,720,000	\$2,582,200	\$10,948,800	\$ 13,686,000	\$82,116,000
2Q 2019	1	1.4613	1.3317	38483	\$ 275,681,000	\$2,601,810	\$11,027,240	\$ 13,784,050	\$82,704,300
3Q 2019	1	1.4722	1.3405	38469	\$ 277,663,000	\$2,621,630	\$11,106,520	\$ 13,883,150	\$83,298,900

LAN-PA-03256 SA-6  
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Boeing Proprietary

Page 1

Table 1 Rev 4 to  
SA-6  
Purchase Agreement No. PA-03256  
787-916 Aircraft Delivery, Description, Price and Advance Payments

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	Escalation Factor (Engine)	Manufacturer Serial Number	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery):			
						At Signing	24 Mos.	21/18/12/9/6 Mos.	Total
						1%	4%	5%	30%
4Q 2019	1	1.4831	1.3488	38470	\$ 279,631,000	\$ 2,641,310	\$ 11,185,240	\$ 13,981,550	\$ 83,889,300
Total:	16								

LAN-PA-03256 SA-6  
71984-1F.TXT

Boeing Proprietary

Supplemental Agreement No. 7

to

Purchase Agreement No. 3256

between

THE BOEING COMPANY

and

LATAM AIRLINES GROUP S.A.

Relating to Boeing Model 787-916/787-816 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of 20<sup>th</sup> December, 2016, (“**Supplemental Agreement Number 7” or “SA-7”**) by and between THE BOEING COMPANY, a Delaware corporation (**Boeing**), and LATAM Airlines Group S.A. (formerly having the legal name LAN Airlines S.A. and doing business as LAN Airlines), a Chilean corporation (**Customer**), amends Purchase Agreement No. 3256;

WITNESSETH:

WHEREAS, the parties entered into Purchase Agreement No. 3256, dated as of October 29, 2007, and as amended from time to time, relating to the purchase and sale of Boeing Model 787-816 and Model 787-916 Aircraft (the “**Purchase Agreement**”);

WHEREAS, Customer and Boeing wish to revise delivery dates for four (4) Model 787-916 Aircraft, previously scheduled to deliver in 2018, to two (2) delivery dates in 2020 and two (2) delivery dates in 2021;

WHEREAS, Customer and Boeing wish to document the actual delivery month for two (2) Model 787-916 Aircraft 2019 shown in 1Q 2019 and 2Q 2019, as January 2019 and April 2019.

WHEREAS, Customer and Boeing wish to document Customer’s election to change to a Cabin Systems Equipment (**CSE**) procurement program for Inflight Entertainment (**IFE**).

AGREEMENT:

P.A. No. 3256

SA7-1  
**BOEING PROPRIETARY**

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Purchase Agreement as follows:

1. Table of Contents. The Table of Contents of the Purchase Agreement is deleted in its entirety and is replaced by the new Table of Contents (identified as SA-7). Such revised Table of Contents is, by this reference, incorporated in the Agreement.

2. Articles – N/A in this SA-7.

3. Tables Table 1-Rev 4 has been revised to reflect that four (4) Aircraft formerly scheduled to deliver in 2018 have been moved. A new Table 1-B has been created for these four (4) Aircraft moved from 2018 and shows the revised delivery dates in 2020 and 2021.

3.1 Table 1-Rev 4 for Model 787-916 Aircraft is deleted in its entirety and replaced by a new Table 1-A for Model 787-916 Aircraft. Such revised Table 1-A (identified by SA-7) is, by this reference, incorporated in the Agreement.

3.2 Table 1-B for Model 787-916 is hereby added to the Purchase Agreement by this reference. This new Table 1-B reflects the revised delivery dates for four (4) Aircraft that are now scheduled to deliver in 2020 and 2021.

4. Exhibits and Supplemental Exhibits

N/A in this SA-7.

5. Letter Agreements

5.1 Boeing has submitted to Customer a draft of Letter Agreement 6-1166-TLL-0548, “Cabin Systems Equipment” (**CSE Letter Agreement**). Customer and Boeing agree to continue discussion of the CSE Letter Agreement with the intent of executing this Letter Agreement no later than November 1, 2017.

[\*\*\*]

P.A. No. 3256

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

SA7-2  
**BOEING PROPRIETARY**

6. Miscellaneous.

[\*\*\*]

7. Confidential Treatment.

Boeing and Customer understand that the commercial and financial information contained in this Supplemental Agreement is considered by the parties as confidential (***Confidential Information***) and both agree not to disclose such Confidential Information except as provided herein. In addition to the parties' respective officers, directors and employees who need to know the Confidential Information and who understand the obligation to keep it confidential, the parties may disclose Confidential Information (1) to the extent required by law, including without limitation judicial order or by a requirement of a governmental agency and (2) to its agents, auditors and advisors who need to know the Confidential Information for purposes of enabling each party to understand, perform its obligations under, or receive the benefits of, this Supplemental Agreement and who have agreed not to use or disclose the Confidential Information for any other purpose

"[\*\*\*]" This information is subject to confidential treatment and has been omitted and filed separately with the commission.

SA7-3  
**BOEING PROPRIETARY**

without the other party’s prior written consent. In the event that a party concludes that disclosure of Confidential Information contained in this Supplemental Agreement is required by applicable law, the party will so advise the other party promptly in writing and endeavor to protect the confidentiality of such Confidential Information to the widest extent possible. In the event of a legal dispute with Boeing, nothing herein will preclude Customer from sharing with its legal counsel information necessary for purposes of enabling counsel to advise or represent Customer provided that so long as Customer causes its legal counsel to maintain the confidentiality of information that is the subject of this Article. Except as provided in the assignment provisions of Article 10 of the Special Matters Letter Agreement 6-1162-ILK-0310R6, Customer will not disclose this Supplemental Agreement for purposes of financing payments without the prior written consent of Boeing, which consent will be provided once the financier enters into a Non Disclosure Agreement with Boeing in form and substance reasonably satisfactory to Boeing, which will include agreeing not to disclose or use Confidential Information except for the purpose set forth herein. This provision shall not apply to any Confidential Information that is in the public domain except that a party will be liable to the other for breach of its obligations under this provision if the Confidential Information entered the public domain as a consequence of a wrongful act or omission on its part.

Unless the context otherwise requires, all capitalized terms used herein and not otherwise defined shall have the same meanings as in the Purchase Agreement. The Purchase Agreement will be deemed to be amended to the extent provided herein and as so amended will continue in full force and effect. In the event of any inconsistency between the above provisions and the provisions contained in the referenced exhibits to this Supplemental Agreement Number 7, the terms of the exhibits will control.

This Supplemental Agreement will become effective upon execution and receipt by both Parties.

P.A. No. 3256

SA7-4  
**BOEING PROPRIETARY**



THE BOEING COMPANY

LATAM AIRLINES GROUP S.A.

By: /s/ Toni L.S. Lund  
Toni L. S. Lund

By: /s/ JOSÉ MALUF  
JOSÉ MALUF

Its Attorney-In-Fact

Its: VP Flota LATAM

By: /s/ Roberto Alvo

Its: Roberto Alvo

P.A. No. 3256

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**BOEING PROPRIETARY**

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<b>BOEING PROPRIETARY</b>		

<u>SUPPLEMENTAL EXHIBITS</u>		<u>SA NUMBER</u>
AE1.	Escalation Adjustment/Airframe and Optional Features	
BFE1.	Buyer Furnished Equipment Variables	
BFE2.	Buyer Furnished Equipment Variables for Accelerated Aircraft	SA-1 & SA-2 Art. 6.2
CS1.	Customer Support Variables	
EE1.ROLLS	Engine Escalation and Engine Warranty	
EE1.GENx	Engine Escalation and Engine Warranty	
SLP1.	Service Life Policy Components	
<u>LETTER AGREEMENTS.</u>		
3256-01	787 Spare Parts Initial Provisioning	SA-1 & SA-2 (Art 7.1)
3256-02	Open Configuration Matters	SA-1 & SA-2 (Art 7.2)
3256-03	787 e-Enabling Letter Agreement	
3256-04	787 Spare Parts Commitment [***]	

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENTS

		SA NUMBER
6-1162-ILK-0317	Option Aircraft	
6-1162-ILK-0318	Alternate Engine Selection	SA1 &SA2
	***]	(Art 2)
6-1162-ILK-0327	Performance Guarantees 787-916/-816	SA-2 (Art7.10)
	***]	
6-1167-MAG-0496	Aircraft Performance Guarantees for 787-816 Table 6 Aircraft	SA-3
	***]	

“\*\*\*]” This information is subject to  
confidential treatment and has been omitted  
and filed separately with the Commission.

TOC-3  
BOEING PROPRIETARY

SA-7

\*\*\*

“\*\*\*” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

TOC-4  
BOEING PROPRIETARY

SA-7

**Table 1-A**  
**to Purchase Agreement No. 3256**  
**Aircraft Delivery, Description, Price and Advance Payments**  
**Boeing Model 787-916 Aircraft**

<b>Airframe Model/MTOW:</b>	787-9	557000 pounds
<b>Engine Model/Thrust:</b>	TRENT1000-J	74400 pounds
<b>Airframe Price:</b>		\$ 156,849,000
<b>Optional Features:</b>		\$ 3,839,800
<b>Sub-Total of Airframe and Features:</b>		\$ 160,688,800
<b>Engine Price (Per Aircraft):</b>		\$ 26,084,646
<b>Aircraft Basic Price (Excluding BFE/SPE):</b>		\$ 186,773,446
<b>Buyer Furnished Equipment (BFE) Estimate:</b>		\$ 0
<b>In-Flight Entertainment (IFE) Estimate:</b>		\$ 6,129,500

<b>Detail Specification:</b>	787B1-4102-O (9/5/2014)		
<b>Airframe Price Base Year/Escalation Formula:</b>	Jul-06	ECI-MFG/CPI	
<b>Engine Price Base Year/Escalation Formula</b>	Jul-06	787 ECI-MFG CPI	Eng
<b>Airframe Escalation Data:</b>			
<b>Base Year Index (ECI):</b>			180.3
<b>Base Year Index (CPI):</b>			195.4
<b>Engine Escalation Data:</b>			
<b>Base Year Index (ECI):</b>			180.300
<b>Base Year Index (CPI):</b>			195.400

Deposit per Aircraft: \$ 155,000

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	Escalation Factor (Engine)	Manufacturer Serial Number	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery):			
						At Signing 1%	24 Mos. 4%	21/18/12/9/6 Mos. 5%	Total 30%
Aug-2015	1	1.3080	1.205	38478	\$ 247,743,000	\$ 2,322,430	\$ 9,909,720	\$ 12,387,150	\$ 74,322,900
Sep-2015	1	1.3112	1.2066	38479	\$ 248,299,000	\$ 2,327,990	\$ 9,931,960	\$ 12,414,950	\$ 74,489,700
Dec-2015	1	1.3209	1.2139	38461	\$ 250,048,000	\$ 2,345,480	\$ 10,001,920	\$ 12,502,400	\$ 75,014,400
Jan-2016	1	1.3242	1.2165	38459	\$ 250,646,000	\$ 2,351,460	\$ 10,025,840	\$ 12,532,300	\$ 75,193,800
Mar-2016	1	1.3307	1.2214	38467	\$ 251,818,000	\$ 2,363,180	\$ 10,072,720	\$ 12,590,900	\$ 75,545,400
May-2016	1	1.3373	1.2265	38474	\$ 253,012,000	\$ 2,375,120	\$ 10,120,480	\$ 12,650,600	\$ 75,903,600
Jun-2016	1	1.3406	1.2289	38482	\$ 253,605,000	\$ 2,381,050	\$ 10,144,200	\$ 12,680,250	\$ 76,081,500
Aug-2017	1	1.3876	1.2665	38468	\$ 262,138,000	\$ 2,466,380	\$ 10,485,520	\$ 13,106,900	\$ 78,641,400
Jan-2019	1	1.4470	1.3189	38481	\$ 273,050,000	\$ 2,575,500	\$ 10,922,000	\$ 13,652,500	\$ 81,915,000
Apr-2019	1	1.4577	1.3285	38483	\$ 275,020,000	\$ 2,595,200	\$ 11,000,800	\$ 13,751,000	\$ 82,506,000
3Q 2019 *	1	1.4722	1.3405	38469	\$ 277,663,000	\$ 2,621,630	\$ 11,106,520	\$ 13,883,150	\$ 83,298,900
4Q 2019 *	1	1.4831	1.3488	38470	\$ 279,631,000	\$ 2,641,310	\$ 11,185,240	\$ 13,981,550	\$ 83,889,300
To3tal:	12								

\* Indicative pricing for midmonth of the quarter.

LAN PA No 3256 SA-7  
71984-1F.TXT

**Boeing Proprietary**

Page 1

**Table 1-B**  
**to Purchase Agreement No. 3256**  
**Aircraft Delivery, Description, Price and Advance Payments**  
**Boeing Model 787-916 Aircraft**

<b>Airframe Model/MTOW:</b>	787-9	557000 pounds
<b>Engine Model/Thrust:</b>	TRENT1000-J	74400 pounds
<b>Airframe Price:</b>		\$ 156,849,000
<b>Optional Features:</b>		\$ 3,839,800
<b>Sub-Total of Airframe and Features:</b>		\$ 160,688,800
<b>Engine Price (Per Aircraft):</b>		\$ 26,084,646
<b>Aircraft Basic Price (Excluding BFE/SPE):</b>		<u>\$ 186,773,446</u>
<b>In-Flight Entertainment (IFE) Estimate:</b>		\$ 6,129,500
<b>Deposit per Aircraft:</b>		\$ 155,000

Detail Specification:		787B1-4102-S (12/11/2015)	
Airframe Price Base Year/Escalation			
Formula:	Jul-06	ECI-MFG/CPI	
Engine Price Base Year/Escalation			
Formula:	Jul-06	787 ECI-MFG CPI Eng	
<u>Airframe Escalation Data:</u>			
Base Year Index (ECI):		180.3	
Base Year Index (CPI):		195.4	
<u>Engine Escalation Data:</u>			
Base Year Index (ECI):		180.300	
Base Year Index (CPI):		195.400	

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	Escalation Factor (Engine)	-	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery):			
						At Signing 1%	24 Mos. 4%	21/18/12/9/6 Mos. 5%	Total 30%
2Q 2020 *	1	1.5052	1.3677		\$ 283,674,000	\$ 2,681,740	\$ 11,346,960	\$ 14,183,700	\$ 85,102,200
3Q 2020*	1	1.5163	1.3763		\$ 285,682,000	\$ 2,701,820	\$ 11,427,280	\$ 14,284,100	\$ 85,704,600
2Q 2021 *	1	1.5503	1.4033		\$ 291,850,000	\$ 2,763,500	\$ 11,674,000	\$ 14,592,500	\$ 87,555,000
3Q 2021*	1	1.5618	1.4114		\$ 293,909,000	\$ 2,784,090	\$ 11,756,360	\$ 14,695,450	\$ 88,172,700
Total:	4								

\* Indicative pricing for midmonth of the quarter.

LAN PA No 3256 SA-7  
96057-1F.TXT

Boeing Proprietary

Page 1

**AMENDMENT No.4**

TO THE

A320 NEO FAMILY PURCHASE AGREEMENT

BETWEEN

**LATAM AIRLINES GROUP S.A.**  
(formerly known as LAN AIRLINES S.A.)

AND

**AIRBUS S.A.S.**

A320NEO - LAN - AMDT 4 - A320NEO Family PA

Ref: CT1101195

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.



This amendment No.4 to the Agreement (as defined below) is entered into as of this 15 day of April 2016, by and between

AIRBUS S.A.S., having its principal office at:  
1 Rond-Point Maurice Bellonte  
31707 BLAGNAC-CEDEX  
FRANCE

(hereinafter referred to as the “**Seller**”) of the one part

AND

LATAM AIRLINES GROUP S.A. (formerly known as LAN AIRLINES S.A.) having its principal office at:  
Edificio Huidobro  
Avenida Presidente Riesco 5711- 20th Floor  
Las Condes  
SANTIAGO  
CHILE

(hereinafter referred to as the “**Buyer**”) of the other part.

The Buyer and the Seller being collectively referred to as the “**Parties**” and individually as a “**Party**”.

WHEREAS

- A.** The Buyer and the Seller entered into an A320 NEO Purchase Agreement dated June 22, 2011 covering the purchase by the Buyer and the sale by the Seller of [\*\*\*] A320 NEO Aircraft (the “Original NEO Aircraft”) and such purchase agreement, together with all exhibits, appendices and letter agreements thereto and as previously amended, supplemented or otherwise modified, are together referred to as the “**Agreement**”.
- B.** The Buyer and the Seller entered into an amendment No. 1 to the Agreement, dated February 27, 2013 (“**Amendment No.1**”), covering [\*\*\*].
- C.** The Buyer and the Seller entered into an A320 family purchase agreement dated March 20, 1998 covering the purchase by the Buyer and the sale by the Seller of certain A320 family aircraft, and such purchase agreement, its amendment No.1 dated February 24<sup>th</sup> 2000, and all exhibits, appendices and letter agreements thereto are together referred to as the “**Original A320 Family Purchase Agreement**”.

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Ref: CT1101195

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

- D.** The Buyer and the Seller entered into a deed of amendment and restatement of the Original A320 Family Purchase Agreement, dated August 2, 2000, [\*\*\*] the Original A320 Family Purchase Agreement into [\*\*\*] and pursuant to the second such agreement as supplemented with all exhibits, appendices and as amended, supplemented or otherwise modified to and including the date hereof (the “**Second A320 Family Purchase Agreement**”) whereby, among other matters, the Seller shall sell and deliver and the Buyer shall take delivery of i) [\*\*\*] Aircraft (as such term is defined in the Second A320 Family Purchase Agreement) and ii) [\*\*\*] Aircraft (as such term is defined in the Second A320 Family Purchase Agreement). Pursuant to amendment No.16 to the Second A320 Family Purchase Agreement dated of even date herewith, the Parties have agreed to [\*\*\*].
- E.** [\*\*\*]
- F.** The Buyer and the Seller entered into amendment No.2 to the Agreement, dated July 15, 2014 (“**Amendment No.2**”), covering the order of [\*\*\*] incremental A320 NEO Aircraft to become the [\*\*\*] Incremental NEO Aircraft, [\*\*\*] (as such term is defined in the Second A320 Family Purchase Agreement), and amending certain terms of the Agreement.
- G.** The Buyer and the Seller entered into amendment No.3 to the Agreement, dated December 11, 2014 (“**Amendment No.3**”), covering the order of [\*\*\*] incremental A320 NEO Aircraft and [\*\*\*] incremental A321 NEO Aircraft to become the [\*\*\*] Aircraft, [\*\*\*] (as such term is defined in the Second A320 Family Purchase Agreement).
- H.** The Buyer and the Seller now wish to enter into this amendment No.4 to the Agreement (“**Amendment No.4**”) to [\*\*\*].

**NOW IT IS HEREBY AGREED AS FOLLOWS:**

**0. DEFINITIONS**

The terms “herein,” “hereof,” and words of similar import refer to this Amendment No.4 and capitalized terms used herein and not otherwise defined in this Amendment No.4 will have the meanings assigned to them in the Agreement.

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Ref: CT1101195

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

1. SCOPE

- 1.1 The scope of this Amendment No.4 is to [\*\*\*], subject to terms and conditions set out herein.
- 1.2 Clause 1 of the Agreement is hereby cancelled in its entirety and replaced with the following quoted provision:
- QUOTE

1 SALE AND PURCHASE

The Seller shall sell and deliver and the Buyer shall buy and take delivery of [\*\*\*] A320 NEO Aircraft and [\*\*\*] A321 NEO Aircraft on the Delivery Date at the Delivery Location upon the terms and conditions contained in this Agreement.

UNQUOTE

2. RESCHEDULING

The Buyer has requested and the Seller hereby agrees to [\*\*\*] and to deliver such [\*\*\*] Aircraft in accordance with the following revised scheduled delivery quarters (each a “[\*\*\*] Scheduled Delivery Quarter”):

Rank Number	[***] Scheduled Delivery Month or Quarter	[***] Scheduled Delivery Quarter
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]

A320NEO - LAN - AMDT 4 - A320NEO Family PA

Ref: CT1101195

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

3. [\*\*\*]
- 3.1 The Buyer has requested and the Seller hereby agrees to [\*\*\*] and to deliver such [\*\*\*] in accordance with the following scheduled delivery quarters (each a “New Scheduled Delivery Quarter”):

Rank Number	[***] Aircraft Type	[***] Scheduled Delivery Quarter	[***] Aircraft Type	[***] Scheduled Delivery Quarter
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

- 3.2 [\*\*\*] shall be deemed to be an [\*\*\*] within the meaning of the Agreement and, unless otherwise expressly stipulated herein, all terms and conditions applicable to the [\*\*\*] under the Agreement shall apply to the [\*\*\*].
- 3.3 For the avoidance of doubt, the [\*\*\*] shall not be the subject of any [\*\*\*].

4 DELIVERY SCHEDULE

As a result of (a) [\*\*\*] set forth in Clause 2 above, (b) the [\*\*\*] set forth in Clause 3 above and (c) the Parties agreeing to [\*\*\*], the table contained in clause 9.1.1 of the Agreement (as amended from time to time) shall be deleted in its entirety and replaced with the following:

QUOTE

Scheduled Delivery Months or Quarters		Rank number	Aircraft type	Aircraft defined as
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.



6. [\*\*\*]

7. [\*\*\*]

**8. EFFECT OF THE AMENDMENT**

- 8.1** This Amendment No.4 contains the entire agreement between the Parties with respect to the subject matter hereof and supersedes any previous understanding, commitments or representations whatsoever, whether oral or written.
- 8.2** The Agreement shall be deemed amended to the extent provided in this Amendment No.4 and, except as specifically amended hereby, shall continue in full force and effect in accordance with its original terms.
- 8.3** The Parties agree that this Amendment No.4 shall constitute an integral, non-severable part of the Agreement and be governed by all of its provisions.
- 8.4** In the event of any inconsistency between the terms and conditions of the Agreement and those of the present Amendment No.4, the latter shall prevail to the extent of such inconsistency, whereas the part not concerned by such inconsistency shall remain in full force and effect.
- 8.5** This Amendment No.4 will not be modified or varied except by an instrument in writing executed by both Parties.
- 8.6** The Parties hereby acknowledge and agree that this Amendment No.4 is subject to the confidentiality provisions set forth in clause 22.12 of the Agreement.
- 8.7** The Parties agree that clause 21 of the Agreement shall govern the assignability and transferability of each Party’s rights and obligations under this Amendment No.4.
- 8.8** This Amendment No.4 may be signed by the Parties hereto in separate counterparts, each of which when so signed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.
- 8.9** This Amendment No.4 shall be governed by and construed in accordance with the laws of England.

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

IN WITNESS WHEREOF this Amendment No.4 to the Agreement was duly entered into the day and year first above written.

Agreed and Accepted  
For and on behalf of

LATAM AIRLINES GROUP S.A.

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_

LATAM AIRLINES GROUP S.A.

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_

A320NEO - LAN - AMDT 4 - A320NEO Family PA  
Ref: CT1101195

Agreed and Accepted  
For and on behalf of

AIRBUS S.A.S

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_

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**AMENDMENT No.5**

TO THE

A320 FAMILY PURCHASE AGREEMENT

BETWEEN

**LATAM AIRLINES GROUP S.A.**  
(formerly known as LAN AIRLINES S.A.)

AND

**AIRBUS S.A.S.**

A320NEO - LAN - AMDT 5 - A320NEO Family PA

Ref: CT1101195

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.



AIRBUS S.A.S., having its principal office at:  
1 Rond-Point Maurice Bellonte  
31707 BLAGNAC-CEDEX  
FRANCE

(hereinafter referred to as the “**Seller**”) of the one part

AND

LATAM AIRLINES GROUP S.A. (formerly known as LAN AIRLINES S.A.) having its principal office at:  
Edificio Huidobro  
Avenida Presidente Riesco 5711- 20<sup>th</sup> Floor  
Las Condes  
SANTIAGO  
CHILE

(hereinafter referred to as the “**Buyer**”) of the other part.

The Buyer and the Seller being collectively referred to as the “Parties” and individually as a “Party”.

WHEREAS

- A.** The Buyer and the Seller entered into an A320 Family Purchase Agreement dated June 22, 2011 covering the purchase by the Buyer and the sale by the Seller of [\*\*\*] A320 NEO Aircraft and such purchase agreement, together with all exhibits, appendices, letter agreements thereto and as previously amended, supplemented or otherwise modified, are together referred to as the “**Agreement**”.
- B.** The Buyer and the Seller entered into an amendment No. 1 to the Agreement dated February 27, 2013 covering [\*\*\*].
- C.** The Buyer and the Seller entered into an A320 family purchase agreement dated March 20, 1998 covering the purchase by the Buyer and the sale by the Seller of [\*\*\*] A320 family aircraft bearing rank numbers [\*\*\*]. By amendment No. 1 to such purchase agreement, entered into by the Buyer and the Seller on February 24<sup>th</sup> 2000, the number of A320 family aircraft to be purchased was increased to [\*\*\*], with the additional [\*\*\*] A320 family aircraft bearing rank numbers [\*\*\*]. Such [\*\*\*] A320 family aircraft are hereinafter referred to as the “**Original A320 Family Aircraft**”, and such purchase agreement, amendment No. 1, and all exhibits, appendices and letter agreements thereto, as amended, supplemented or otherwise modified until August 1<sup>st</sup> 2000, are together referred to as the “**Original A320 Family Purchase Agreement**”.

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Ref: CT1101195

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

- D.** The Buyer and the Seller entered into a deed of amendment and restatement of the Original A320 Family Purchase Agreement, dated August 2, 2000, [\*\*\*] the Original A320 Family Purchase Agreement [\*\*\*], the first agreement concerning the Original A320 Family Aircraft bearing rank numbers [\*\*\*] and the second agreement concerning the Original A320 Family Aircraft bearing rank [\*\*\*]. The second agreement as supplemented with all exhibits, appendices and as amended, supplemented or otherwise modified to and including the date hereof (the “**Second A320 Family Purchase Agreement**”) covers, among other matters, the sale by the Seller and purchase by the Buyer of i) [\*\*\*] (as such term is defined in the Second A320 Family Purchase Agreement) and ii) [\*\*\*] (as such term is defined in the Second A320 Family Purchase Agreement). Pursuant to amendment No.16 to the Second A320 Family Purchase Agreement dated July 15, 2014, the Parties have agreed to [\*\*\*]. Pursuant to amendment No. 17 to the Second A320 Family Purchase Agreement dated December 11, 2014, the Parties agreed to [\*\*\*].
- E.** [\*\*\*]
- F.** The Buyer and the Seller entered into amendment No. 2 to the Agreement, dated July 15, 2014 (“**Amendment No. 2**”), covering the order of [\*\*\*] incremental A320 NEO Aircraft to become the 2014 Incremental NEO Aircraft [\*\*\*] and amending certain terms of the Agreement.
- G.** The Buyer and the Seller entered into amendment No. 3 to the Agreement, dated December 11, 2014 (“**Amendment No. 3**”), covering the order of [\*\*\*] Aircraft and [\*\*\*] become the [\*\*\*] Aircraft [\*\*\*] (as such term is defined in the Second A320 Family Purchase Agreement).
- H.** The Buyer and the Seller entered into amendment No. 4 to the Agreement, dated as of even date herewith (“**Amendment No. 4**”), [\*\*\*].
- I.** The Buyer and the Seller now wish to enter into this amendment No. 5 to the Agreement (the “**Amendment No. 5**”) to amend certain provisions of the Agreement to [\*\*\*].

NOW IT IS HEREBY AGREED AS FOLLOWS:

**0. Definitions**

- 0.1 Capitalized terms used herein and not otherwise defined in this Amendment No. 5 will have the meanings assigned to them in the Agreement.

A320NEO - LAN - AMDT 5 - A320NEO Family PA

Ref: CT1101195

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

## 1. SCOPE

The purpose of this Amendment No. 5 is to make the necessary amendments to the Agreement to [\*\*\*].

## 2. STANDARD SPECIFICATION OF THE AIRCRAFT

### 2.1. Definition Clause

2.1.1 The Parties hereby agree to either insert in alphabetical order or amend and restate, as the case may be, the following definitions in Clause 0.1 of the Agreement:

**A319 NEO Aircraft** – an A319-100N aircraft to be sold by the Seller and purchased by the Buyer pursuant to this Agreement, including the A319 NEO Airframe and all components, equipment, parts and accessories installed in or on such aircraft and the A319 Propulsion Systems installed thereon upon Delivery.

**A319 NEO Airframe** – any A319 NEO Aircraft excluding the A319 Propulsion Systems.

**A319 NEO Standard Specification** - the A319-100N standard specification document [\*\*\*] which includes a maximum take-off weight (MTOW) of [\*\*\*], a maximum landing weight (MLW) of [\*\*\*] and a maximum zero fuel weight (MZFW) of [\*\*\*], a copy of which has been annexed hereto as Exhibit A-1.

**A319 NEO Specification** – the A319 NEO Standard Specification as amended by all applicable SCNs.

**A320 NEO Aircraft** – an A320-200N aircraft to be sold by the Seller and purchased by the Buyer pursuant to this Agreement, including the A320 NEO Airframe and all components, equipment, parts and accessories installed in or on such aircraft and the A320 Propulsion Systems installed thereon upon Delivery.

**A320 NEO Airframe** – any A320 NEO Aircraft excluding the A320 Propulsion Systems.

**A320 NEO Standard Specification** – the A320-200N standard specification document [\*\*\*], which includes a maximum take-off weight (MTOW) of [\*\*\*], a maximum landing weight (MLW) of [\*\*\*] and a maximum zero fuel weight (MZFW) of [\*\*\*], a copy of which has been annexed hereto as Exhibit A-2.

**A320 NEO Specification** – the A320 NEO Standard Specification as amended by all applicable SCNs.

**A321 NEO Aircraft** – an A321-200N aircraft to be sold by the Seller and purchased by the Buyer pursuant to this Agreement, including the A321 NEO Airframe and all components, equipment, parts and accessories installed in or on such aircraft and the A321 Propulsion Systems installed thereon upon Delivery.

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Ref: CT1101195

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

**A321 NEO Airframe** – any A321 NEO Aircraft excluding the A321 Propulsion Systems.

**A321 NEO Standard Specification** – the A321-200N standard specification document [\*\*\*], which includes a maximum take-off weight (MTOW) of [\*\*\*], a maximum landing weight (MLW) of [\*\*\*] and a maximum zero fuel weight (MZFW) of [\*\*\*], a copy of which has been annexed hereto as Exhibit A-3.

**A321 NEO Specification** – the A321 NEO Standard Specification as amended by all applicable SCNs.

**Airframe** – as applicable, the A319 NEO Airframe, the A320 NEO Airframe or the A321 NEO Airframe.

**NEO Aircraft** – means the respective Aircraft.

**NEO Standard Specification** - means individually or collectively the A319 NEO Standard Specification, the A320 NEO Standard Specification or the A321 NEO Standard Specification, as applicable.

**Specification** means either (a) the applicable NEO Standard Specification if no SCNs are applicable or (b) the A319 NEO Specification, the A320 NEO Specification, or the A321 NEO Specification, as applicable.

2.1.2 The following definitions are hereby deleted in their entirety from Clause 0.1 of the Agreement:

**A319 Aircraft** - an A319 aircraft to be sold by the Seller and purchased by the Buyer pursuant to this Agreement, including the A319 Airframe and all components, equipment, parts and accessories installed in or on such aircraft and the A319 Propulsion System installed thereon upon Delivery.

**A319 Airframe** - any A319 Aircraft, excluding the A319 Propulsion System therefor.

**A319 Specification** - the A319 Standard Specification as amended by all applicable SCNs.

**A319 Standard Specification** - the A319 standard specification document number [\*\*\*], which includes a maximum take-off weight (MTOW) of [\*\*\*], a maximum landing weight (MLW) of [\*\*\*] and a maximum zero fuel weight (MZFW) of [\*\*\*], a copy of which is annexed hereto as Exhibit A-1.

A320NEO - LAN - AMDT 5 - A320NEO Family PA

Ref: CT1101195

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

**A320 Aircraft** – an A320 aircraft to be sold by the Seller and purchased by the Buyer pursuant to this Agreement, including the A320 Airframe and all components, equipment, parts and accessories installed in or on such aircraft and the A320 Propulsion System, as applicable, installed thereon upon Delivery.

**A320 Airframe** – any A320 Aircraft, excluding the A320 Propulsion System therefor.

**A320 Specification** – the A320 Standard Specification as amended by all applicable SCNs.

**A320 Standard Specification** – the A320 standard specification document number [\*\*\*], which includes a maximum take-off weight (MTOW) of [\*\*\*], a maximum landing weight (MLW) of [\*\*\*] and a maximum zero fuel weight (MZFW) of [\*\*\*], a copy of which is annexed hereto as Exhibit A-2.

**A321 Aircraft** – an A321 aircraft to be sold by the Seller and purchased by the Buyer pursuant to this Agreement, including the A321 Airframe and all components, equipment, parts and accessories installed in or on such aircraft and the A321 Propulsion System installed thereon upon Delivery.

**A321 Airframe** – any A321 Aircraft, excluding the A321 Propulsion System therefor.

**A321 Specification** – the A321 Standard Specification as amended by all applicable SCNs.

**A321 Standard Specification** – the A321 standard specification document number [\*\*\*], which includes a maximum take-off weight (MTOW) of [\*\*\*], a maximum landing weight (MLW) of [\*\*\*] and a maximum zero fuel weight (MZFW) of [\*\*\*], a copy of which is annexed hereto as Exhibit A-3.

**Irrevocable SCNs** means the list of SCNs, which are irrevocably part of the A319 NEO specification, A320 NEO specification or the A321 NEO Specification, as applicable, as set forth in Appendix 1 to Exhibit A-1, Appendix 1 to Exhibit A-2 and Appendix 1 to Exhibit A-3, respectively.

**New Engine Option or “NEO”** has the meaning set forth in Clause 2.1 hereof.

**Sharklets** means a new large wingtip device, currently under development by the Seller, designed to enhance the eco-efficiency and payload range performance of the A320 family aircraft, and which are part of the New Engine Option and corresponding Irrevocable SCNs.

2.2 Specification

Clause 2 of the Agreement is hereby cancelled in its entirety and replaced with the following quoted provisions:

QUOTE

2 SPECIFICATION

2.1 Aircraft Specification

2.1.1 Each Aircraft shall be manufactured in accordance with the relevant NEO Standard Specification as may already have been modified or varied at the date of Amendment No. 5 by the Specification Change Notices listed in Appendix 1 to Exhibit A-1, Appendix 1 to Exhibit A-2 or Appendix 1 to Exhibit A-3, as applicable.

2.1.2 [\*\*\*]

2.2 Specification Amendment

The parties understand and agree that the Specification may be further amended following signature of this Agreement in accordance with the terms of this Clause 2.

2.2.1 Specification Change Notice

The Specification may be amended by written agreement between the parties in a Specification Change Notice (“SCN”). Each SCN shall be substantially in the form set out in Exhibit B1 and shall set out the SCN’s Aircraft embodiment rank number and shall also set forth, in detail, the particular change to be made to the Specification and the effect, if any, of such change on [\*\*\*]. An SCN may result in an adjustment of the Aircraft Base Price, which adjustment, if any, shall be specified in the SCN.

2.2.2 Development Changes

The Specification may also be amended to incorporate changes deemed necessary by the Seller to improve the Aircraft, prevent delay or ensure compliance with this Agreement (“Development Changes”), as set forth in this Clause 2.

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

- 2.2.2.1

Manufacturer Specification Change Notices
- 2.2.2.1.1

The Specification may be amended by the Seller through a Manufacturer Specification Change Notice (“**MSCN**”), which shall be substantially in the form set out in Exhibit B2 hereto, or by such other means as may be deemed appropriate, and shall set out the MSCN’s Aircraft embodiment rank as well as, in detail, the particular change to be made to the Specification and the effect, if any, of such change on [\*\*\*].

2.2.2.1.2

[\*\*\*].

2.2.2.2

In the event of the Seller revising the Specification to incorporate Development Changes which have no adverse effect [\*\*\*], such revision shall be performed by the Seller without the Buyer’s consent.

In such cases, the Buyer shall have access to the details of such changes through the relevant application in AirbusWorld.

2.3

**Propulsion Systems**

2.3.1

Each Airframe shall be equipped with a set of either [\*\*\*] or [\*\*\*], upon selection referred to respectively as the “**Propulsion Systems**”.
- |                     |       |       |
|---------------------|-------|-------|
|                     | [***] | [***] |
| <b>A319-100 NEO</b> | [***] | [***] |
| <b>A320-200 NEO</b> | [***] | [***] |
| <b>A321-200 NEO</b> | [***] | [***] |
- \* *AET means Airbus Equivalent Thrust*
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- “[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

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2.3.2 \*\*\*.

## 2.4 Milestones

### 2.4.1 Customization Milestones Chart

Within a reasonable period following signature of the Agreement, the Seller shall provide the Buyer with a customization milestones chart (the “**Customization Milestone Chart**”), setting out how far in advance of the Scheduled Delivery Month of the Aircraft an SCN must be executed in order to integrate into the Specification any items requested by the Buyer from the Seller’s catalogues of Specification change options (the “**Option Catalogues**”).

### 2.4.2 Contractual Definition Freeze

The Customization Milestone Chart shall define the date(s) by which the contractual definition of the Aircraft must be finalized and all SCNs need to have been executed by the Buyer and the Seller (the “**Contractual Definition Freeze**” or “**CDF**”) in order to enable their incorporation into the manufacturing of the Aircraft and Delivery of the Aircraft in the Scheduled Delivery Month. Each such date shall be referred to as a “**CDF Date**”.  
\*\*\*.

2.4.3 \*\*\*

\*\*\*.

UNQUOTE

## 3. PRICE

Clause 3 of the Agreement is hereby cancelled in its entirety and replaced with the following quoted provisions:

QUOTE

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.



- 
- 3 PRICES**
- 3.1 Airframe Base Price**
- 3.1.1 The A319 NEO Airframe Base Price is the sum of:**
- (i) the base price of the A319 NEO Airframe as defined in the A319 NEO Standard Specification (excluding Buyer Furnished Equipment), including nacelles and thrust reversers, which is:  
[\*\*\*]
  - (ii) the sum of the base prices of all additional SCNs set forth in Appendix 1 to Exhibit A-1, which is:  
[\*\*\*]
  - (iii) [\*\*\*]
- 3.1.2 The A320 NEO Airframe Base Price is the sum of:**
- (i) the base price of the A320 NEO Airframe as defined in the A320 NEO Standard Specification (excluding Buyer Furnished Equipment), including nacelles and thrust reversers, which is:  
[\*\*\*]
  - (ii) the sum of the base prices of all additional SCNs set forth in Appendix 1 to Exhibit A-2, which is:  
[\*\*\*]
  - (iii) [\*\*\*]
- 3.1.3 The A321 NEO Airframe Base Price is the sum of:**
- (i) the base price of the A321 NEO Airframe as defined in the A321 NEO Standard Specification (excluding Buyer Furnished Equipment), including nacelles and thrust reversers, which is:  
[\*\*\*]

(ii) the sum of the base prices of all additional SCNs set forth in Appendix 1 to Exhibit A-3, which is:

[\*\*\*]

(iii) [\*\*\*]

3.1.4 The above Airframe Base Prices have been established in accordance with a theoretical delivery in [\*\*\*] (the “Base Period”).

### 3.2 Propulsion Systems Base Price

3.2.1 The Propulsion Systems Base Price of a set of two (2) CFM International LEAP-[\*\*\*] (the, “[\*\*\*]”) for the A319 NEO Aircraft is:

[\*\*\*]

Said Propulsion Systems Base Price has been established in accordance with a theoretical delivery in [\*\*\*] and has been calculated from the Reference Price indicated by [\*\*\*] and set forth in Part 2 of Exhibit C.

3.2.2 The Propulsion Systems Base Price of a set of [\*\*\*] engines (the, “[\*\*\*]”) for the A319 NEO Aircraft is:

[\*\*\*]

Said Propulsion Systems Base Price has been established in accordance with a theoretical delivery in [\*\*\*] and has been calculated from the Reference Price indicated [\*\*\*] and set forth in Part 3 of Exhibit C.

3.2.3 The Propulsion Systems Base Price of a set of [\*\*\*] for the A320 NEO Aircraft is:

[\*\*\*]

Said Propulsion Systems Base Price has been established in accordance with a theoretical delivery in [\*\*\*] and has been calculated from the Reference Price indicated by [\*\*\*] and set forth in Part 2 of Exhibit C.

3.2.4 The Propulsion Systems Base Price of a set of [\*\*\*] for the A320 NEO Aircraft is:

[\*\*\*]

Said Propulsion Systems Base Price has been established in accordance with a theoretical delivery in [\*\*\*] and has been calculated from the Reference Price indicated by [\*\*\*] and set forth in Part 3 of Exhibit C.

3.2.5 The Propulsion Systems Base Price of a set of [\*\*\*] for the A321 NEO Aircraft is:

[\*\*\*]

Said Propulsion Systems Base Price has been established in accordance with a theoretical delivery in [\*\*\*] and has been calculated from the Reference Price indicated by [\*\*\*] and set forth in Part 2 of Exhibit C.

3.2.6 The Propulsion Systems Base Price of a set of [\*\*\*] for the A321 NEO Aircraft is:

[\*\*\*]

Said Propulsion Systems Base Price has been established in accordance with a theoretical delivery in [\*\*\*] and has been calculated from the Reference Price indicated by [\*\*\*] and set forth in Part 3 of Exhibit C.

### 3.3 Final Price

The Final Price of each Aircraft shall be the sum of:

- (i) the Airframe Base Price as revised as of the Delivery Date in accordance with Clause 4.1; plus
- (ii) the aggregate of all increases or decreases to the Airframe Base Price as agreed in any Specification Change Notice or part thereof applicable to the Airframe subsequent to the date of this Agreement as revised as of the Delivery Date in accordance with Clause 4.1; plus
- (iii) the Propulsion Systems Reference Price as revised as of the Delivery Date in accordance with Clause 4.2; plus

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

- (iv) the aggregate of all increases or decreases to the Propulsion Systems Reference Price as agreed in any Specification Change Notice or part thereof applicable to the Propulsion Systems subsequent to the date of this Agreement as revised as of the Delivery Date in accordance with Clause 4.2; plus
- (v) any other amount due by the Buyer to the Seller pursuant to this Agreement and/or any other written agreement between the Buyer and the Seller with respect to the Aircraft.

UNQUOTE

**4. EXHIBIT A – SPECIFICATION**

Exhibit A-1, Exhibit A-2 and Exhibit A-3 of the Agreement are hereby cancelled in their entirety and replaced with the provisions set out in Schedule 1 attached hereto.

**5. EXHIBIT C Part 1 – Seller Price Revision Formula**

In Clause 3 of Part 1 of Exhibit C to the Agreement the reference to “Table 6” is hereby replaced with “Table 9”.

**6. EXHIBIT C Part 2 – Propulsion System Price Revision Formula ([\*\*\*)]**

6.1 Clause 1 of Part 2 of Exhibit C is hereby deleted in its entirety and replaced with the following quoted text:

QUOTE

**1. REFERENCE PRICE OF THE PROPULSION SYSTEMS**

[\*\*\*)]:

[***)	[***)
[***)	[***)
[***)	[***)
[***)	[***)
[***)	[***)
[***)	[***)

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“[\*\*\*)” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

The Reference Price is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics and in accordance with the provisions of Clauses 4 and 5 hereof.

UNQUOTE

6.2 In Clause 3 of Part 2 of Exhibit C to the Agreement the reference to “Table 6” is hereby replaced with “Table 9”.

7. **EXHIBIT C Part 3 – Propulsion System Price Revision Formula (\*\*\*)**

7.1 Part 3 of Exhibit C is hereby amended by replacing each and every reference to [\*\*\*] with [\*\*\*]

7.2 Clause 1 of Part 3 of Exhibit C is hereby deleted in its entirety and replaced with the following quoted text:

QUOTE

1. **REFERENCE PRICE OF THE PROPULSION SYSTEMS**

The Reference Price of a set of [\*\*\*] Propulsion Systems is:

[***]	[***]
[***]	[***]
[***]	[***]

The Reference Price is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics, and in accordance with the provisions hereof.

UNQUOTE

7.3 In Clause 3 of Part 3 of Exhibit C to the Agreement the reference to “Table 6” is hereby replaced with “Table 9”.

8. **Letter Agreement No. 5 – [\*\*\*]**

[\*\*\*]

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

**9. Recitals**

9.1 Recital A of Amendment No. 2 is hereby cancelled in its entirety and replaced with the following quoted provisions:

QUOTE

**A.** The Buyer and the Seller entered into an A320 NEO Purchase Agreement dated June 22, 2011 covering the purchase by the Buyer and the sale by the Seller of [\*\*\*] A320 NEO Aircraft and such purchase agreement, together with all exhibits, appendices and letter agreements thereto and as previously amended, supplemented or otherwise modified, are together referred to as the “**Agreement**”.

UNQUOTE

9.2 Recital A of Amendment No. 3 is hereby cancelled in its entirety and replaced with the following quoted provisions:

QUOTE

**A.** The Buyer and the Seller entered into an A320 NEO Purchase Agreement dated June 22, 2011 covering the purchase by the Buyer and the sale by the Seller of [\*\*\*] A320 NEO Aircraft and such purchase agreement, together with all exhibits, appendices and letter agreements thereto and as previously amended, supplemented or otherwise modified, are together referred to as the “**Agreement**”.

UNQUOTE

9.3 Recital D of Amendment No. 3 is hereby cancelled in its entirety and replaced with the following quoted provisions:

QUOTE

**D.** The Buyer and the Seller entered into a deed of amendment and restatement of the Original A320 Family Purchase Agreement, dated August 2, 2000, [\*\*\*] the Original A320 Family Purchase Agreement into [\*\*\*] and pursuant to the second such agreement as supplemented with all exhibits, appendices and as amended, supplemented or otherwise modified to and including the date hereof (the “Second A320 Family Purchase Agreement”) whereby, among other matters, the Seller shall sell and deliver and the Buyer shall take delivery of i) [\*\*\*] Aircraft (as such term is defined in the Second A320 Family Purchase Agreement) and ii) [\*\*\*] Aircraft (as such term is defined in the Second A320 Family Purchase Agreement). Pursuant to amendment No.16 to the Second A320 Family Purchase Agreement dated of even date herewith, the Parties have agreed to [\*\*\*].

UNQUOTE

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

9.4 Recital F of Amendment No. 3 is hereby cancelled in its entirety and replaced with the following quoted provisions:

QUOTE

F. The Buyer and the Seller entered into amendment No. 2 to the Agreement covering the order of [\*\*\*] incremental A320 NEO Aircraft to become the [\*\*\*] NEO Aircraft, [\*\*\*] (as such term is defined in the Second A320 Family Purchase Agreement), and amending certain terms of the Agreement.

UNQUOTE

#### 10. PREDELIVERY PAYMENTS

Any Predelivery Payments [\*\*\*] shall be paid by the Buyer to the Seller [\*\*\*] the date of signature of this Amendment No. 5.

Any Predelivery Payments [\*\*\*] shall be applied on the date [\*\*\*] due under the Agreement, as amended by this Amendment No. 5.

[\*\*\*]

#### 12. EFFECT OF THE AMENDMENT

12.1 This Amendment No. 5 contains the entire agreement between the Parties with respect to the subject matter hereof and supersedes any previous understanding, commitments or representations whatsoever, whether oral or written.

12.2 The Agreement shall be deemed amended to the extent provided in this Amendment No. 5. Except as specifically amended hereby, the Agreement shall continue in full force and effect in accordance with its original terms.

12.3 The Parties agree that this Amendment No. 5 shall constitute an integral, non-severable part of the Agreement and be governed by all of its provisions.

12.4 In the event of any inconsistency between the terms and conditions of the Agreement and those of the present Amendment No. 5, the latter shall prevail to the extent of such inconsistency, whereas the part not concerned by such inconsistency shall remain in full force and effect.

12.5 This Amendment No. 5 will not be modified or varied except by an instrument in writing executed by both Parties.

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

- 12.6 The Parties hereby acknowledge and agree that this Amendment No. 5 is subject to the confidentiality provisions set forth in clause 22.12 of the Agreement.
- 12.7 The Parties agree that clause 21 of the Agreement shall govern the assignability and transferability of each Party’s rights and obligations under this Amendment No. 5.
- 12.8 This Amendment No. 5 may be signed by the Parties hereto in separate counterparts, each of which when so signed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.
- 12.9 This Amendment No. 5 shall be governed by and construed in accordance with the laws of England.
- 12.10 In the event that any provision of this Amendment No. 5 should for any reason be held ineffective, the remainder of this Amendment No. 5 shall remain in full force and effect. To the extent permitted by applicable law, each party hereto hereby waives any provision of law which renders any provision of this Amendment No. 5 prohibited or unenforceable in any respect. Any provisions of this Amendment No. 5 which may prove to be or become, illegal, invalid or unenforceable in whole or in part, shall as far as reasonably possible, and subject to applicable law, be performed in accordance with the spirit and purpose of this Amendment No. 5.

This Amendment No. 5 has been executed in two (2) original specimens which are in English.

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.



IN WITNESS WHEREOF this Amendment No. 5 to the Agreement was duly entered into the day and year first above written.

Agreed and Accepted  
For and on behalf of

LATAM AIRLINES GROUP S.A.

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_

LATAM AIRLINES GROUP S.A.

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_

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Agreed and Accepted  
For and on behalf of

AIRBUS S.A.S

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

\*\*\*

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**AMENDMENT No.6**

TO THE

A320 FAMILY PURCHASE AGREEMENT

BETWEEN

**LATAM AIRLINES GROUP S.A.**  
(formerly known as LAN AIRLINES S.A.)

AND

**AIRBUS S.A.S.**

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

This amendment No.6 to the Agreement (as defined below) is entered into as of this 8 day of August 2016, by and between

AIRBUS S.A.S., having its principal office at:  
1 Rond-Point Maurice Bellonte  
31707 BLAGNAC-CEDEX  
FRANCE

(hereinafter referred to as the “**Seller**”) of the one part

AND

LATAM AIRLINES GROUP S.A. (formerly known as LAN AIRLINES S.A.) having its principal office at:  
Edificio Huidobro  
Avenida Presidente Riesco 5711- 20th Floor  
Las Condes  
SANTIAGO  
CHILE

(hereinafter referred to as the “**Buyer**”) of the other part.

The Buyer and the Seller being collectively referred to as the “**Parties**” and individually as a “**Party**”.

WHEREAS

- A.** The Buyer and the Seller entered into an A320 Family Purchase Agreement dated June 22, 2011 covering the purchase by the Buyer and the sale by the Seller of the Original NEO Aircraft (as such term is defined in Amendment No. 4) and such purchase agreement, together with all exhibits, appendices, letter agreements thereto and as previously amended, supplemented or otherwise modified, are together referred to as the “**Agreement**”.
- B.** The Buyer and the Seller entered into an amendment No. 1 to the Agreement dated February 27, 2013 covering [\*\*\*]
- C.** The Buyer and the Seller entered into an A320 family purchase agreement dated March 20, 1998 covering the purchase by the Buyer and the sale by the Seller of [\*\*\*] A320 family aircraft bearing rank numbers [\*\*\*]. By amendment No. 1 to such purchase agreement, entered into by the Buyer and the Seller on February 24<sup>th</sup> 2000, the number of A320 family aircraft to be purchased was [\*\*\*], with the additional [\*\*\*] A320 family aircraft bearing rank numbers [\*\*\*]. Such [\*\*\*] A320 family aircraft are hereinafter referred to as the “**Original A320 Family Aircraft**”, and such purchase agreement, amendment No. 1, and all exhibits, appendices and letter agreements thereto, as amended, supplemented or otherwise modified until August 1<sup>st</sup> 2000, are together referred to as the “**Original A320 Family Purchase Agreement**”.

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

- D.** The Buyer and the Seller entered into a deed of amendment and restatement of the Original A320 Family Purchase Agreement, dated August 2, 2000, [\*\*\*] Original A320 Family Purchase Agreement [\*\*\*], the first agreement concerning the Original A320 Family Aircraft bearing rank numbers [\*\*\*] and the second agreement concerning the Original A320 Family Aircraft bearing rank numbers [\*\*\*]. The second agreement as supplemented with all exhibits, appendices and as further amended, supplemented or otherwise modified (the “**Second A320 Family Purchase Agreement**”) covers, among other matters, the sale by the Seller and purchase by the Buyer of i) [\*\*\*] Aircraft (as such term is defined in the Second A320 Family Purchase Agreement) and ii) [\*\*\*] Aircraft (as such term is defined in the Second A320 Family Purchase Agreement). Pursuant to amendment No.16 to the Second A320 Family Purchase Agreement dated July 15, 2014, the Parties have agreed to [\*\*\*]. Pursuant to amendment No. 17 to the Second A320 Family Purchase Agreement dated December 11, 2014, the Parties agreed to [\*\*\*].
- E.** [\*\*\*]
- F.** The Buyer and the Seller entered into amendment No. 2 to the Agreement, dated July 15, 2014 (“**Amendment No. 2**”), covering the order of [\*\*\*] incremental A320 NEO Aircraft to become the [\*\*\*] Aircraft, [\*\*\*] (as such term is defined in the Second A320 Family Purchase Agreement), and amending certain terms of the Agreement.
- G.** The Buyer and the Seller entered into amendment No. 3 to the Agreement, dated December 11, 2014 (“**Amendment No. 3**”), covering the order of [\*\*\*] incremental A320 NEO Aircraft and [\*\*\*] incremental A321 NEO Aircraft to become the [\*\*\*] Aircraft, [\*\*\*] (as such term is defined in the Second A320 Family Purchase Agreement).
- H.** The Buyer and the Seller entered into amendment No. 4 to the Agreement, dated as of April 15, 2016 (“**Amendment No. 4**”), [\*\*\*].
- I.** The Buyer and the Seller entered into amendment No. 5 to the Agreement, dated as of April 15, 2016 [\*\*\*].
- J.** The Buyer and the Seller entered into, as of the same date hereof, an amendment No.24 to the A320 / A330 Purchase Agreement dated November 14, 2006, with reference CT1242567 (“**Amendment No.24**”) (the “**Other Agreement**”) [\*\*\*].
- K.** The Buyer and the Seller now wish to enter into this amendment No.6 to the Agreement (“**Amendment No.6**”) [\*\*\*].

**NOW IT IS HEREBY AGREED AS FOLLOWS:**

**0. DEFINITIONS**

The terms “herein,” “hereof,” and words of similar import refer to this Amendment No.6 and capitalized terms used herein and not otherwise defined in this Amendment No.6 will have the meanings assigned to them in the Agreement.

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.



1. SCOPE

The scope of this Amendment No.6 is to [\*\*\*] subject to terms and conditions set out herein.

[\*\*\*]

2.2 Clause 1 of the Agreement is hereby cancelled in its entirety and replaced with the following quoted provisions:

QUOTE

1 SALE AND PURCHASE

The Seller shall sell and deliver and the Buyer shall buy and take delivery of [\*\*\*] A320 NEO Aircraft and [\*\*\*] A321 NEO Aircraft on the Delivery Date at the Delivery Location upon the terms and conditions contained in this Agreement.

UNQUOTE

[\*\*\*]

3. DELIVERY SCHEDULE

As a result of (a) [\*\*\*] set forth in Clause 2.1 above and (b) the Parties agreeing to [\*\*\*], the table contained in clause 9.1.1 of the Agreement (as amended from time to time) shall be deleted in its entirety and replaced with the following:

QUOTE

Scheduled Delivery Months or Quarters		Rank number	Aircraft type	Aircraft defined as
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

[illegible]

#### 4. PREDELIVERY PAYMENTS

$$\begin{bmatrix} *** \end{bmatrix}$$
[illegible]

## 9. EFFECT OF THE AMENDMENT

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- 9.2** The Agreement shall be deemed amended to the extent provided in this Amendment No.6 and, except as specifically amended hereby, shall continue in full force and effect in accordance with its original terms.
- 9.3** The Parties agree that this Amendment No.6 shall constitute an integral, non-severable part of the Agreement and be governed by all of its provisions.
- 9.4** In the event of any inconsistency between the terms and conditions of the Agreement and those of the present Amendment No.6, the latter shall prevail to the extent of such inconsistency, whereas the part not concerned by such inconsistency shall remain in full force and effect.
- 9.5** This Amendment No.6 will not be modified or varied except by an instrument in writing executed by both Parties.
- 9.6** The Parties hereby acknowledge and agree that this Amendment No.6 is subject to the confidentiality provisions set forth in clause 22.12 of the Agreement.
- 9.7** The Parties agree that clause 21 of the Agreement shall govern the assignability and transferability of each Party's rights and obligations under this Amendment No.6.
- 9.8** This Amendment No.6 may be signed by the Parties hereto in separate counterparts, each of which when so signed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.
- 9.9** In the event that any provision of this Amendment No. 6 should for any reason be held ineffective, the remainder of this Amendment No. 6 shall remain in full force and effect. To the extent permitted by applicable law, each party hereto hereby waives any provision of law which renders any provision of this Amendment No. 6 prohibited or unenforceable in any respect. Any provisions of this Amendment No. 6 which may prove to be or become, illegal, invalid or unenforceable in whole or in part, shall as far as reasonably possible, and subject to applicable law, be performed in accordance with the spirit and purpose of this Amendment No. 6.

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

IN WITNESS WHEREOF this Amendment No.6 to the Agreement was duly entered into the day and year first above written.

Agreed and Accepted  
For and on behalf of

Agreed and Accepted  
For and on behalf of

LATAM AIRLINES GROUP S.A.

By: \_\_\_\_\_

Its: \_\_\_\_\_

Date: \_\_\_\_\_

AIRBUS S.A.S

By: \_\_\_\_\_

Its: \_\_\_\_\_

Date: \_\_\_\_\_

LATAM AIRLINES GROUP S.A.

By: \_\_\_\_\_

Its: \_\_\_\_\_

Date: \_\_\_\_\_

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

**AMENDMENT N°6**  
**TO THE**  
**A 350 XWB PURCHASE AGREEMENT**  
**BETWEEN**  
**AIRBUS S.A.S.**  
**as Seller**  
**AND**  
**LATAM AIRLINES GROUP S.A.**  
**as Buyer**  
REF: D10013836

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

**AMENDMENT N°6**  
**TO THE**  
**A 350 XWB PURCHASE AGREEMENT**

This Amendment N°6 is made as of the \_3rd\_\_\_\_ day of February 2016,

Between

**AIRBUS S.A.S.**, having its principal office at:

1, rond-point Maurice Bellonte  
31707 BLAGNAC CEDEX

FRANCE

and registered with the Toulouse *Registre du Commerce et des Sociétés* under number RCS Toulouse 383 474 814 (hereinafter referred to as “**the Seller**”) of the one part,

AND

**LATAM AIRLINES GROUP S.A.**, having its principal office at:

Edificio Huidobro  
Avenida Presidente Riesco 5711 – 20th Floor  
Las Condes  
SANTIAGO

CHILE

(herein after referred to as “**the Buyer**”) of the other part.

The Seller and the Buyer are hereinafter referred together as the “**Parties**” or each as a “**Party**”

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

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## WHEREAS

- A- The Seller and TAM Linhas Aereas S.A. (the “**Original Buyer**”) have signed on 20 December 2005 (as amended and restated on 21 January 2008) an A350 XWB Purchase Agreement (Reference CSC.337.0179/07) relating to the purchase by the Original Buyer and the sale by the Seller of certain A350 XWB aircraft as amended pursuant to an amendment N°1 dated 28 July 2010 (“**Amendment N°1**”) and an amendment N°2 dated 15 July 2014 (“**Amendment N°2**”) which, together with all Exhibits, Appendixes and Letter Agreements, is hereinafter referred to as the “**Agreement**”.
- B- The Buyer, Seller and Original Buyer entered into a novation agreement dated 21 July 2014 (the “**Novation Agreement**”) novating the Agreement from the Original Buyer to the Buyer. The Agreement, as novated pursuant to the Novation Agreement and as further amended pursuant to an amendment N°3 dated 30 October 2014 (“**Amendment N°3**”), an amendment N°4 dated 15 September 2015 (“**Amendment N°4**”), the revised scheduled delivery quarter notification dated 30 September 2015 (the “**Rescheduling Notification**”) and an amendment N°5 dated 19 November 2015 (“**Amendment N°5**”), is hereinafter referred to as the “**A350 XWB Purchase Agreement**”.
- C- The Buyer and the Seller now wish to enter into this amendment N°6 (“**Amendment N°6**”) to modify certain terms and conditions of the A350 XWB Purchase Agreement.

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

## 1. SCOPE

The scope of this Amendment N°6 is to [\*\*\*].

2. **[\*\*\*]**

Subject to the terms and conditions of this Amendment N°6, the Buyer has requested and the Seller hereby agrees to [\*\*\*] and to deliver such [\*\*\*] Aircraft in accordance with the following [\*\*\*] scheduled delivery periods (the “**Revised Scheduled Delivery Periods**”):

Aircraft Rank		[***] Scheduled Delivery Month	[***] Scheduled Delivery Period
No	CACID		
***	***	***	***
***	***	***	***

In respect of the [\*\*\*], the Scheduled Delivery [\*\*\*] shall be notified in writing by the Seller to the Buyer no later than [\*\*\*] prior to the first day of the applicable Revised Scheduled Delivery Period.

### 3. A350XWB AIRCRAFT REVISED DELIVERY SCHEDULE

As a result of (a) the [\*\*\*] set forth in Clause 2 above and (b) the Parties agreeing to [\*\*\*], the delivery schedule set forth in Clause 9.1.1 of the A350 XWB Purchase Agreement (as amended from time to time) shall be hereby cancelled and replaced with the following:

Aircraft Rank	New CACID	Aircraft Type	Delivery Date
[***]	[***]	[***]	[***]
[***] [***] [***] [***] [***] [***]	[***] [***] [***] [***] [***] [***]	[***] [***] [***] [***] [***] [***]	[***] [***] [***] [***] [***] [***]
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[***] [***]	[***] [***]	[***] [***]	[***] [***]
[***] [***]	[***] [***]	[***] [***]	[***] [***]

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.



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4. PREDELIVERY PAYMENTS

As a consequence of the [\*\*\*] set forth in Clause 2 above, in respect of each [\*\*\*], the [\*\*\*] and the [\*\*\*] shall be adjusted pursuant to Clauses [\*\*\*] of the A350 XWB Purchase Agreement respectively (as may be amended from time to time) to reflect the Revised Scheduled Delivery Period of such [\*\*\*]. If such [\*\*\*] and [\*\*\*] results in [\*\*\*] being [\*\*\*] in respect of such [\*\*\*], such [\*\*\*] shall be [\*\*\*] on the date [\*\*\*] against the [\*\*\*] under the A350 XWB Purchase Agreement.

5. [\*\*\*]

6. [\*\*\*]

7. MISCELLANEOUS PROVISIONS

If not otherwise expressly stated in this Amendment N°6, the A350 XWB Purchase Agreement shall apply also to this Amendment N°6.

This Amendment N°6 supersedes any previous understandings, commitments or representations whatsoever oral or written with respect to the matters referred to herein. This Amendment N°6 shall not be varied except by an instrument in writing of date even herewith or subsequent hereto executed by both parties or by their duly authorised representatives.

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned thereto in the A350 XWB Purchase Agreement. The terms “herein”, “hereof” and “hereunder” and words of similar import refer to this Amendment N°6.

In the event of any inconsistency between the A350 XWB Purchase Agreement and this Amendment N°6, the latter shall prevail to the extent of said inconsistency.

Save to the extent expressly amended by the terms of this Amendment N°6, the A350 XWB Purchase Agreement shall remain in full force and effect in accordance with its terms.

This Amendment N°6 (and its existence) shall be treated by each Party as confidential in accordance with the terms of Clause 22.10 of the A350 XWB Purchase Agreement.

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

This Amendment N°6 may be executed by the Parties in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same Amendment N°6.

**8. LAW AND JURISDICTION**

This Amendment N°6 shall be governed by and construed in accordance with the laws of England. Any dispute arising out of or in connection with this Amendment N°6 shall be within the exclusive jurisdiction of the Courts of England.

**9. SEVERABILITY**

In the event that any provision of this Amendment N°6 should for any reason be held ineffective, the remainder of this Amendment N°6 shall remain in full force and effect. To the extent permitted by applicable law, each party hereto hereby waives any provision of law which renders any provision of this Amendment N°6 prohibited or unenforceable in any respect. Any provisions of this Amendment N°6 which may prove to be or become, illegal, invalid or unenforceable in whole or in part, shall as far as reasonably possible, and subject to applicable law, be performed in accordance with the spirit and purpose of this Amendment N°6.

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

This Amendment N°6 has been executed in two (2) original specimens which are in English.

**IN WITNESS WHEREOF** this Amendment N°6 to the A350 XWB Purchase Agreement was duly entered into the day and year first above written.

For and on behalf of

**LATAM AIRLINES GROUP S.A.**

Name :

Title :

Name :

Title

**Witness**

Name:

Title:

For and on behalf of

**AIRBUS S.A.S.**

Name :

Title :

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

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**AMENDMENT N°7**

**TO THE**

**A 350 XWB PURCHASE AGREEMENT**

**BETWEEN**

**AIRBUS S.A.S.**

**as Seller**

**A N D**

**LATAM AIRLINES GROUP S.A.**

**as Buyer**

REF: D10013836

A350 XWB PA – LATAM – AMDT7 – D10013836 – 08/2016

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

**AMENDMENT N°7**  
**TO THE**  
**A 350 XWB PURCHASE AGREEMENT**

This Amendment N°7 is made as of the \_\_8\_\_ day of August 2016,

Between

**AIRBUS S.A.S.**, having its principal office at:

1, rond-point Maurice Bellonte  
31707 BLAGNAC CEDEX

FRANCE

and registered with the Toulouse *Registre du Commerce et des Sociétés* under number RCS Toulouse 383 474 814 (hereinafter referred to as “**the Seller**”) of the one part,

AND

**LATAM AIRLINES GROUP S.A.**, having its principal office at:

Edificio Huidobro  
Avenida Presidente Riesco 5711 – 20th Floor  
Las Condes  
SANTIAGO

CHILE

(herein after referred to as “**the Buyer**”) of the other part.

The Seller and the Buyer are hereinafter referred together as the “**Parties**” or each as a “**Party**”

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

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## WHEREAS

- A- The Seller and TAM Linhas Aereas S.A. (the “**Original Buyer**”) have signed on 20 December 2005 (as amended and restated on 21 January 2008) an A350 XWB Purchase Agreement (Reference CSC.337.0179/07) relating to the purchase by the Original Buyer and the sale by the Seller of certain A350 XWB aircraft as amended pursuant to an amendment N°1 dated 28 July 2010 and an amendment N°2 dated 15 July 2014 (“**Amendment No2**”) which, together with all Exhibits, Appendixes and Letter Agreements, is hereinafter referred to as the “**Agreement**”.
- B- The Buyer, Seller and Original Buyer entered into a novation agreement dated 21 July 2014 (the “**Novation Agreement**”) novating the Agreement from the Original Buyer to the Buyer. The Agreement, as novated pursuant to the Novation Agreement and as further amended pursuant to an amendment N°3 dated 30 October 2014, an amendment N°4 dated 15 September 2015, the revised scheduled delivery quarter notification dated 30 September 2015 (the “**Rescheduling Notification**”), an amendment N°5 dated 19 November 2015 (“**Amendment N°5**”) and an amendment N°6 dated 3 February 2016, is hereinafter referred to as the “**A350 XWB Purchase Agreement**”.
- C- The Buyer and the Seller now wish to enter into this amendment No7 (“**Amendment N°7**”) to modify certain terms and conditions of the A350 XWB Purchase Agreement.

A350 XWB PA – LATAM – AMDT7 – D10013836 – 08/2016

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

NOW THEREFORE IT IS AGREED AS FOLLOWS:

1. SCOPE

The scope of this Amendment N°7 is to [\*\*\*].

2. [\*\*\*]

Notwithstanding the provisions of Clause 2.2 of Amendment N°5, subject to the terms and conditions of this Amendment N°7, the Buyer has requested and the Seller hereby agrees to [\*\*\*] and to deliver such [\*\*\*] in accordance with the following scheduled delivery periods (the “[\*\*\*] Scheduled Delivery Periods”):

<u>Aircraft Rank No</u>	<u>CACID</u>	<u>[***]</u>	<u>[***] Scheduled Delivery Period</u>	<u>[***]</u>	<u>[***] Scheduled Delivery Period</u>
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]

In respect of the [\*\*\*], the Scheduled Delivery [\*\*\*] shall be notified in writing by the Seller to the Buyer no later than [\*\*\*] prior to the first day of the applicable [\*\*\*] Scheduled Delivery Period.

3. TERMS APPLICABLE TO THE [\*\*\*]

[\*\*\*] shall be deemed to be an [\*\*\*] within the meaning of the A350 XWB Purchase Agreement and, unless otherwise expressly stipulated herein, all terms and conditions applicable to the [\*\*\*] under the A350 XWB Purchase Agreement shall apply to the [\*\*\*].

4. A350XWB AIRCRAFT [\*\*\*] DELIVERY SCHEDULE

4.1 Delivery Schedule

As a result of (a) [\*\*\*] set forth in Clause 2 above and (b) the Parties agreeing to [\*\*\*], the delivery schedule set forth in Clause 9.1.1 of the A350 XWB Purchase Agreement (as amended from time to time) shall be hereby cancelled and replaced with the following:

<u>Aircraft Rank</u>	<u>New CACID</u>	<u>Aircraft Type</u>	<u>Delivery Date</u>
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.



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## 12. SEVERABILITY

In the event that any provision of this Amendment N°7 should for any reason be held ineffective, the remainder of this Amendment N°7 shall remain in full force and effect. To the extent permitted by applicable law, each party hereto hereby waives any provision of law which renders any provision of this Amendment N°7 prohibited or unenforceable in any respect. Any provisions of this Amendment N°7 which may prove to be or become, illegal, invalid or unenforceable in whole or in part, shall as far as reasonably possible, and subject to applicable law, be performed in accordance with the spirit and purpose of this Amendment N°7.

A350 XWB PA – LATAM – AMDT7 – D10013836 – 08/2016

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

This Amendment N°7 has been executed in two (2) original specimens which are in English.

**IN WITNESS WHEREOF** this Amendment N°7 to the A350 XWB Purchase Agreement was duly entered into the day and year first above written.

For and on behalf of

**LATAM AIRLINES GROUP S.A.**

Name :

Title :

Name:

Title

**Witness**

Name:

Title:

A350 XWB PA – LATAM – AMDT7 – D10013836 – 08/2016

For and on behalf of

**AIRBUS S.A.S.**

Name :

Title :

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

**AMENDMENT N°8**

**TO THE**

**A 350 XWB PURCHASE AGREEMENT**

**BETWEEN**

**AIRBUS S.A.S.**  
**as Seller**

**AND**

**LATAM AIRLINES GROUP S.A.**  
**as Buyer**

REF: D10013836

A350 XWB PA – LATAM – AMDT8 – D10013836 – 09/2016

Page 1 of 7

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

**AMENDMENT N°8**

**TO THE**

**A 350 XWB PURCHASE AGREEMENT**

This Amendment N°8 is made as of the 9th day of September 2016,

Between

**AIRBUS S.A.S.**, having its principal office at:

1, rond-point Maurice Bellonte  
31707 BLAGNAC CEDEX

FRANCE

and registered with the Toulouse *Registre du Commerce et des Sociétés* under number RCS Toulouse 383 474 814 (hereinafter referred to as “**the Seller**”) of the one part,

AND

**LATAM AIRLINES GROUP S.A.**, having its principal office at:

Edificio Huidobro  
Avenida Presidente Riesco 5711 – 20th Floor  
Las Condes  
SANTIAGO

CHILE

(herein after referred to as “**the Buyer**”) of the other part.

The Seller and the Buyer are hereinafter referred together as the “**Parties**” or each as a “**Party**”

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

---

## WHEREAS

- A - The Seller and TAM Linhas Aereas S.A. (the “**Original Buyer**”) have signed on 20 December 2005 (as amended and restated on 21 January 2008) an A350 XWB Purchase Agreement (Reference CSC.337.0179/07) relating to the purchase by the Original Buyer and the sale by the Seller of certain A350 XWB aircraft as amended pursuant to an amendment N°1 dated 28 July 2010 and an amendment N°2 dated 15 July 2014 (“**Amendment N°2**”) which, together with all Exhibits, Appendixes and Letter Agreements, is hereinafter referred to as the “**Agreement**”.
- B - The Buyer, Seller and Original Buyer entered into a novation agreement dated 21 July 2014 (the “**Novation Agreement**”) novating the Agreement from the Original Buyer to the Buyer. The Agreement, as novated pursuant to the Novation Agreement and as further amended pursuant to an amendment N°3 dated 30 October 2014 (“**Amendment N°3**”), an amendment N°4 dated 15 September 2015, the revised scheduled delivery quarter notification dated 30 September 2015, an amendment N°5 dated 19 November 2015, an amendment N°6 dated 3 February 2016 and an amendment N°7 dated 8 August 2016 is hereinafter referred to as the “**A350 XWB Purchase Agreement**”.
- C - The Buyer and the Seller now wish to enter into this amendment N°8 (“**Amendment N°8**”) to modify certain terms and conditions of the A350 XWB Purchase Agreement.

A350 XWB PA – LATAM – AMDT8 – D10013836 – 09/2016

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

NOW THEREFORE IT IS AGREED AS FOLLOWS:

1. SCOPE

The scope of this Amendment N°8 is to [\*\*\*].

2. [\*\*\*]

Subject to the terms and conditions of this Amendment N°8, the Buyer has requested and the Seller hereby agrees to [\*\*\*] and to deliver such [\*\*\*] in accordance with the following revised scheduled delivery periods (the “[\*\*\*] Scheduled Delivery Periods”):

<u>Aircraft Rank No</u>	<u>CACID</u>	<u>[***] Scheduled Delivery Month</u>	<u>[***] Scheduled Delivery Period</u>
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]

In respect of the [\*\*\*], the Scheduled Delivery [\*\*\*] shall be notified in writing by the Seller to the Buyer no later than [\*\*\*] prior to the first day of the applicable [\*\*\*] Scheduled Delivery Period.

3. A350XWB AIRCRAFT REVISED DELIVERY SCHEDULE

As a result of (a) [\*\*\*] set forth in Clause 2 above and (b) the Parties agreeing to [\*\*\*], the delivery schedule set forth in Clause 9.1.1 of the A350 XWB Purchase Agreement (as amended from time to time) shall be hereby cancelled and replaced with the following:

<u>Aircraft Rank</u>	<u>New CACID</u>	<u>Aircraft Type</u>	<u>Delivery Date</u>
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

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**4. PREDELIVERY PAYMENTS**

**4.1** \*\*\*

**4.2** As a consequence of [\*\*\*] set forth in Clause 2 above, in respect of each [\*\*\*], the [\*\*\*] and the [\*\*\*] shall be adjusted pursuant to Clauses [\*\*\*] of the A350 XWB Purchase Agreement respectively (as may be amended from time to time) to reflect [\*\*\*] Scheduled Delivery Period of [\*\*\*]. If such [\*\*\*] and [\*\*\*] results in [\*\*\*] being [\*\*\*] in respect of such [\*\*\*], such [\*\*\*] shall be applied on the date [\*\*\*] against the [\*\*\*] due by the Buyer to the Seller under the A350 XWB Purchase Agreement.

**5.** \*\*\*

**6.** \*\*\*

**7. MISCELLANEOUS PROVISIONS**

If not otherwise expressly stated in this Amendment N°8, the A350 XWB Purchase Agreement shall apply also to this Amendment N°8.

This Amendment N°8 supersedes any previous understandings, commitments or representations whatsoever oral or written with respect to the matters referred to herein. This Amendment N°8 shall not be varied except by an instrument in writing of date even herewith or subsequent hereto executed by both parties or by their duly authorised representatives.

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned thereto in the A350 XWB Purchase Agreement. The terms “herein”, “hereof” and “hereunder” and words of similar import refer to this Amendment N°8.

In the event of any inconsistency between the A350 XWB Purchase Agreement and this Amendment N°8, the latter shall prevail to the extent of said inconsistency.

Save to the extent expressly amended by the terms of this Amendment N°8, the A350 XWB Purchase Agreement shall remain in full force and effect in accordance with its terms.

This Amendment N°8 (and its existence) shall be treated by each Party as confidential in accordance with the terms of Clause 22.10 of the A350 XWB Purchase Agreement.

This Amendment N°8 may be executed by the Parties in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same Amendment N°8.

**8. LAW AND JURISDICTION**

This Amendment N°8 shall be governed by and construed in accordance with the laws of England. Any dispute arising out of or in connection with this Amendment N°8 shall be within the exclusive jurisdiction of the Courts of England.

**9. SEVERABILITY**

In the event that any provision of this Amendment N°8 should for any reason be held ineffective, the remainder of this Amendment N°8 shall remain in full force and effect. To the extent permitted by applicable law, each party hereto hereby waives any provision of law which renders any provision of this Amendment N°8 prohibited or unenforceable in any respect. Any provisions of this Amendment N°8 which may prove to be or become, illegal, invalid or unenforceable in whole or in part, shall as far as reasonably possible, and subject to applicable law, be performed in accordance with the spirit and purpose of this Amendment N°8.

A350 XWB PA – LATAM – AMDT8 – D10013836 – 09/2016

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.



This Amendment N°8 has been executed in two (2) original specimens which are in English.

**IN WITNESS WHEREOF** this Amendment N°8 to the A350 XWB Purchase Agreement was duly entered into the day and year first above written.

For and on behalf of

**LATAM AIRLINES GROUP S.A.**

Name :

Title :

Name:

Title

**Witness**

Name:

Title:

A350 XWB PA – LATAM – AMDT8 – D10013836 – 09/2016

For and on behalf of

**AIRBUS S.A.S.**

Name :

Title :

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

**AMENDMENT N°22  
TO THE A320/A330  
PURCHASE AGREEMENT  
BETWEEN  
AIRBUS S.A.S.  
AND  
LATAM AIRLINES GROUP S.A.  
REF: CT1242567**

A320/A330 PA – LATAM – Amdt. 22 – CT1242567- 04/2016

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

**AMENDMENT N°22**  
**TO THE**  
**A320/A330 PURCHASE AGREEMENT**

This Amendment No.22 (“**Amendment No. 22**”) is made as of the 15 day of April 2016 to the A320/A330 Purchase Agreement signed on November 14, 2006,

Between

**AIRBUS S.A.S.**, having its principal office at:

1, rond-point Maurice Bellonte  
31707 BLAGNAC CEDEX  
FRANCE

and registered with the Toulouse Registre du Commerce under number RCS Toulouse 383 474 814 (hereinafter referred to as “**the Seller**”) of the one part,

AND

**LATAM AIRLINES GROUP S.A.**, having its principal office at:

Edificio Huidobro  
Avenida Presidente Riesco 5711 – 20th Floor  
Las Condes  
SANTIAGO  
CHILE

(herein after referred to as “**the Buyer**”) of the other part.

The Buyer and the Seller being collectively referred to as the “Parties” and individually as a “Party”.

A320/A330 PA – LATAM – Amdt. 22 – CT1242567- 04/2016

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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**WHEREAS**

- A- The Seller and TAM Linhas Aereas S.A. (the “**Original Buyer**”) have signed on November 14, 2006, an A320/A330 Purchase Agreement (Reference CCC 337.0068/06) covering the purchase by the Original Buyer and the sale by the Seller of certain A320 Family Aircraft and A330-200 Aircraft which, together with all Exhibits, Appendixes, Letter Agreements, Amendment No. 1, dated as of January 21, 2008, Amendment No. 2, dated as of October 15, 2008, Amendment No. 3 dated July 1, 2009, Amendment No.4, dated as of July 1, 2009, Amendment No.5, dated as of December 24, 2009, Amendment No.6, dated as of March 4, 2010, Amendment No.7, dated as of July 28, 2010 (“**Amendment No.7**”), Amendment No.8, dated as of April 29, 2011, Amendment No.9, dated as of June 13, 2011, Amendment No.10, dated as of October 11, 2011, Amendment No.11, dated as of October 11, 2011, Amendment No.12, dated as of January 27, 2012, Amendment No. 13, dated as of November 30, 2012, Amendment No. 14, dated as of December 14, 2012, Amendment No. 15, dated as of February 18, 2013, Amendment No. 16, dated as of February 27, 2013 (“**Amendment No.16**”), Amendment No. 17, dated as of August 19, 2013 and Amendment No. 18, dated as of July 15, 2014, incorporated therein is hereinafter referred to as the “**Original Agreement**”.
- B- The Buyer, Seller and Original Buyer entered into a novation agreement dated 30 October 2014 (the “**Novation**”) novating the Original Agreement from the Original Buyer to the Buyer.
- C- The Buyer and the Seller entered into Amendment No. 19, dated as of December 11, 2014, Amendment No. 20, dated as of June 3, 2015 and Amendment No. 21, dated as of December 21, 2015 (altogether the “**Amendments**”), (the Original Agreement as novated pursuant to the Novation and amended pursuant to the Amendments is hereinafter referred to as the “**Agreement**”).
- D- The Buyer and the Seller have agreed to [\*\*\*] as specified herein.

0. SCOPE

The purpose of this Amendment No. 22 is to make the necessary amendments to the Agreement to reflect [\*\*\*]  
[\*\*\*]

- 1.1 [\*\*\*]: The Buyer has requested and the Seller has agreed to [\*\*\*]
- 1.2 New Delivery Schedule: As a result of [\*\*\*] set forth in Clause 1.1 above, the A319 / A320 / A321 delivery schedule set out in Clause 9.1.1.1 of the Agreement (as amended from time to time) is hereby amended and restated as follows:

QUOTE

9.1.1.1 A319 / A320 / A321 Aircraft

Aircraft Rank	Aircraft Type	Delivery Month/Quarter	Aircraft defined as
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	



“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

<u>Aircraft Rank</u>	<u>Aircraft Type</u>	<u>Delivery Month/Quarter</u>	<u>Aircraft defined as</u>
***	***	***	***
***	***	***	***
***	***	***	***
***	***	***	***

UNQUOTE

1.3 Predelivery Pyments

As a consequence of the [\*\*\*] set forth in Clause 1.1 above, in respect of the [\*\*\*], the [\*\*\*] and the [\*\*\*] shall be adjusted pursuant to Clauses [\*\*\*] of the Agreement respectively (as amended from time to time) to reflect the [\*\*\*] Scheduled Delivery Quarter of such [\*\*\*]. If such [\*\*\*] results in an [\*\*\*] in respect of such [\*\*\*], such [\*\*\*] shall be applied on the date [\*\*\*] due by the Buyer to the Seller under the Agreement.

[\*\*\*]

4. **CONFIDENTIALITY**

This Amendment No. 22 is subject to the confidentiality provisions set forth in Clause 22.10 of the Agreement.

5. **LAW AND JURISDICTION**

This Amendment No. 22 shall be governed by and construed in accordance with the laws of England. Any dispute arising out of or in connection with this Amendment No. 22 shall be within the exclusive jurisdiction of the Courts of England.

6. **MISCELLANEOUS PROVISIONS**

If not otherwise expressly stated in this Amendment No. 22, the Agreement, its Exhibits and Letter Agreements shall apply also to this Amendment No 22.

This Amendment No. 22 supersedes any previous understandings, commitments or representations whatsoever oral or written with respect to the matters referred to herein.



The Agreement between the Seller and the Buyer shall be deemed amended to the extent herein provided, and, except as specifically amended hereby, shall continue in full force and effect in accordance with its original terms.

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned thereto in the Agreement.

In the event of any inconsistency between the Agreement and the present Amendment No. 22, the latter shall prevail to the extent of said inconsistency.

This Amendment No. 22 may be signed by the Parties hereto in separate counterparts, each of which when so signed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.

## **7. SEVERABILITY**

In the event that any provision of this Amendment No. 22 should for any reason be held ineffective, the remainder of this Amendment No. 22 shall remain in full force and effect. To the extent permitted by applicable law, each party hereto hereby waives any provision of law which renders any provision of this Amendment No. 22 prohibited or unenforceable in any respect. Any provisions of this Amendment No. 22 which may prove to be or become, illegal, invalid or unenforceable in whole or in part, shall as far as reasonably possible, and subject to applicable law, be performed in accordance with the spirit and purpose of this Amendment No. 22.

This Amendment No. 22 has been executed in two (2) original specimens which are in English.

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

IN WITNESS WHEREOF this Amendment No. 22 to the Agreement was duly entered into the day and year first above written.

For and on behalf of

For and on behalf of

**LATAM AIRLINES GROUP S.A.**

**AIRBUS S.A.S.**

Name :

Name :

Title :

Title :

Name :

Title :

**Witness**

Name :

Title :

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

**AMENDMENT N°23**  
**TO THE A320/A330**  
**PURCHASE AGREEMENT**  
**BETWEEN**  
**AIRBUS S.A.S.**  
**AND**  
**LATAM AIRLINES GROUP S.A.**  
REF: CT1242567

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

**AMENDMENT N°23**  
**TO THE**  
**A320/A330 PURCHASE AGREEMENT**

This Amendment No.23 is made as of the 15 day of April 2016 to the A320/A330 Purchase Agreement signed on November 14, 2006,

Between

**AIRBUS S.A.S.**, having its principal office at:

1, rond-point Maurice Bellonte  
31707 BLAGNAC CEDEX  
FRANCE

and registered with the Toulouse Registre du Commerce under number RCS Toulouse 383 474 814 (hereinafter referred to as “**the Seller**”) of the one part,

AND

**LATAM AIRLINES GROUP S.A.**, having its principal office at:

Edificio Huidobro  
Avenida Presidente Riesco 5711 – 20th Floor  
Las Condes  
SANTIAGO  
CHILE

(herein after referred to as “**the Buyer**”) of the other part.

The Buyer and the Seller being collectively referred to as the “Parties” and individually as a “Party”.

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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**WHEREAS**

- A- The Seller and TAM Linhas Aereas S.A. (the “**Original Buyer**”) have signed on November 14, 2006, an A320/A330 Purchase Agreement (Reference CCC 337.0068/06) covering the purchase by the Original Buyer and the sale by the Seller of certain A320 Family Aircraft and A330-200 Aircraft which, together with all Exhibits, Appendixes, Letter Agreements, Amendment No. 1, dated as of January 21, 2008, Amendment No. 2, dated as of October 15, 2008, Amendment No. 3 dated July 1, 2009, Amendment No.4, dated as of July 1, 2009, Amendment No.5, dated as of December 24, 2009, Amendment No.6, dated as of March 4, 2010, Amendment No.7, dated as of July 28, 2010, Amendment No.8, dated as of April 29, 2011, Amendment No.9, dated as of June 13, 2011, Amendment No.10, dated as of October 11, 2011, Amendment No.11, dated as of October 11, 2011, Amendment No.12, dated as of January 27, 2012, Amendment No. 13, dated as of November 30, 2012, Amendment No. 14, dated as of December 14, 2012, Amendment No. 15, dated as of February 18, 2013, Amendment No. 16, dated as of February 27, 2013, Amendment No. 17, dated as of August 19, 2013 and Amendment No. 18, dated as of July 15, 2014, incorporated therein is hereinafter referred to as the “**Original Agreement**”.
- B- The Buyer, Seller and Original Buyer entered into a novation agreement dated 30 October 2014 (the “**Novation**”) novating the Original Agreement from the Original Buyer to the Buyer.
- C- The Buyer and the Seller entered into Amendment No. 19, dated as of December 11, 2014, Amendment No. 20, dated as of June 3, 2015, Amendment No. 21, dated as of December 21, 2015 and Amendment No. 22, dated as of even date herewith (altogether the “**Amendments**”), (the Original Agreement as novated pursuant to the Novation and amended pursuant to the Amendments is hereinafter referred to as the “**Agreement**”).
- D- The Buyer and the Seller have agreed to amend certain provisions of the Agreement, to [\*\*\*].

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

**NOW THEREFORE IT IS AGREED AS FOLLOWS:**

**0. Scope**

0.1 The purpose of this Amendment No. 23 is to make the necessary amendments to the Agreement to [\*\*\*].

**1. Definitions**

Capitalized terms used herein and not otherwise defined in this Amendment No. 23 will have the meanings assigned to them in the Agreement.

**2. Standard Specification of the NEO Aircraft**

2.1. The parties hereby agree to either insert in alphabetical order or amend and restate, as the case may be, the following definitions in Clause 0.1 of the Agreement:

**A319 NEO or A319 NEO Aircraft:** an A319-100N aircraft, including the relevant NEO Propulsion Systems and any part, component, equipment and accessories installed in or on such aircraft installed thereon upon Delivery.

**A319 NEO Standard Specification:** the A319-100N standard specification document [\*\*\*], which includes a maximum take-off weight (MTOW) of [\*\*\*], a maximum landing weight (MLW) of 63[\*\*\*] and a maximum zero fuel weight (MZFW) of [\*\*\*], a copy of which has been annexed to the Agreement as Exhibit A-1.

**A319 NEO Specification:** the A319 NEO Standard Specification as amended by all applicable SCNs.

**A320 NEO or A320 NEO Aircraft:** an A320-200N aircraft, including the relevant NEO Propulsion Systems and any part, component, equipment and accessories installed in or on such aircraft installed thereon upon Delivery.

**A320 NEO Family Aircraft or NEO Aircraft:** as applicable, any or all of the A319 NEO Aircraft, any or all of the A320 NEO Aircraft and any or all of the A321 NEO Aircraft.

**A320 NEO Standard Specification:** the A320-200N standard specification document Number [\*\*\*], which includes a maximum take-off weight (MTOW) of [\*\*\*], a maximum landing weight (MLW) of [\*\*\*] and a maximum zero fuel weight (MZFW) of [\*\*\*], a copy of which has been annexed to the Agreement as Exhibit A-2.

**A320 NEO Specification:** the A320 NEO Standard Specification as amended by all applicable SCNs.

**A321 NEO or A321 NEO Aircraft:** an A321-200N aircraft, including the relevant NEO Propulsion Systems and any part, component, equipment and accessories installed in or on such aircraft installed thereon upon Delivery.

**A321 NEO Standard Specification:** the A321-200N standard specification document [\*\*\*], which includes a maximum take-off weight (MTOW) of [\*\*\*], a maximum landing weight (MLW) of [\*\*\*] and a maximum zero fuel weight (MZFW) of [\*\*\*], a copy of which has been annexed to the Agreement as Exhibit A-3.

**A321 NEO Specification:** the A321 NEO Standard Specification as amended by all applicable SCNs.

**NEO Aircraft Basic Price:** has the meaning set forth in Clause 3.1 (applicable to A320 NEO Family Aircraft) of the Agreement.

**NEO Airframe:** any A320 NEO Family Aircraft, excluding the respective NEO Propulsion Systems.

**NEO Airframe Basic Price:** has the meaning set forth in Clause 3.1.1 (applicable to A320 NEO Family Aircraft) of the Agreement.

**NEO Propulsion Systems Basic Price:** has the meaning set forth in Clause 3.1.2 (applicable to A320 NEO Family Aircraft) of the Agreement.

**NEO Standard Specification:** means individually or collectively, the A319 NEO Standard Specification, the A320 NEO Standard Specification or A321 NEO Standard Specification, as applicable.

**Specification:** means either (a) the Standard Specification or NEO Standard Specification, as applicable, if no SCNs are applicable or (b) if SCNs are issued, the Standard Specification or NEO Standard Specification, as applicable, as amended by all applicable SCNs.

2.2 The following definitions are hereby deleted in their entirety from Clause 0.1 of the Agreement:

**Irrevocable SCNs:** means the list of SCNs, which are irrevocably part of the A320 NEO Family Aircraft specifications, as expressly set forth in Appendix 1 through 3 of Exhibit B1 to Amendment No. 11 of this Agreement.

**New Engine Option:** has the meaning set forth in Clause 2.1.2 of Amendment No. 11.

### 3. NEO SPECIFICATION

Clause 2 of Amendment No. 11 is hereby deleted in its entirety and replaced with the following quoted text:

QUOTE

### 2. A320 NEO FAMILY AIRCRAFT SPECIFICATION

Clause 2 of the Agreement as amended shall not apply to the A320 NEO Family Aircraft and the following provisions shall apply in their place:

QUOTE

#### 2.1 NEO Aircraft Specification

- 2.1.1 Each A320 NEO Family Aircraft shall be manufactured in accordance with the applicable NEO Standard Specification, as may already have been modified or varied at the date of Amendment No. 23 by the Specification Change Notices listed in Appendix 1 to Exhibit A-1, Appendix 1 to Exhibit A-2 or Appendix 1 to Exhibit A-3, as applicable, to this Agreement.

[\*\*\*]

#### 2.2 Specification Amendment

The Parties understand and agree that the Specification may be further amended following signature of Amendment No. 23 to this Agreement in accordance with the terms of this Clause 2.

##### 2.2.1 Specification Change Notice

The Specification may be amended by written agreement between the parties in a Specification Change Notice (“SCN”). Each SCN shall be substantially in the form set out in Exhibit B to this Agreement and shall set out the SCN’s Aircraft embodiment rank number and shall also set forth, in detail, the particular change to be made to the Specification and the effect, if any, of such change on [\*\*\*]. An SCN may result in an adjustment of the Aircraft Basic Price, which adjustment, if any, shall be specified in the SCN.

##### 2.2.2 Development Changes

The Specification may also be amended to incorporate changes deemed necessary by the Seller to improve the A320 NEO Family Aircraft, prevent delay or ensure compliance with this Agreement (“**Development Changes**”), as set forth in this Clause 2.



2.2.2.1      **Manufacturer Specification Change Notices**

2.2.2.1.1            The Specification may be amended by the Seller through a Manufacturer Specification Change Notice (“**MSCN**”), which shall be substantially in the form set out in Exhibit B2 to the Agreement, or by such other means as may be deemed appropriate, and shall set out the MSCN’s relevant A320 NEO Family Aircraft embodiment rank number as well as, in detail, the particular change to be made to the Specification and the effect, if any, of such change on [\*\*\*]

[\*\*\*]

2.2.2.2            In the event of the Seller revising the Specification to incorporate Development Changes which have no adverse effect on [\*\*\*], such revision shall be performed by the Seller without the Buyer’s consent.

In such cases, the Buyer shall have access to the details of such changes through the relevant application in AirbusWorld.

2.3            **NEO Propulsion Systems**

2.3.1            Each Airframe of the A320 NEO Family Aircraft shall be equipped with a set of either [\*\*\*], upon selection referred to respectively as the “**NEO Propulsion Systems**”.

A319-100 NEO	[***]	[***]
A320-200 NEO	[***]	[***]
A321-200 NEO	[***]	[***]

\*    AET means Airbus Equivalent Thrust  
[\*\*\*]

2.4            **Milestones**

2.4.1            Customization Milestones Chart

Within a reasonable period following signature of Amendment No.11, the Seller shall provide the Buyer with a customization milestones chart (the “**Customization Milestone Chart**”), setting out how far in advance of the Scheduled Delivery Month of the A320 NEO Family Aircraft an SCN must be executed in order to integrate into the Specification any items requested by the Buyer from the Seller’s catalogues of Specification change options (the “**Option Catalogues**”).

2.4.2 Contractual Definition Freeze

The Customization Milestone Chart shall define the date(s) by which the contractual definition of the A320 NEO Family Aircraft must be finalized and all SCNs need to have been executed by the Buyer (the “**Contractual Definition Freeze**” or “**CDF**”) in order to enable their incorporation into the manufacturing of the Aircraft and Delivery of the A320 NEO Family Aircraft in the Scheduled Delivery Month. Each such date shall be referred to as a “**CDF Date**”. [\*\*\*]

[\*\*\*]

UNQUOTE

4. NEO AIRCRAFT PRICES

Clause 3 of Amendment No. 11 is hereby deleted in its entirety and replaced with the following quoted text:

QUOTE

3. A320 NEO FAMILY AIRCRAFT PRICES

With respect to the A320 NEO Family Aircraft, the provisions contained in clause 3.1 and Clause 3.2 of the Agreement shall not apply and the following provisions shall apply in their place:

QUOTE

3.1 Price of A320 NEO Family Aircraft

For each A320 NEO Family Aircraft, the NEO Aircraft basic price (the “**NEO Aircraft Basic Price**”) shall be respectively, the sum of:

- i) the NEO Airframe Basic Price as defined in Clause 3.1.1 below and
- ii) the NEO Propulsion Systems Basic Price as defined in Clause 3.1.2 below.

3.1.1 NEO Airframe Basic Price

The NEO Airframe basic price (the “**NEO Airframe Basic Price**”) for the 2011 A320 NEO Family Aircraft is the sum of:

- (i) the basic price of the NEO Airframe as defined in the relevant NEO Standard Specification, including Nacelles and Thrust Reversers, and excluding Buyer Furnished Equipment, which is:

[\*\*\*]

(ii) the base price of the SCN's defined and listed in Appendix 1 of Exhibits A-1, A-2 and A-3 of this Agreement, which is:

[\*\*\*]

[\*\*\*]

All respective NEO Airframe Basic Prices have been established in accordance with the average economic conditions prevailing in [\*\*\*] (the "**Base Period**").

### 3.1.2 NEO Propulsion Systems Basic Price

The basic price of the NEO Propulsion Systems (the "**NEO Propulsion Systems Basic Price**") shall, depending on the NEO Propulsion Systems selected by the Buyer, be as applicable pursuant to Clauses 3.1.2.1 or 3.1.2.2.

[\*\*\*]

The NEO Propulsion Systems Basic Prices have been established in accordance with the delivery conditions prevailing in [\*\*\*] have been computed from the Propulsion Systems Reference Price as set forth in Exhibit A Part 2 to the Amendment No.11.

#### 3.1.2.2 [\*\*\*]

The NEO Propulsion Systems Basic Prices have been established in accordance with the delivery conditions prevailing in [\*\*\*] have been computed from the Propulsion Systems Reference Price as set forth in Exhibit A Part 3 to the Amendment No.11.

### 3.2 Final Price

The Final Price of each A320 NEO Family Aircraft shall be the sum of:

- (i) the NEO Airframe Basic Price as revised as of the Delivery Date in accordance with Clause 4.1; plus
- (ii) the aggregate of all increases or decreases to the NEO Airframe Basic Price as agreed in any Specification Change Notice or part thereof applicable to the NEO Airframe subsequent to the date of this Agreement as revised as of the Delivery Date in accordance with Clause 4.1; plus

- (iii) the NEO Propulsion Systems Reference Price as revised as of the Delivery Date in accordance with Clause 4.2; plus
- (iv) the aggregate of all increases or decreases to the Propulsion Systems Reference Price as agreed in any Specification Change Notice or part thereof applicable to the NEO Propulsion Systems subsequent to the date of this Agreement as revised as of the Delivery Date in accordance with Clause 4.2; plus
- (v) any other amount due by the Buyer to the Seller provided for or resulting from any other provision of this Agreement and/or any other written agreement between the Buyer and the Seller with respect to the Aircraft.

UNQUOTE

## 5. LAW AND JURISDICTION

Clause 22.4 of the Agreement is hereby amended to include the following quoted text:

QUOTE

- 22.4.3. The Buyer appoints the person from time to time appointed by the buyer under the Companies Act 2006 to receive on its behalf in England service of any proceedings under this Clause 22.4. Such service shall be deemed completed on delivery to such agent (whether or not it is forwarded to and received by the Buyer) and shall be valid until such time as the Seller has received prior written notice that such agent has ceased to act as agent. The name and address of the agent appointed by the Buyer at the time of execution of Amendment N°23 shall be notified in writing to the Seller at such time. If for any reason such agent ceases to be able to act as agent or no longer has an address in England, the Buyer shall forthwith appoint a substitute acceptable to the Seller and deliver to the Seller the new agent's name and address in England.
- 22.4.4. The Seller irrevocably appoints [\*\*\*] (for the attention of: Legal Department) as its agent to receive on its behalf in England service of any proceedings under this Clause 22.4. Such service shall be deemed completed on delivery to such agent (whether or not it is forwarded to and received by the Seller) and shall be valid until such time as the Buyer has received prior written notice that such agent has ceased to act as agent. If for any reason such agent ceases to be able to act as agent or no longer has an address in England, the Seller shall forthwith appoint a substitute acceptable to the Buyer and deliver to the Buyer the new agent's name and address in England.

UNQUOTE

**6. EXHIBIT A Part 1 – Seller Price Revision Formula**

In Clause 3 of Part 1 of Exhibit A to Amendment No. 11 to the Agreement the reference to “Table 6” is hereby replaced with “Table 9”.

**7. EXHIBIT A Part 2 – Propulsion Systems Price Revision Formula [\*\*\*]**

7.1 Clause 1 of Part 2 of Exhibit A to Amendment No. 11 to the Agreement is hereby deleted in its entirety and replaced with the following text:

QUOTE

**1. REFERENCE PRICE OF THE NEO PROPULSION SYSTEMS**

1.1 The Reference Price of a set of two [\*\*\*]

[\*\*\*]

This Reference Price is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics and in accordance with the provisions of Clauses 4 and 5 hereof.

1.2 The Reference Price of a set of [\*\*\*]

[\*\*\*]

This Reference Price is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics and in accordance with the provisions of Clauses 4 and 5 hereof.

1.3 The Reference Price of a set of [\*\*\*]

[\*\*\*]

This Reference Price is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics and in accordance with the provisions of Clauses 4 and 5 hereof.

UNQUOTE

7.2 In Clause 3 of Part 2 of Exhibit A to Amendment No. 11 to the Agreement the reference to “Table 6” is hereby replaced with “Table 9”.

8. EXHIBIT A Part 3 – Propulsion Systems Price Revision Formula [\*\*\*]

8.1 Clause 1 of Part 3 of Exhibit A to Amendment No. 11 to the Agreement is hereby deleted in its entirety and replaced with the following text:

QUOTE

1. REFERENCE PRICE OF THE NEO PROPULSION SYSTEMS

1.1 The Reference Price of a set of [\*\*\*]  
[\*\*\*]

The Reference Price is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics, and in accordance with the provisions hereof.

1.2 The Reference Price of a set of [\*\*\*]  
[\*\*\*]

The Reference Price is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics, and in accordance with the provisions hereof.

1.3 The Reference Price of a set of [\*\*\*]  
[\*\*\*]

The Reference Price is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics, and in accordance with the provisions hereof.

UNQUOTE

8.2 In Clause 3 of Part 3 of Exhibit A to Amendment No. 11 to the Agreement the reference to “Table 6 is hereby replaced with “Table 9”.

9. SCN Exhibits

9.1 Exhibit B1, including Appendices 1, 2 and 3 thereto, to Amendment No. 11 is hereby deleted in its entirety.

9.2 Exhibit A-1, Exhibit A-2 and Exhibit A-3 attached hereto as Appendix 1 are hereby added to the Agreement.

\*\*\*]

**11. PREDELIVERY PAYMENTS**

Any Predelivery Payments \*\*\* shall be paid by the Buyer to the Seller \*\*\* the date of \*\*\*

Any Predelivery Payments \*\*\* shall be applied on the date of \*\*\* due under the Agreement.

\*\*\*]

**13. CONFIDENTIALITY**

This Amendment No. 23 is subject to the confidentiality provisions set forth in Clause 22.10 of the Agreement.

**14. AMENDMENT NO. 6**

In Amendment No.6, all references to “Amendment No.5” shall be read and construed as references to “Amendment No.6”.

**15. AMENDMENT NO. 7**

15.1 Paragraph 5.3 of Amendment No. 7 is hereby deleted in its entirety and replaced with the following:

QUOTE

This Amendment No.7 shall be governed by and construed in accordance with the laws of England. Any dispute arising out of or in connection with this Amendment No.7 shall be within the exclusive jurisdiction of the Courts of England.

UNQUOTE

15.2 Paragraph 10 of Letter Agreement No.1 to Amendment No.7, Paragraph 10 of Letter Agreement No.2 to Amendment No.7 and Paragraph 5 of Letter Agreement No.3 to Amendment No.7 are each hereby deleted in their entirety and each replaced with the following:

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“\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

QUOTE

This Letter Agreement shall be governed by and construed in accordance with the laws of England. Any dispute arising out of or in connection with this Letter Agreement shall be within the exclusive jurisdiction of the Courts of England.

UNQUOTE

[\*\*\*]

**17. LAW AND JURISDICTION**

This Amendment No. 23 shall be governed by and construed in accordance with the laws of England. Any dispute arising out of or in connection with this Amendment No. 23 shall be within the exclusive jurisdiction of the Courts of England.

**18. MISCELLANEOUS PROVISIONS**

If not otherwise expressly stated in this Amendment No. 23, the Agreement, its Exhibits and Letter Agreements shall apply also to this Amendment No 23.

This Amendment No. 23 supersedes any previous understandings, commitments or representations whatsoever oral or written with respect to the matters referred to herein.

The Agreement between the Seller and the Buyer shall be deemed amended to the extent herein provided, and, except as specifically amended hereby, shall continue in full force and effect in accordance with its original terms.

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned thereto in the Agreement.

In the event of any inconsistency between the Agreement and the present Amendment No. 23, the latter shall prevail to the extent of said inconsistency.

This Amendment No. 23 may be signed by the Parties hereto in separate counterparts, each of which when so signed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.

**19. SEVERABILITY**

In the event that any provision of this Amendment No. 23 should for any reason be held ineffective, the remainder of this Amendment No. 23 shall remain in full force and effect. To the extent permitted by applicable law, each party hereto hereby waives any provision of law which renders any provision of this Amendment No. 23 prohibited or unenforceable in any respect. Any provisions of this Amendment No. 23 which may prove to be or become, illegal, invalid or unenforceable in whole or in part, shall as far as reasonably possible, and subject to applicable law, be performed in accordance with the spirit and purpose of this Amendment No. 23.

This Amendment No. 23 has been executed in two (2) original specimens which are in English.



IN WITNESS WHEREOF this Amendment No. 23 to the Agreement was duly entered into the day and year first above written.

For and on behalf of

For and on behalf of

LATAM AIRLINES GROUP S.A.

AIRBUS S.A.S.

Name :

Name :

Title :

Title :

LATAM AIRLINES GROUP S.A.

Name :

Title :

Witness

Name :

Title :

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

\*\*\*

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“\*\*\*” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

[\*\*\*]

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

[\*\*\*]

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

[\*\*\*]

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

\*\*\*

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\*\*\*” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

[\*\*\*]

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“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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**AMENDMENT N°24**

**TO THE A320/A330**

**PURCHASE AGREEMENT**

**BETWEEN**

**AIRBUS S.A.S.**

**AND**

**LATAM AIRLINES GROUP S.A.**

REF: CT1242567

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.



**AMENDMENT N°24**  
**TO THE**  
**A320/A330 PURCHASE AGREEMENT**

This Amendment No.24 (“**Amendment No. 24**”) is made as of the \_8\_ day of August 2016 to the A320/A330 Purchase Agreement signed on November 14, 2006,

Between

**AIRBUS S.A.S.**, having its principal office at:

1, rond-point Maurice Bellonte  
31707 BLAGNAC CEDEX

FRANCE

and registered with the Toulouse Registre du Commerce under number RCS Toulouse 383 474 814 (hereinafter referred to as “**the Seller**”) of the one part,

AND

**LATAM AIRLINES GROUP S.A.**, having its principal office at:

Edificio Huidobro  
Avenida Presidente Riesco 5711 – 20th Floor  
Las Condes  
SANTIAGO  
CHILE

(herein after referred to as “**the Buyer**”) of the other part.

The Buyer and the Seller being collectively referred to as the “Parties” and individually as a “Party”.

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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**WHEREAS**

- A- The Seller and TAM Linhas Aereas S.A. (the “**Original Buyer**”) have signed on November 14, 2006, an A320/A330 Purchase Agreement (Reference CCC 337.0068/06) covering the purchase by the Original Buyer and the sale by the Seller of certain A320 Family Aircraft and A330-200 Aircraft which, together with all Exhibits, Appendixes, Letter Agreements, Amendment No. 1, dated as of January 21, 2008, Amendment No. 2, dated as of October 15, 2008, Amendment No. 3 dated July 1, 2009, Amendment No.4, dated as of July 1, 2009, Amendment No.5, dated as of December 24, 2009, Amendment No.6, dated as of March 4, 2010, Amendment No.7, dated as of July 28, 2010 (“**Amendment No.7**”), Amendment No.8, dated as of April 29, 2011, Amendment No.9, dated as of June 13, 2011, Amendment No.10, dated as of October 11, 2011 (“**Amendment No.10**”), Amendment No.11, dated as of October 11, 2011 (“**Amendment No.11**”), Amendment No.12, dated as of January 27, 2012, Amendment No. 13, dated as of November 30, 2012, Amendment No. 14, dated as of December 14, 2012, Amendment No. 15, dated as of February 18, 2013, Amendment No. 16, dated as of February 27, 2013, Amendment No. 17, dated as of August 19, 2013 and Amendment No. 18, dated as of July 15, 2014, incorporated therein is hereinafter referred to as the “**Original Agreement**”.
- B- The Buyer, Seller and Original Buyer entered into a novation agreement dated 30 October 2014 (the “**Novation**”) novating the Original Agreement from the Original Buyer to the Buyer.
- C- The Buyer and the Seller entered into Amendment No. 19, dated as of December 11, 2014 (“**Amendment No.19**”), Amendment No. 20, dated as of June 3, 2015, Amendment No. 21, dated as of December 21, 2015, Amendment No. 22, dated as of April 15, 2016 and Amendment No. 23, dated as of April 15, 2016 (altogether the “**Amendments**”), (the Original Agreement as novated pursuant to the Novation and amended pursuant to the Amendments is hereinafter referred to as the “**Agreement**”).
- D- The Buyer and the Seller entered into, as of the same date hereof, an amendment No.6 to the A320 Family Purchase Agreement dated June 22, 2011, with reference CT1101195 (“**Amendment No.6**”) (the “**Other Agreement**”) [\*\*\*]
- E- The Buyer and the Seller now wish to enter into this Amendment No.24 [\*\*\*]

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

NOW THEREFORE IT IS AGREED AS FOLLOWS:

0. DEFINITIONS

The terms “herein,” “hereof,” and words of similar import refer to this Amendment No.24 and capitalized terms used herein and not otherwise defined in this Amendment No.24 will have the meanings assigned to them in the Agreement.

1. SCOPE

The purpose of this Amendment No. 24 is to [\*\*\*] subject to terms and conditions set out herein.  
[\*\*\*]

2.2 Clause 0.1 of Amendment No.11 is hereby amended and restated as follows:  
QUOTE

0.1 Sale and Purchase: Pursuant to and in accordance with the terms and conditions contained in this Amendment N°11 (and incorporating the relevant provisions of the Agreement), the Seller shall sell and deliver and the Buyer shall buy and take delivery of [\*\*\*] NEO Aircraft being [\*\*\*] A320 NEO Aircraft and [\*\*\*] A321 NEO Aircraft (hereinafter collectively referred to as the “**2011 A320 NEO Family Aircraft**”).  
UNQUOTE  
[\*\*\*]

3. DELIVERY SCHEDULE

As a result of [\*\*\*] set forth in Clause 2.1 above, the A319 / A320 / A321 delivery schedule set out in Clause 9.1.1.1 of the Agreement (as amended from time to time) is hereby amended and restated as follows:  
QUOTE

9.1.1.1 A319 / A320 / A321 Aircraft

<u>Aircraft Rank</u>	<u>Aircraft Type</u>	<u>Delivery Month/Quarter</u>	<u>Aircraft defined as</u>
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	
[***]	[***]	[***]	

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

[illegible]

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

[illegible]

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

<u>Aircraft Rank</u>	<u>Aircraft Type</u>	<u>Delivery Month/Quarter</u>	<u>Aircraft defined as</u>
***	***	***	***
***	***	***	***
***	***	***	***
***	***	***	***
***	***	***	***
***	***	***	***
***	***	***	***
***	***	***	***
***	***	***	***
***	***	***	***
***	***	***	***
***	***	***	***
***	***	***	***
***	***	***	***
***	***	***	***

UNQUOTE

4. PREDELIVERY PAYMENTS

The Parties agree that [\*\*]

- [\*\*]

[\*\*]

11. CONFIDENTIALITY

This Amendment No. 24 is subject to the confidentiality provisions set forth in Clause 22.10 of the Agreement.

12. LAW AND JURISDICTION

This Amendment No. 24 shall be governed by and construed in accordance with the laws of England. Any dispute arising out of or in connection with this Amendment No. 24 shall be within the exclusive jurisdiction of the Courts of England.

13. MISCELLANEOUS PROVISIONS

If not otherwise expressly stated in this Amendment No. 24, the Agreement, its Exhibits and Letter Agreements shall apply also to this Amendment No 24.

“[\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

This Amendment No. 24 supersedes any previous understandings, commitments or representations whatsoever oral or written with respect to the matters referred to herein.

The Agreement between the Seller and the Buyer shall be deemed amended to the extent herein provided, and, except as specifically amended hereby, shall continue in full force and effect in accordance with its original terms.

The Parties agree that this Amendment No.24 shall constitute an integral, non-severable part of the Agreement and be governed by all of its provisions.

In the event of any inconsistency between the Agreement and the present Amendment No. 24, the latter shall prevail to the extent of said inconsistency.

This Amendment No. 24 may be signed by the Parties hereto in separate counterparts, each of which when so signed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.

#### **14. SEVERABILITY**

In the event that any provision of this Amendment No. 24 should for any reason be held ineffective, the remainder of this Amendment No. 24 shall remain in full force and effect. To the extent permitted by applicable law, each party hereto hereby waives any provision of law which renders any provision of this Amendment No. 24 prohibited or unenforceable in any respect. Any provisions of this Amendment No. 24 which may prove to be or become, illegal, invalid or unenforceable in whole or in part, shall as far as reasonably possible, and subject to applicable law, be performed in accordance with the spirit and purpose of this Amendment No. 24.

This Amendment No. 24 has been executed in two (2) original specimens which are in English.

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

IN WITNESS WHEREOF this Amendment No. 24 to the Agreement was duly entered into the day and year first above written.

For and on behalf of

LATAM AIRLINES GROUP S.A.

Name : \_\_\_\_\_

Title : \_\_\_\_\_

Name : \_\_\_\_\_

Title : \_\_\_\_\_

Witness

Name : \_\_\_\_\_

Title : \_\_\_\_\_

“[\*\*\*]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

For and on behalf of

AIRBUS S.A.S.

Name : \_\_\_\_\_

Title : \_\_\_\_\_



Legal Name	Subsidiaries Place of Incorporation	Doing Business as	Owenship (%)	(1)
Transporte Aéreo S.A	Chile	LATAM Airlines Chile	99.90%	
LAN Peru S.A	Peru	LATAM Airlines Peru	70.00%	
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A	Ecuador	LATAM Airlines Ecuador	Voting	55.00%
			No Voting	100.00%
LAN Argentina S.A	Argentina	LATAM Airlines Argentina	95.86%	
Aerovías de Integración Regional, Aires S.A	Colombia	LATAM Airlines Colombia	99.19%	
TAM S.A	Brazil	TAM (2)	Voting	48.99%
			No Voting	100.00%
Lan Cargo S.A	Chile	LATAM Airlines Cargo	90.90%	

(1) Percentage of equity owned by LATAM Airlines Group S.A. directly or indirectly through subsidiaries or affiliates.

(2) TAM Linhas Aereas S.A. (“TLA”), a subsidiary of TAM, does business under the name “LATAM Airlines Brazil”.

I, Enrique Cueto Plaza, certify that:

1. I have reviewed this annual report on Form 20-F of LATAM Airlines Group S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 29, 2017

/s/ Enrique Cueto Plaza

Enrique Cueto Plaza  
CEO LATAM

I, Ramiro Alfonsin Balza Hermansen, certify that:

1. I have reviewed this annual report on Form 20-F of LATAM Airlines Group S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 29, 2017

/s/ Ramiro Alfonsin Balza

Ramiro Alfonsin Balza  
CFO LATAM

**CERTIFICATION**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of LATAM Airlines Group S.A. (“the Company”), hereby certifies, to such officer’s knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2016 (the “Report”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 29, 2017

/s/ Enrique Cueto Plaza  
\_\_\_\_\_  
Enrique Cueto Plaza  
CEO LATAM

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**CERTIFICATION**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of LATAM Airlines Group S.A. (“the Company”), hereby certifies, to such officer’s knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2016 (the “Report”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 29, 2017

/s/ Ramiro Alfonsin Balza  
\_\_\_\_\_  
Ramiro Alfonsin Balza  
CFO LATAM