

A close-up photograph of two pilots in dark blue uniforms shaking hands in a cockpit. The pilot on the left has three light-colored stripes on their sleeve, while the pilot on the right has four. They are both holding a wooden yoke. The background shows the cockpit's instrument panel with various dials and screens.

2013  
SUSTAINABILITY REPORT

LATAM AIRLINES GROUP

FOREWORD	THE COMPANY	OUR STRATEGY	VALUE CHAIN	ENVIRONMENT	GRI CONTENTS	GLOSSARY	LETTER OF ASSURANCE	CREDITS	CORPORATE INFORMATION
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## Message from the Chairman of the Board of Directors

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With the merger process that created the LATAM Airlines Group, our operations, which are distributed across seven markets in Latin America, had to face a major challenge: the consolidation of the management practices and strategies in place in LAN and TAM airlines into a common organizational culture. We are, therefore, proud to disclose for the first time our integrated social and environmental performance to capital providers, customers, and other audiences through this Sustainability Report.

Resulting from the consolidation of our corporate management, this first report aims to provide accountability to society concerning our performance in the social and environmental topics associated with the business. The report's preparation process is a healthy example of the challenge that lies in integrating and managing businesses that are structured in various

geographic locations, while preserving their best practices to benefit the company.

Connectivity, diversity, and efficiency are currently the key pillars of our business model. Taking them into consideration, I believe that important advances were made in 2013 for LAN and TAM, with achievements that range from economic and financial balance to increased efficiency in air and ground operations, including the modernization of our fleet of aircraft, the rational use of natural resources, and the best practices with customers, suppliers, employees, authorities, and business partners, who will leverage our results and reputation.

In terms of business, throughout the year we maintained our operating margins at approximately 4.9%, an increase

over 2012, and carried 67 million passengers and 1.2 million tons of cargo. These results can be credited to balanced investments in the passenger business, whether abroad or domestically, in Brazil and in Spanish speaking countries, and in the cargo business. Another key project was the resizing of our route offerings, which aimed to maximize flight occupancy and to integrate existing networks. I give special emphasis to the work conducted by TAM in the Brazilian market, where we reduced our offering of domestic flights by 10%, and to the ongoing investments in the renewal of the fleet, with over 160 purchase orders for new aircraft, to make our operation more modern, eco-efficient, and safe.

In terms of management, we continued to integrate LAN's and TAM's internal processes, policies, and norms, focusing on environmental aspects and on relationships with customers, employees, and suppliers. We prepared a Code of Conduct for LATAM Airlines Group, which unifies our values and guidelines on ethics and integrity and consolidates our corporate risks, considering the aspects and the impacts of each market and business segments. In terms of the supply chain, we highlight the risk management work we developed with indirect suppliers, focusing on tax, legal, labor, and human right aspects.

The relationship we maintain with our customers is another fundamental aspect. In order to reinforce our role as promoters of connectivity, we started reviewing our commercial policy and our service model in order to standardize how we communicate with consumers, always in compliance with legislation and with our values of trust and service attitude. As part of the commitment to quality, we maintained the satisfaction monitoring tools in place at LAN and TAM and implemented a punctuality project in the main airports where we operate in Brazil, involving over 150 employees and managers for immediate improvements.

Regarding our environmental management, we combined investments in the dissemination of policies and best practices with actions included in our strategy, such as the modernization of the fleet of aircraft. This is an important way to reduce costs associated with the consumption of fuel and to control greenhouse gas emissions, one of the

main impacts of the industry. We do this through the most modern assets available in the market – such as Boeing 787 Dreamliner, which started flying for the company in 2013.

The implementation of certified management systems and the meeting of the commitments made to the International Air Transport Association (IATA) are also on our radar. In 2013, the work conducted to obtain the ISO 14001 certification and to structure the systems in the business units were maintained. In addition, LAN launched a new version of its Safety, Quality, and Environment Policy and neutralized the emissions of its ground operations in Peru.

Through the development of a close relationship with communities, local authorities, and business partners, we have achieved important advances that reinforce our contribution to the social and economic development of Latin America. In 2013, we maintained the bids of social and environmental projects at TAM and the Caring for my Destination program at LAN, which communicated our proposal to promote sustainable tourism – which is a highly relevant topic for our management, as identified in our Materiality Matrix, in 2013. Through projects such as Discover, in place in Brazil, Chile, and Colombia, we also add value to the business by inviting tourism operators and entrepreneurs to discover the beauties and the historical and cultural heritage of the region.

These results, combined with the positive trend in our economic and financial performance, have led us to

positively anticipate the coming years. On one hand, we will work on points that require improvement in aspects such as the internal environment – which should be capable of embracing the diversity of our employees and teams and retaining the best talents – and management synergy, especially regarding operational and environmental issues. On the other hand, we acknowledge the need to carefully manage costs, services, and investments; for the renewal of our fleet alone, we will have invested US\$12.213 billion by 2020. This will require the constant pursuit of efficiency in order to meet the expectations of our shareholders and to ensure the financial health of the company.

We understand that these efforts will only make sense and will only lead us to become one of the best and largest global airlines if they are combined with a good reputation and consistent social and environmental practices. We have, therefore, committed to the preparation of an integrated sustainability policy for the LATAM Airlines Group in the coming years – a task that will be strongly supported by the topics, indicators, and lessons learned that are mapped, obtained, and described in detail throughout this report.

Enjoy your reading.



Mauricio Rolim Amaro

**In 2013, we continued to integrate LAN's and TAM's internal processes, policies, and norms, focusing on environmental aspects and on relationships with customers, employees, and suppliers**



## Message from the CEO of the LATAM Airlines Group

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Two years after the merger between LAN and TAM, the two largest airlines in South America, I can proudly affirm that we are increasingly closer to the consolidation of a common culture at the LATAM Airlines Group.

Currently, we have been positioning ourselves as leaders in the area in our segment, both in terms of size and coverage. We constantly strive to offer our customers the best connectivity within the region and with the rest of the world, thereby contributing to the development of the various countries where we operate.

2013 was a pivotal year in which our management efforts to consolidate the business strategy made it possible for us to launch the first integrated Sustainability Report. In this document, we provide accountability to our various

stakeholders about the advances achieved during the period and the projects that will drive our future growth.

During our first full year of integrated operation, we faced the challenge of developing a sustainability vision for LATAM Airlines Group. This was, undoubtedly, a major task, considering the various positive and negative impacts of our management. It imposed the task of growing with the best relationship practices and focusing on customer satisfaction in their travel experience, on fostering sustainable tourism activities, and on management steered by operational, social, and environmental excellence.

In terms of economic management, our efforts to balance results, costs, and investments included various actions, such as the renegotiation of the agreements with our

suppliers, the review of the commercial structure, and the standardization of our products and services. Through these synergies, we recorded a total savings of US\$300 million, which resulted in a 4.9% margin, and a consolidated operating result of US\$13,266.1 million for the fiscal period. Thus we maintained the focus of our investments on making our structure more profitable, productive, and efficient.

In 2013, we pursued the important objective of identifying the strengths of LAN's and TAM's management areas in order to strengthen the integration process and to consolidate best practices. To this end, I highlight the ongoing actions in place to mitigate the environmental impact of the operations and the efforts made to foster tourism and to develop local economies.



**In 2014, we will strive to consolidate a sustainability policy for the LATAM Airlines Group, which is critical for the creation of value in the future and one of the priorities for the fiscal period**

In the environmental aspect, during the year we assumed the industry's global commitment toward carbon-neutral growth starting in 2020, and we stimulated the development of alternative fuels. At the same time, we invested in the modernization of our fleet and in fuel-efficiency initiatives, such as the Smart Fuel and the Lean Fuel projects, which allowed us to prevent the emission of 229,361 tons of CO<sub>2</sub> in 2013 alone.

Our role in the economic development of the region is very clear. Considering the 4.1 million foreign passengers we carried to the main destinations in South America, we estimate our annual contribution to the tourism industry to be US\$4.3 billion through the money spent by tourists in airports and for lodging, food, transportation, sightseeing, and shopping.

Aware of our impact on local economies, we seek to foster sustainable tourism, which entails operating responsibly and in line with the preservation of the cultural and environmental heritage. This work resulted in the implementation of programs that cover the main countries and destinations where we operate. LAN's Caring for my Destination program was conducted on 37 occasions, in 17 locations, with the participation of 2,000 students from Argentina, Chile, Colombia, Ecuador, and Peru. At TAM, the Bids to Support Social and Environmental Projects promote the donation of airline tickets and investments in NGOs that foster environmental awareness and the development of the territory.

The companies of the LATAM Airlines Group are relevant employers and business generators in the countries where we operate; therefore, I highlight the investments in training and local hiring, as well as the advances in the consolidation of an internal culture and the development of an integrated Code of Conduct for the company, which establishes our principles and norms. Concerning the work we conduct with our suppliers, we highlight the implementation of a supply chain risk assessment project and the ProPyme seal, an acknowledgement we received from the government of Chile, which reaffirms our commitment to timeliness in payments made to small and medium-sized suppliers.

We are especially proud of having being featured – for the second consecutive year – in the Dow Jones Sustainability Index (DJSI), a group of indices that measure the financial evolution of the leading companies in each industry in terms of corporate sustainability. This participation confirms and validates our business strategy, which focuses on creating value for the various stakeholders with which we maintain relationships.

We are still working toward an effective integration between practices and strategies, which is a complex task considering our size and the cultural diversity of our teams and operations. In 2014, we will continue to work to leverage the business that, in 2013, was already showing signs of stabilization toward solid growth, and we will also seek to consolidate a sustainability policy for the LATAM Airlines

Group, which is critical for the creation of value in the future and one of the priorities for the year. I am sure that, with the commitment of each of us, we will be able to effectively position ourselves as one of the ten most solid, sustainable, and reliable airlines in the global airline industry.

Enjoy your reading.

Enrique Cueto Plaza



# THE REPORT

## For the first time, we present the joint performance of LAN and TAM in terms of sustainability

This is LATAM Airlines Group's first annual sustainability report, a result of our efforts to leverage increased synergy in communication and management practices. Pertaining to the year 2013, the document follows the guidelines issued by the Global Reporting Initiative (GRI), version G4, to communicate, in an integrated manner, the social, economic, and environmental performance of LAN, TAM, and their subsidiaries. As of 2012, both companies presented their social and environmental reports separately. [G4-28, G4-29]

The scope of this report includes the businesses pertaining to passenger and cargo transportation, among others. Throughout the report, the GRI indicators focus on specific operating units, which are divided into International Businesses, Domestic Brazilian Market (TAM), Spanish speaking countries (LAN in Chile, Peru, Argentina, Colombia, and Ecuador), and the cargo business of the LATAM Airlines

Group, which includes LAN CARGO, TAM Cargo, MasAir, and LAN CARGO Colombia. Information concerning other operations, such as Multiplus S.A. and TAM Mercosur (TAM's unit in Paraguay) is presented later in this report. [G4-20]

The definition of the information to be included in this report considered the GRI guidelines, the previous sustainability reports issued by LAN and TAM, and the survey and identification of relevant management topics, which originated the company's first Materiality Matrix. In this process, we consulted with our employees and external audiences – including customers, suppliers, authorities, and specialists – in Brazil and Chile, identified the main impacts of the business in terms of sustainability, and validated, along with senior management, the final list of topics to ensure its alignment with our corporate strategy (*learn more on page 29*). [G4-18, G4-25, G4-26, G4-27, G4-47, G4-48]

In total, we report 42 indicators related to the GRI aspects that pertain to our relevant topics in at least one aspect, pursuant to the recommendations for the essential format of the G4 guidelines. The content, which was assured by an independent auditor, contains information about the direct operations of the company, including flights, ground operations in airports and maintenance centers, and administrative activities. [G4-18, G4-23, G4-32]

This document will be published annually and its information is complementary to our financial statements (available at [www.latamairlinesgroup.net](http://www.latamairlinesgroup.net)). The purpose is to provide accountability to our stakeholders and to present an overview of our management challenges and opportunities in relation to sustainability. For questions concerning the information contained in this report, send an e-mail to [investor.relations@lan.com](mailto:investor.relations@lan.com). [G4-30, G4-31]

# THE COMPANY



FOREWORD      THE COMPANY      OUR STRATEGY      VALUE CHAIN      ENVIRONMENT      GRI CONTENTS      GLOSSARY      LETTER OF ASSURANCE      CREDITS      CORPORATE INFORMATION

# PROFILE

With passenger and cargo transportation businesses, the LATAM Airlines Group operations connect Latin America to destinations in over 20 countries

Established in 2012 through the merger of the LAN and TAM airlines, LATAM Airlines Group S.A. is a publicly held corporation, headquartered in Chile, with a leading position in Latin America and passenger and cargo transportation businesses, in addition to aircraft maintenance services, tourism, and customer loyalty programs. [G4-3, G4-4, G4-5, G4-7]

With a network that connects Latin America to destinations in North America and Europe, we served approximately 67 million passengers and carried 1.2 million tons of cargo in 2013. Currently, we are responsible for 50% of the air traffic in the region.

Our units are divided as follows: international passenger business, domestic business for Spanish speaking countries (Argentina, Chile, Colombia, Ecuador, and Peru), domestic Brazilian market, and LATAM Airlines Group's Cargo Unit, which includes LAN CARGO (Chile), TAM CARGO (Brazil), MasAir (Mexico), and LAN CARGO Colombia. [G4-6, G4-8, G4-9]

With a business model based on the pillars of connectivity, diversity, and efficiency, LATAM Airlines Group believes in the synergy between two airlines well established in the industry. Our objective is to become the most valued and admired company in the region. To this end, we have advanced in the integration between the processes of the two companies, with investments that include the renewal of our fleet and the improvement of operational efficiency and cost management. Among the actions, we highlight the rearrangement of routes to increase flight occupancy, the adjustment of infrastructure, and the efforts to improve the customer experience. [G4-56]

Currently, we have a fleet of over 330 aircraft – including next generation models, such as Boeing 787 Dreamliner, which started flying for the company in 2013 – and, as part of our business planning, we have placed 166 purchase orders for new aircraft by 2020.

This investment is important to support our renewal plan, in line with the reduction of the environmental impact of the business; the 787 model, for example, is approximately 15% more fuel efficient compared with other similarly sized aircraft, and produces direct benefits in terms of greenhouse gas emissions, which are reduced by the same percentage as the increase in fuel efficiency. In all, investments in the modernization of our fleet will total US\$12.213 billion by 2020.

Currently, our main operation hubs are the Guarulhos (Brazil) and the Lima (Peru) airports, which play a strategic role in the connection to international routes. We also have two hangars with company-owned maintenance centers in the city of São Carlos, in the state São Paulo (TAM MRO), and in the Santiago airport, in Chile, where we have repair and improvement services for our own fleet, as well as for other airlines.

## Our values [G4-56]

### Safety

It is above all other values. It is non-negotiable and the responsibility of all.

### Trust

Professionalism and empathy make people trust our company, our employees, our services, and our attitudes. In our line of business, trust is everything.

### Profitability

Profitability is a consequence of efficient and sustainable management.

### Service attitude

Our service attitude is based on our cordiality. No norm, procedure, or protocol justifies a lack of friendliness and care in our relationships.

### Happiness

A positive attitude toward life helps generate happiness and more satisfaction in everything we do.

### Diversity

There are differences among ourselves and we value our diversity. Respect and candor among all enrich our company.

Source: LATAM Code of Conduct (completed in 2013, to be published in 2014)

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Our shares are listed in the Santiago, São Paulo, and New York stock exchanges; 26% of the company shares are held by the Cueto Group, and 12.2% by the Amaro Group.

LATAM Airlines Group posted a net loss of US\$281 million in 2013. This represents a performance that was 46.3% better than 2012, a result of the efforts to achieve the financial efficiency of the business. Throughout the year, we launched two new international routes and one domestic route in Colombia. In addition, we took some important steps toward the economic and financial balance of the company.

These actions include the optimization of TAM's operational network in Brazil and the integration of our management in some areas, such as procurement and human resources. As a result, in 2013 we achieved a volume of US\$300 million in synergies through the integration of the international and cargo businesses, in addition to the synergy of costs.

During the year, we also started investigating topics, impacts, and corporate initiatives in order to develop an integrated sustainability strategy for LATAM Airlines Group. We have integrated the Dow Jones Sustainability Index

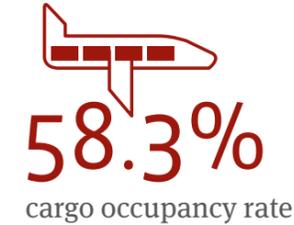
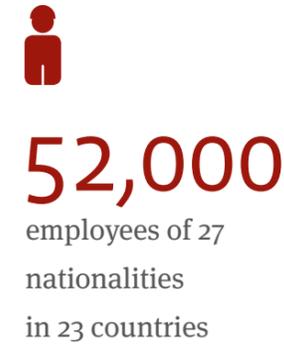
(DJSI) Emerging Markets since 2012, and we have upheld our commitment to the principles and objectives of the Global Compact. These efforts create value internally and comply with the objective of incorporating the best social and environmental management practices into our strategy, turning the company into a benchmark for customers, investors, business partners, and other audiences.



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LATAM Airlines Group in numbers (2013 data) [G4-4, G4-8, G4-9]

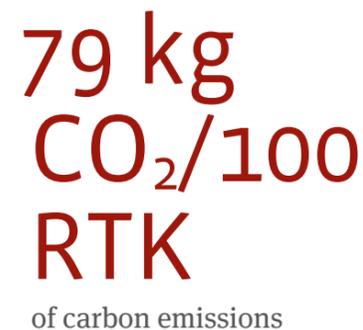
Operation



Businesses



Environment



\* With American Airlines, Aeroméxico, Alaska Airlines, British Airways, Cathay Pacific, Japan Airlines, Korean Air, Iberia, Qantas, Air Canada, Air China, All Nipon Airways Ltd., Egyptair, Lufthansa, South African, Swiss International, Turkish, US Airways, and Air Berlin.



## The companies

[G4-4]

The consolidation of the LATAM Airlines Group, which was completed in 2012, resulted in the merger between two renowned companies in the airline industry of Latin America. Synonymous with civil aviation in the region and with 85 years of history, LAN currently has subsidiaries in Argentina, Chile, Colombia, Ecuador, and Peru, with daily flights to domestic and international destinations.

In addition to carrying passengers, the company has been operating as one of the largest cargo transportation companies in the Southern Cone through LAN CARGO and its cargo units located in Mexico, Brazil, and Colombia, which are currently integrated into the Cargo Unit of the LATAM Airlines Group. In addition, LAN has company-owned operation centers in Miami and Santiago.

Founded in 1976 as Taxi Aéreo Marília, TAM is currently the leading company in the domestic market in Brazil with a fleet of 178 aircraft and is responsible for providing flights to destinations in Brazil, the United States, and Europe. The company, whose motto is "Paixão por voar e servir" ("Passion for flying and serving"), is composed of TAM holding; TAM Linhas Aéreas; Multiplus S.A. reward point program network; TAM MRO maintenance unit; the Paraguayan subsidiary TAM Mercosur; and the TAM Viagens division (which celebrated its 15th anniversary in 2013). TAM Cargo was incorporated into the LATAM Airlines Group's Cargo Unit in 2013.

## OUR FLEET [G4-9]

Units		Capacity (passengers or cargo)	Cruise speed (km/h)	Use
Boeing 767-300	43	205-221-238	870	International
Boeing 777-300 ER	10	362	896	International
Airbus A319-100	54	144	850	Domestic
Airbus A320-200	160	168-174	850	Domestic
Airbus A321-200	10	220	850	Domestic
Airbus A330-200	20	223	870	Domestic/International
Airbus A340-300/500	6	260-267	896-907	International
Boeing 737-700	5	148	828	Domestic
Dash 8-200	7	37	500	Domestic
Dash 8Q-400	3	78	667	Domestic
Boeing 787-8	5	247	913	International
Boeing 777-200F	4	652.7 m <sup>3</sup>	896	Cargo only
Boeing 767-300F	12	438.1 m <sup>3</sup>	896	Cargo only

# CORPORATE GOVERNANCE

The company's senior management fosters synergy between strategies and operations, in compliance with international norms and regulations

Since 2012, the merger process has imposed the challenge of structuring a governance model capable of integrating the decision-making processes of the LATAM Airlines Group, allowing for a management structure based on transparency and dialogue between executive leaders, managers, shareholders, and capital providers of the company.

Currently, we have a governance structure that brings together the executives and corporate leaders who are responsible for making the strategic decisions that involve the integrated business model. Our highest governance body is the Board of Directors, which is composed of nine members and whose main responsibilities are the definition of the strategies for

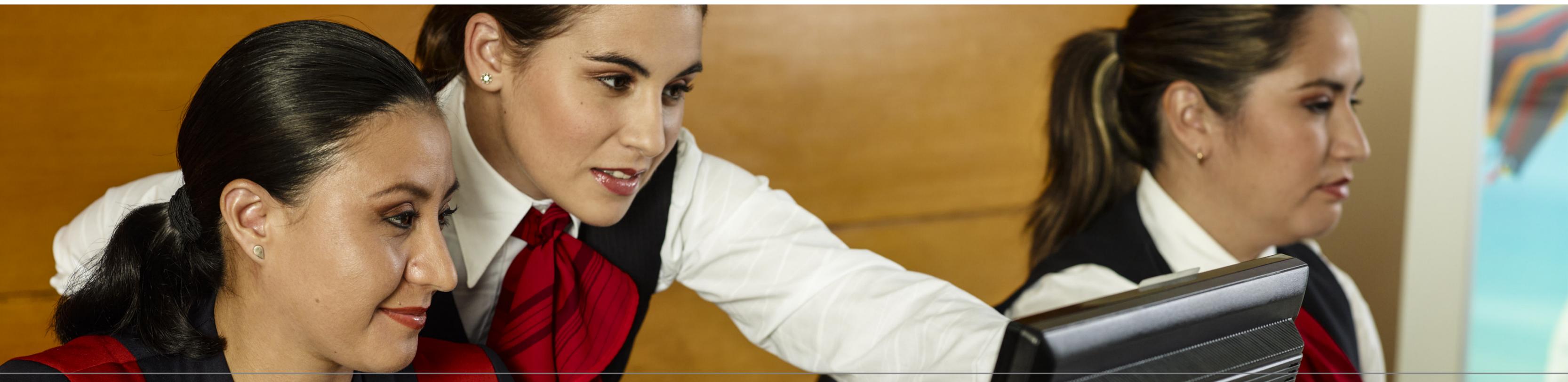
LATAM Airlines Group and monitoring development, goals, and leadership performance.

Board members are elected in the annual general meeting for two-year terms. Ordinary meetings are held monthly; however, they may be convened according to the business scenario and the needs of the company. Mauricio Rolim Amaro has been the Chairman of the Board since 2012. [\[G4-39, G4-42\]](#)

In addition, there is a Board Committee, which convenes monthly and is composed of three independent members of the controlling block of the company, who are elected every two years. This committee is responsible for inspecting the reports and analyses prepared by external auditors,

for reviewing the operations with stakeholders, and for overseeing the payments and benefits of the main senior executives, among other duties. With responsibilities that are similar to those of an audit committee, this body complies with the Chilean legislation and with the United States Sarbanes-Oxley Act (SOX). [\[G4-34, G4-38\]](#)

Under the Board, there are executives (vice presidents and directors) who work on behalf of the LATAM Airlines Group or within the structures of the LAN and TAM business units. The corporate level is composed of leaders from various areas – such as Finance, People Management, Marketing, Audit, Corporate Functions, and Management Planning and Control – who coordinate processes in an integrated manner.



## Pillars of the LATAM Airlines Group

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- > Codes of conduct and ethics
- > Channels for reporting concerns
- > Code of Ethics for senior finance executives
- > Manual Governing the Handling Information of Concern
- > Corporate compliance program

LAN and TAM have their own governance structures, with committees and executives that work in line with the strategic guidelines and with the autonomy to conduct business at the local level. Marco Bologna is the CEO of TAM S.A. and Claudia Sender is the CEO of TAM Linhas Aéreas. LAN's main leaders are Ignacio Cueto (CEO) and Armando Valdivieso (General Manager for the Passenger Business).

LAN's and TAM's Code of Conduct is in place to steer the governance practices of the company; in addition, we comply with the main Chilean regulations governing privately held companies – laws 18,046 (Ley de Sociedades Anónimas) and 18,045 (Ley del Mercado de Valores) – and with the policies established by Superintendencia de Valores y Seguros de Chile (SVS). We are listed in the São Paulo and New York stock exchanges; therefore, we also adopt the measures established by the Securities and Exchange Commission of the United States and of Brazil (CVM). [\[G4-56\]](#)

We have a specific code of ethics for finance executives that aims to foster the best business conduct practices in order to prevent conflicts of interest and to ensure the disclosure of financial results, pursuant to the applicable laws. In addition, we concluded the preparation of LATAM Airlines Group's integrated Code of Conduct, which will be launched in 2014 (*learn more on page 17*). Another important document is the LATAM Airlines Group Manual Governing the Handling of Information of Concern, which offers guidance for the handling of strategic information. [\[G4-43, G4-56, G4-57\]](#)

In compliance with the shareholder agreements in effect due to the merger between LAN and TAM, the Board of Directors has four sub-committees, composed of members of the Board, which support the management of this body in each of their respective fields: Strategy, Leadership, Finance and Brand, Product and Frequent-Flyer Program. Each sub-committee is composed of two or more members of the Board and at least one of them is elected by TEP Chile S.A., which is owned by the Amaro family. [\[G4-34, G4-38\]](#)

## Board of Directors [G4-34]

- > Mauricio Rolim Amaro
- > Maria Claudia Amaro
- > Juan José Cueto Plaza
- > Georges de Bourguignon
- > Ramón Eblen Kadis
- > José María Eyzaguirre Baeza
- > Carlos Heller Solari
- > Gerardo Jofré Miranda
- > Francisco Luzón López

Learn more  
 > About our governance practices by clicking [here](#).

## Main executives [G4-34]

- > Enrique Cueto  
CEO of LATAM Airlines Group
- > Ignacio Cueto  
CEO of LAN
- > Marco Bologna  
CEO of TAM S.A.
- > Claudia Sender  
CEO of TAM Linhas Aéreas
- > Armando Valdivieso  
General Manager of LAN
- > Cristián Ureta  
General Manager of the Cargo Business
- > Damian Scokin  
Senior VP of International Passengers Operations
- > Andrés Osorio  
Senior VP of Finance
- > Roberto Alvo  
Senior VP of Corporate Functions
- > Emilio Del Real  
Senior VP of Human Resources
- > Jerome Cadier  
Senior VP of Marketing

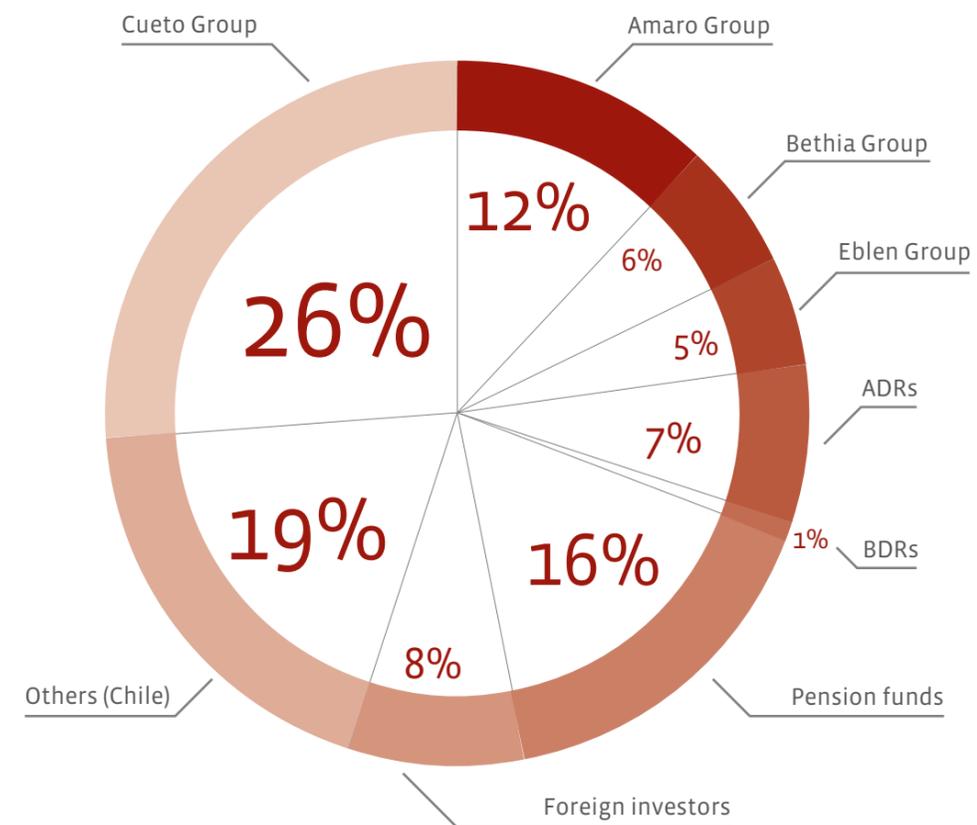


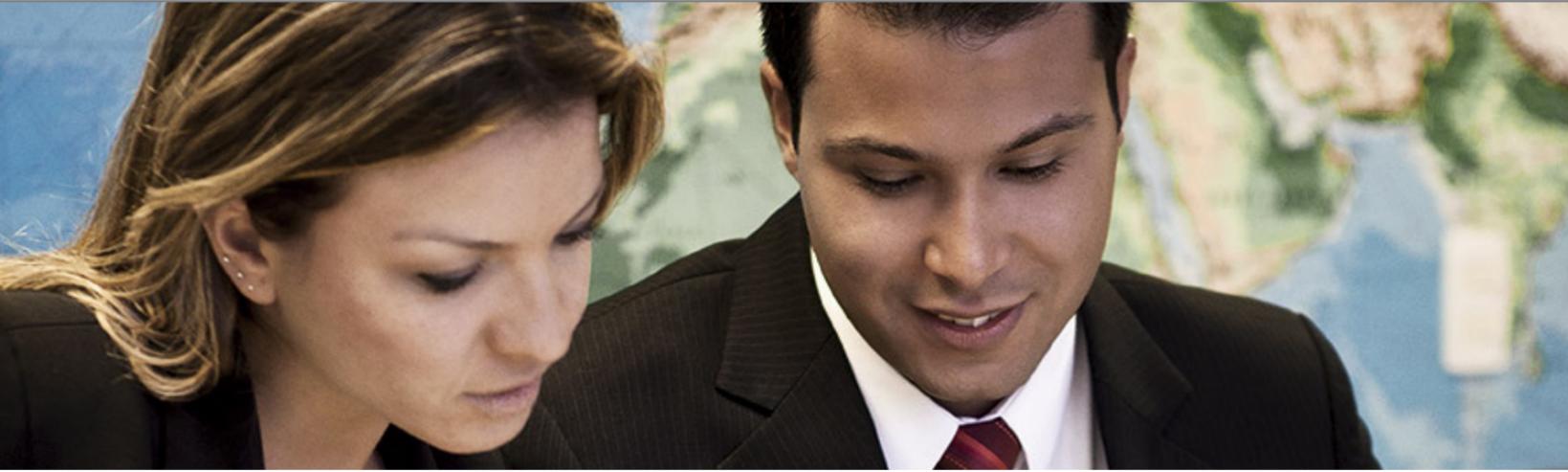
## Shareholding structure

With a total of 1,600 shareholders in its records by the end of 2013, LATAM Airlines Group has as its main capital providers the Amaro Group (12.2%) through TEP Chile S.A. (TAM Empreendimentos e Participações), and the Cueto Group (approximately 26%) represented by Costa Verde Aeronáutica S.A., Inversiones, Nueva Costa Verde Aeronáutica Ltda., and Costa Verde Aeronáutica SpA.

The remaining investor base is composed of various institutional investors, legal entities, and natural persons, essentially from Chile, and of ADRs (American Depositary Receipts, traded at the New York Stock Exchange) and BDRs (Brazilian Depositary Receipts, traded at BM&FBOVESPA).

To ensure autonomy to the management of local businesses by the former controllers of the airlines, TEP Chile S.A. holds controlling interest at TAM S.A., while the Cueto Group holds controlling interest at LAN.





## ETHICS, INTEGRITY, AND RISK MANAGEMENT

In 2013, our compliance program advanced in the integration of processes, especially in terms of developing LATAM Airlines Group's Code of Conduct

We are committed to ensuring integrity, transparency, and good conduct on all markets where the LATAM Airlines Group operates. Thus in the last two years, we have recorded significant gains pertaining to the systematization of the company's compliance program, which includes various norms, policies, and procedures that apply to all units and operations.

There are codes of ethics and conduct in effect, available at the company website (click [here](#)), which address topics such as fraud, bribery, human rights, information privacy, and labor relations, whether within the companies or in the relationships developed with business partners, such as customers and suppliers. In 2013, we completed the development of LATAM Airlines Group's Code of Conduct, which is part of the procedures and guidelines of the business units. This document will be printed and made available in English, Spanish, and Portuguese in 2014; internally, it will be disseminated through online training to be offered to 100% of the employees. [\[G4-56\]](#)

In addition to the guidelines of the airline industry, established by entities such as IATA (International Air Transport Association), and to the laws in force in the countries where we maintain our operations and offices, we comply with a series of legal provisions in the markets where we operate. Among the most relevant references, we highlight the Chilean law that governs the criminal liability of legal persons, the Foreign Corrupt Practices Act (FCPA), the UK Bribery Act, and the Sarbanes-Oxley Act (SOX) (*see chart*).

In line with these norms, we have internal control structures that stimulate the prevention and control of cases involving business conduct, corruption, conflicts of interest, and fraud at the various business units. Among these structures, we highlight the specific communication channels ([www.lan.ethicspoint.com](http://www.lan.ethicspoint.com) and [www.eticatam.com.br](http://www.eticatam.com.br)) through which concerns can be reported anonymously. The cases are investigated by the Ethics Committee, which convenes every three months, with the participation of various leaders in the company. [\[G4-58\]](#)

The year 2013 was marked by efforts toward the integration of TAM's and LAN's practices, as well as by training courses on ethics and governance, broken down by areas and teams. Training is offered by the compliance area of the LATAM Airlines Group and follows an annual agenda. In addition to the mandatory training of all new employees, we offer on-site and online training courses on corporate governance, ethics, and laws, covering topics such as the environment, freedom of competition, and consumer rights. In 2013, we trained 28 classes, totaling 58 hours, in seven locations in Brazil, Chile, and Peru, including over 1,010 employees. [\[G4-43\]](#)

LATAM Airlines Group's new Code of Conduct will be launched in 2014, when all employees will be trained. We will also provide training to critical areas, with examples and contextualized data in accordance with the activities, and quarterly cycles about corporate governance covering all business units.

## Applicable legislation

### > [Foreign Corrupt Practices Act \(FCPA\)](#)

A North American law, enacted in 1977, which addresses various corruption-related topics, such as payments and the offer of gifts or inducements to government officials with the purpose of obtaining or maintaining businesses

### > [Sarbanes-Oxley Act \(SOX\)](#)

Enacted in 2002, it determines internal risk control frameworks involving ethics and conduct, which should be internally designed in organizations

### > [OECD Anti-Bribery Convention](#)

Chile (2001) and Brazil (2000) are among its signatories; it addresses topics related to bribery

### > [UK Bribery Act](#)

Similar to FCPA, it has been in effect since 2010 and it is applicable to companies whose activities or employees are located in British territories, with a series of norms governing ethics and anti-corruption procedures

### > [Data Privacy & Protection Law](#)

Also known as Directive 95/46/EC, it is a norm that governs the aspects of the privacy of data for citizens of the European Union

### > [UN Convention](#)

United Nations convention on human rights and labor rights. Brazil and Chile are signatories to this initiative

### > [Ley de Responsabilidad Penal](#)

#### [Personas Jurídicas – Chile \(Ley 20.393\)](#)

Enacted in 2009, it addresses the procedures required to ensure compliance of legal persons, including companies and corporations

### > [Lei Anticorrupção \(Lei 12.846\) – Brazil](#)

Brazilian anti-corruption legislation, which will enter in effect in 2014; it foresees sanctions to companies involved in cases of corruption and establishes risk management guidelines on this topic

## Risk management includes aspects such as the balance of results, financial health, and regulatory and industry-specific topics

### [Risk management \[G4-2\]](#)

Given the nature of our business and the specificities of the markets and segments where we operate, we have a risk management structure that allows us to map, analyze, and control the main externalities that may affect LATAM Airlines Group's planning in short, medium, and long term.

In 2013, as part of our advance in this area and of our pursuit of increased integration in the company, we created a specific risk sub-management department, which reports to the corporate finance department. This initiative helps leaders to control the efficiency of the business, focusing on aspects such as economic management, balancing of results, and mitigation of potential risks to the company's financial health.

Based on mapping conducted by the senior management between 2012 and 2013, the company identified the risks that influence strategic decision making and that can affect future strategies. This action considered various business areas, international laws, assessments, and criteria used by risk rating agencies and the main management challenges currently faced by LAN and TAM. To learn more about this work, see our Annual Report, available at [www.latamairlinesgroup.net](http://www.latamairlinesgroup.net).

As a result of this process, we broke down risks into major categories: those pertaining to the merger between LAN and TAM; those related to Chile, Brazil, and other markets where we operate; those involving our common shares; and those regarding our operations in the airline industry.

Consequently, we identified that aspects associated with exchange rates, interest rates, and fuel prices, for example, should be at the core of our strategic planning and of the company's action plans.

# OUR STRATEGY





## RESULTS, INVESTMENTS, AND PERSPECTIVES

Based on connectivity, diversity, and maximum operational efficiency, we strive to ensure the creation of value in our various businesses

With an integrated model that includes two major service categories – cargo and passenger transportation to domestic and international destinations – the LATAM Airlines Group is conducted based on its strength and presence in Latin America, with the purpose of fostering synergy in its operations, economic and financial sustainability, and our consolidation as the airline of choice in the region.

Businesses are planned based on three pillars: *connectivity*, *diversity*, and *efficiency*. *Connectivity* refers to LATAM Airlines Group's capability of fostering the flow of businesses and people in Latin America and on other markets. Through strategic hubs, such as São Paulo (Brazil) and Lima (Peru), and a wide network of local routes, we have structured our main offering of domestic flights to connect our region and to ensure the satisfaction of our customers through excellence in the services we provide in the passenger and cargo segments.

*Diversity* pertains both to the various geographical areas where we operate – the regional and domestic markets of countries such as Colombia, Peru, Ecuador, Paraguay, and Argentina, where we have LATAM Airlines Group business units – and to our other businesses. Currently, approximately 14% of corporate results come from the cargo business, 83% from passenger transportation, and 3% from other activities such as maintenance services, travel operations, and reward and customer loyalty programs. With this diversification, it is possible to ensure the generation of results, to optimize aircraft occupancy, and to expand our value proposition.

As a common challenge to other companies in the industry, *efficiency* addresses needs that range from cost management to improvements that can be leveraged in various aspects of our operation, from service charges and flight occupancy rate to expenses for raw materials.

In addition to the adaptation of routes and itineraries, we make special investments in the reduction of fuel consumption, in efficient environmental management, and in the modernization of our fleet.

We have recently launched new routes, especially in our international operation, with two new itineraries: Aruba, from Bogotá (Colombia), and Miami, from Belém (Brazil), since the first quarter of 2014. We also launched a new domestic route in Colombia. In Ecuador, the Quito-Manta route, which was launched in March 2013 and operates twice daily, was temporarily suspended in September due to the restructuring process of domestic destinations and routes.

FOREWORD THE COMPANY OUR STRATEGY VALUE CHAIN ENVIRONMENT GRI CONTENTS GLOSSARY LETTER OF ASSURANCE CREDITS CORPORATE INFORMATION

The occupancy rate for our flights in the domestic business in Brazil was expanded and reached 79.7%, a performance that exceeded the industry average of 76%, according to the Brazilian regulatory agency (ANAC). In Spanish-speaking markets, this rate reached 79%, and for the LATAM Airlines Group as a whole, it reached an average of 80%. This indicator, which is critical for efficiency, is continuously enhanced through the review of routes and flights, seeking a balance between cost and demand and the growth of partnerships with other airlines, such as American Airlines, with which TAM and LAN Colombia closed code-share deals in 2013.

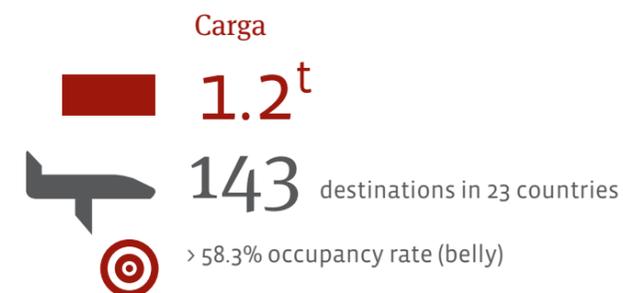
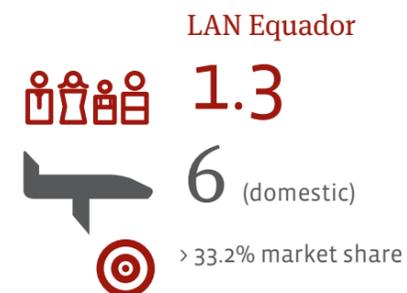
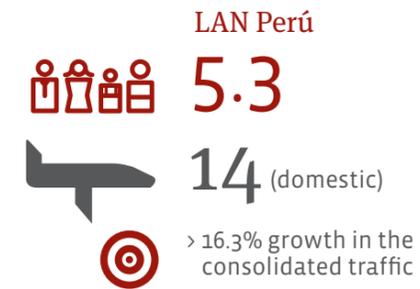
Given the constant renewal of our assets, the average age of our fleet is seven years, one of the best in the world. Presently, we have 339 aircraft and 166 new planes have been ordered to replace part of our current fleet, totaling US\$12.213 billion in investments by 2020. Among these, we highlight next generation aircraft, such as Boeing 787, Boeing 777-200 F, Airbus A350, and Airbus A321; the first five 787s were received by the company in 2013, and in the next eight years, another 32 aircraft will be delivered. We devote special attention to the part of our fleet that operates in long-haul flights, in which we have identified significant opportunities to increase our efficiency and to reduce our environmental impact.

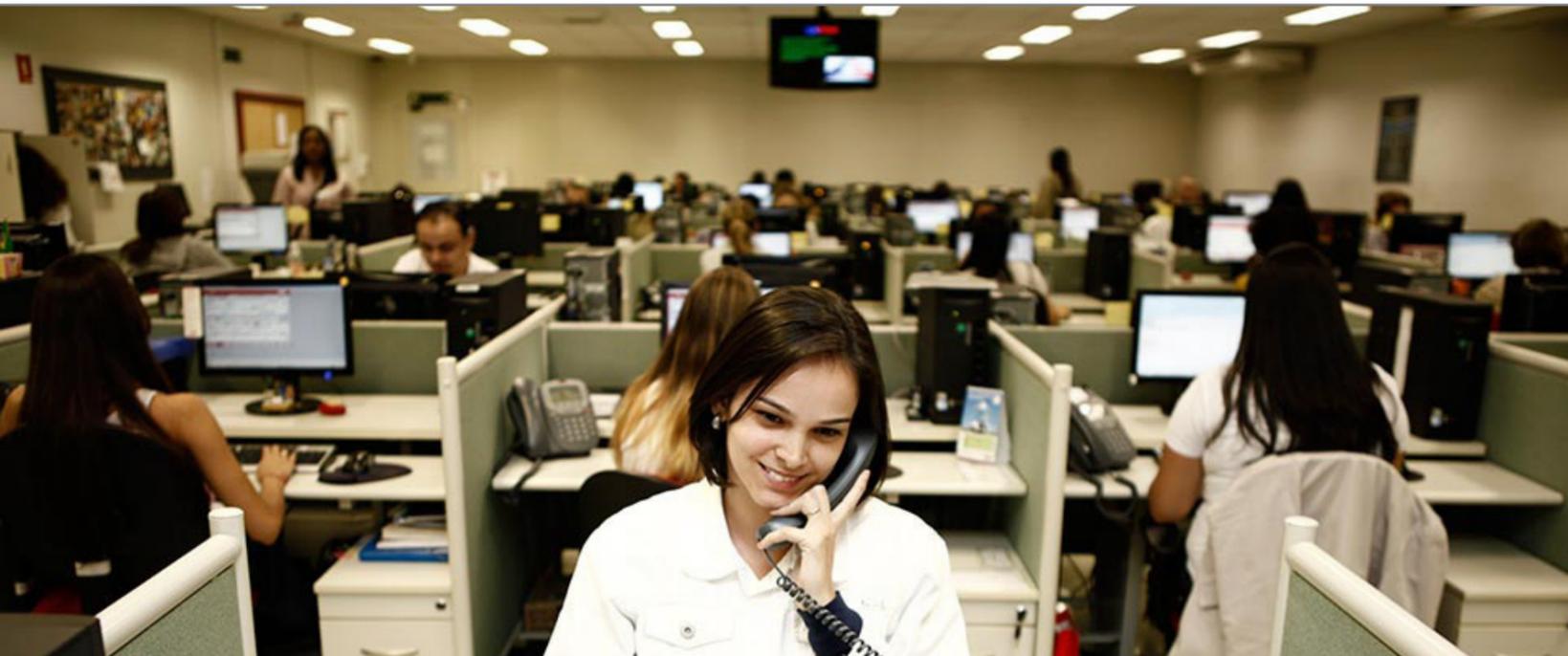
In addition to enabling the more rational use of fuels, other inputs, and services, such as maintenance, these aircraft are equipped with modern operational safety systems, which ensure flights that are more comfortable and safe. In addition to the efforts made to offer quality services with the lowest cost possible to the company and to customers, we believe that this is the main path to achieving the sustainability of the business.

In 2013, we continued to diversify our businesses, prioritizing premium services in passenger and cargo transportation, to improve our operational

## LATAM Airlines Group operational performance 2013

-  Passengers carried (million)
-  Cargo (million)
-  Destinations
-  Highlights of the operation





infrastructure and to integrate our business units. We also started to develop our Strategic Planning, which will be completed in 2014 and will define commitments and objectives for the coming years.

In the cargo business, which is considered strategic for strengthening our business model and is marked by LAN's expertise, we are confident in the strengthening of our network thanks to the merger. TAM's strategic entry in the main hubs of the region, such as the Guarulhos airport, receives investments to reinforce the local maintenance and operation structure.

Our main objective is that this business, in which we are one of the ten most important global players, will lead us

to become the fifth largest cargo transportation company in the world in the coming years.

Thus considering the relevant role played by LAN CARGO in the regional market, LATAM Airlines Group's Cargo Unit – which integrates the activities of LAN CARGO, TAM Cargo, MasAir, and LAN CARGO Colombia – has been investing in the modernization of its fleet and infrastructure, in the management of its customer portfolio, and in the operation on markets in Europe – such as Frankfurt (Germany), Madrid (Spain), and Paris (France) – and in the United States (New York and Miami).

In 2013, we consolidated the Customer Care project, which allows us to integrate the service provided

to customers of the Cargo Unit. The purpose of this action is to manage any inconvenience with shipments, to monitor issues, and to provide information to customers within the time standard defined.

Also in 2013, we launched a new cargo terminal in Manaus, in the North of Brazil, a country in which we are investing US\$20 million in cargo terminal infrastructure.

There are significant opportunities for growth and synergy in the maintenance area. We have advanced in the integration of the processes of the two companies

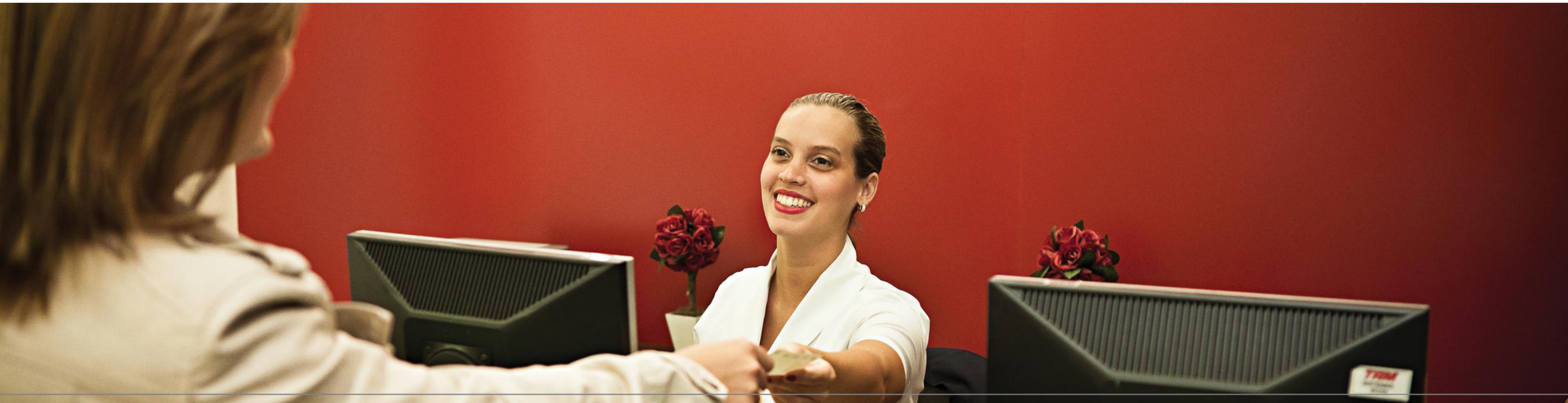
and in our capability to serve other airlines in our main centers. In our hangar in the Santiago airport, for example, we completed the implementation of a third production line, expanding our capacity to provide maintenance to our own aircraft and to that of partners.

In 2013, we completed the first phase of the capacity expansion plan for our base, adjacent to the airport in Chile, through the opening of new airport aprons in an area of 25,000 m<sup>2</sup> and through environmental improvements, which focus on the management of hazardous waste and the improvement of working conditions. Future actions will take place until 2016, involving investments of US\$18.74 billion.

At TAM MRO, which is TAM S.A.'s maintenance base, headquartered in São Carlos, state of São Paulo, we have obtained certifications for the maintenance of several Airbus, Boeing, and Fokker models, including the installation and remodeling of engines, propellers, and landing gear using local technology and labor.

Among the certifications we received, we can highlight those issued by renowned entities such as the National Civil Aviation Agency (ANAC); the Federal Aviation Administration (FAA), from the United States; the European Aviation Safety Agency (EASA); the Transport Canada Civil Aviation (TCCA); the Dirección General de Aeronáutica Civil (DGAC), from Chile; and the International Air Transport

Association (IATA). As part of our business plan, our objective is to expand the services to external customers by TAM MRO, increasing its operation by 20% p.a. until 2016.



## Oneworld: A window to the world

For airlines, connectivity is intimately related to the global trend of the industry, which drives companies to develop networks through business partnerships. In 2013, the LATAM Airlines Group selected the oneworld program to connect its network to more than 150 destinations operated by leading airline companies in the Americas and Europe. In addition to LAN and TAM (which will become part of LATAM Airlines Group in April 2014), oneworld is composed of American Airlines, British Airways, Cathay Pacific, Iberia, Qantas, Finnair, Japan Airlines, S7 Siberia Airlines, Royal Jordanian, AB Air Berlin, and Malaysia Airlines.



### Economic performance

According to IATA, the results projected for the airline industry in 2013 foresee a growth between 1.8% and 2.6% in the profit margin. This data, calculated based on information provided by 240 companies – including the LATAM Airlines Group – which, combined, are responsible for 84% of the commercial airline flow, suggests a global profit of US\$12.9 billion for the industry. This result is influenced by the expectation for lower fuel cost, gains in efficiency, and growth in the global demand of passengers.

Also under the influence of the merger between LAN and TAM in 2013, LATAM Airlines Group posted a net loss of US\$281.1 million which, although challenging, is 46.3% below the US\$523.1 million recorded in 2012. This data reflects the costs arising from the consolidation of the merger, which include administrative expenses,

investments, and increased fuel and tax-related costs. The operating revenue was US\$13.266 billion, a growth of 0.3% over the previous year, and the operating costs were US\$12.622 billion.

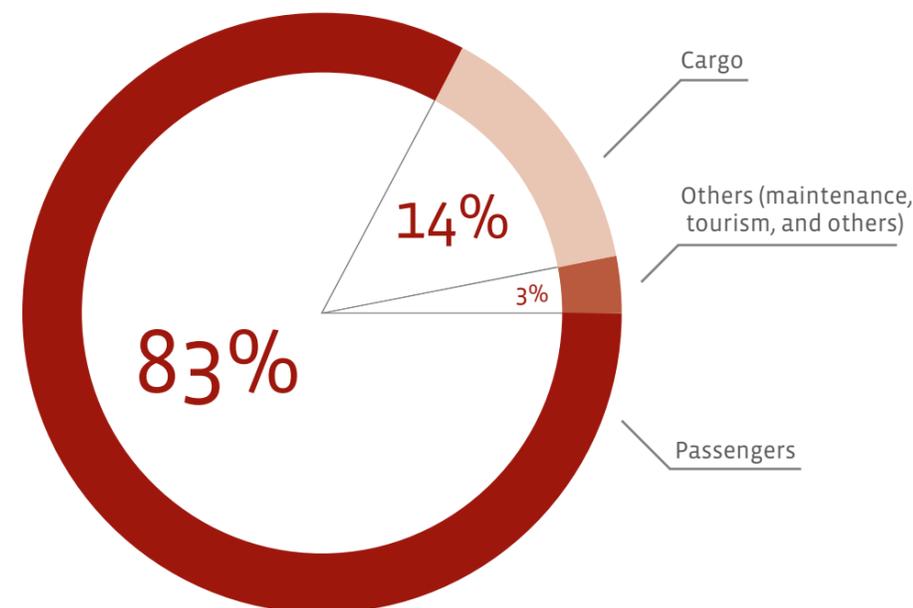
In the cargo business, we carried 1,170,941 tons and recorded a total result of US\$1.862 billion; in the passenger business, we posted revenues of US\$11.061 billion, an increase of 0.4% over 2012. The results were affected by adjustments in the operational network and in labor, and by the integration of the operations conducted by LAN and TAM in the international segment. These results are also in line with our planning, which foresees the adjustment of routes and itineraries to ensure the profitability of the company.

In 2013, we maintained our expectations pertaining to the synergies achieved after the establishment of

the LATAM Airlines Group. We recorded total savings of US\$300 million in the year, and our goal is to reach between US\$600 and US\$700 million by June 2016, our fourth year as LATAM Airlines Group. Aware of the market demands, especially in terms of transparency of information disclosed, the company is presently adequately aligned in terms of financial communication, achieved through the project that has been developed with the areas since the merger between LAN and TAM.

In 2014, our main objective will be the identification of opportunities for greater value generation, with more integration between operations, and positive results for the investments in fleet modernization, technology, and efficiency. The results projected for the coming year foresee an operating margin between 6% and 8% (less the costs for the renovation of the fleet).

**REVENUE BY BUSINESS**



**Generation of value for stakeholders**

[G4-EC1]

(in US\$ thousands)

	2012	2013		2012	2013
Economic Value Generated	10,008,989	13,340,884	Economic Value Distributed	9,264,350	12,045,669
Revenue by Net Sales	9,710,372	12,924,537	Operating Costs	6,954,048	9,085,484
Financial Revenue	77,489	72,828	Salaries and Benefits of Employees	1,908,915	2,492,769
Participation in gains (losses) in Associated Companies	972	1,954	> Expenses for personnel	1,908,915	2,492,769
Other revenue, by function	220,156	341,565	Payments to capital providers	294,598	462,524
			> Financial costs	294,598	462,524
			Payments to Governments	105,535	3,834
			> Fines	3,149	3,834
			> Payment of taxes on profit	102,386	-
			Social investments in the community	1,254	1,058
			> Donations	1,254	1,058
			Economic Value Retained	744,639	1,295,215

## More modern, more efficient

The company invests in the acquisition of aircraft that allow for reduction in operating costs, decrease of environmental impacts, and maximum flight safety

### Airbus A320neo

- > Modern engines and equipment
- > A 15% reduction in fuel consumption
- > Reduced CO<sub>2</sub> emission and noise generation

### Airbus A350

- > A 25% reduction in fuel consumption
- > A 25% reduction in operating costs
- > Rolls-Royce Trent XWB engine
- > Reduced CO<sub>2</sub> emission and noise

### Boeing B787

- > A 15% reduction in fuel consumption
- > A 12% reduction in operating costs
- > Reduced CO<sub>2</sub> emission and noise
- > Decreased maintenance costs





## SUSTAINABILITY MANAGEMENT

**Our challenge is to develop integrated policies that allow for the management of social and environmental impacts across all business units**

The LATAM Airlines Group aims to develop integrated sustainability management. By merging two companies that are leaders in their regions, with different backgrounds and practices in their respective markets, we have identified opportunities to guide our business model, considering social and environmental pillars such as the efficient use of natural resources, incentives for local communities, and promotion of sustainable tourism.

Some relevant topics in the sustainability area are intrinsically connected to the businesses of the airline industry. In the environmental area, for example, we highlight aspects involving greenhouse gas emissions and consumption of fossil fuels. Today, studies show that the airline industry is responsible for approximately 2% of the CO<sub>2</sub> released into the atmosphere. Accordingly, the company stands out for managing its flight emissions and for various initiatives, such as its carbon-neutral ground operations in Peru.

The use of direct energy accounts for 43% of airline costs, according to industry-specific data, and has been studied in order to develop clean and economically feasible technologies to be used in air transportation with the lowest possible impact. In this regard, we highlight the importance of the research involving biofuels (*learn more on page 74*) and of the modernization of the aircraft fleet.

Another important point lies in the management of solid hazardous or non-hazardous waste generated by ground and air activities, including organic waste generated in-flight and oils and materials used in aircraft repairs, cargo transportation, and administrative activities. This topic is especially relevant for regulated markets, such as Brazil, which affects TAM's operations and stimulates various projects that focus on the proper storage and disposal of materials. [\[G4-2\]](#)

Likewise, we have identified relevant social and economic impacts that we have promoted in the communities where we operate. In addition to connectivity, which is a direct impact of our business and which we know generates momentum and development in local economies, we play a pivotal role in fostering tourism – one of the main sources of income in specific areas of Chile, Peru, and Brazil, among others.

On the other hand, we are aware of the potentially adverse impacts that can be generated, considering our position as the largest operator in the industry in some markets. This may significantly affect prices, flight options, and the use of slots at airports, with potential impacts on consumers and competing airlines. [\[G4-2\]](#)

### Mapping of topics and impacts

In 2013, we conducted LATAM Airlines Group's first integrated materiality process, which sought to map the main social, economic, and environmental impacts associated with our businesses. This process considered the opinion of our main target audiences. We consulted with executives, employees, customers, suppliers, market analysts, and other industry-specific experts, among others, to understand the points we need to address in our social and environmental management. [\[G4-24, G4-25, G4-26\]](#)

This work was conducted in our main markets (Chile and Brazil) and involved individual interviews, work meetings, panel discussions, and online inquiries, which resulted

in the preparation of LATAM Airlines Group's Materiality Matrix, which was validated by the senior management. Nine material aspects were identified for the company. [\[G4-24, G4-25, G4-26\]](#)

This process was a significant input for the preparation of this report and will also allow us to develop our integrated sustainability strategy in the coming years. Today, both LAN and TAM have specific policies on the topic, which were prepared before the merger. For 2014, we foresee joint management, based on inquiries, guidelines, and the strategic business pillars, which will enable us to act proactively in relation to the main topics and impacts we generate to society. [\[G4-18, G4-24, G4-25, G4-26, G4-27\]](#)

### Priority Topics [\[G4-19, G4-20, G4-21\]](#)

In this Sustainability Report, we present our performance and the main actions involving the company's material topics, in line with the methodology of the Global Reporting Initiative (GRI). As part of the development of its content, we established the relationship between the nine topics, the GRI aspects, and the boundaries of the impacts generated within and outside the company's operations.

The table on the following page presents the results of this work, which influenced the definition of the performance indicators described in this report. To learn more about the actions pertaining to each topic, click the links to navigate to the related sections.



**LATAM AIRLINES GROUP MATERIALITY ISSUES, IMPACTS, AND THEIR EXTENT**

Material topics [G4-19]	Our approach [G4-27]	Extent of impacts* (LATAM Airlines Group) [G4-20]	Extent of impacts* (value chain) [G4-21]	Associated GRI aspects	Section
<b>Management with eco-efficiency</b>	To reach excellence levels in waste management and in the use of natural resources	Employees	<ul style="list-style-type: none"> <li>› Suppliers</li> <li>› Customers (passengers)</li> <li>› Government and regulatory agencies</li> <li>› Society (communities surrounding airports and operating units)</li> <li>› Investors</li> <li>› Environment</li> </ul>	<ul style="list-style-type: none"> <li>› Economic Performance</li> <li>› Materials</li> <li>› Energy</li> <li>› Water</li> <li>› Emissions</li> <li>› Sewage and Waste</li> <li>› Products and Services</li> <li>› Transportation</li> <li>› Overall</li> </ul>	<ul style="list-style-type: none"> <li>› Our approach</li> <li>› Carbon Emissions</li> <li>› Energy efficiency and fuels</li> <li>› Waste and effluents</li> <li>› Noise and air quality</li> </ul>
<b>Mitigation of climate change</b>	To continuously reduce the intensity of emissions, research new fuel technologies, and control our impact on air quality	Employees			
<b>Noise reduction</b>	Permanent control and investments in technology to reduce the acoustic impact of aircraft on the communities surrounding the airports	Employees			
<b>Connectivity and customer relationships</b>	Investments in service quality, in transparent communication and ethics, and in meeting the new demands of our customers	Employees	<ul style="list-style-type: none"> <li>› Customers (passengers/cargo)</li> <li>› Strategic partners (universities, NGOs, tourist agencies)</li> <li>› Government and regulatory agencies</li> <li>› Society (communities surrounding airports and operating units)</li> <li>› Investors</li> </ul>	<ul style="list-style-type: none"> <li>› Occupational health and safety</li> <li>› Security practices</li> <li>› Customer health and safety</li> <li>› Labeling of products and service</li> <li>› Marketing communications</li> <li>› Customer privacy</li> <li>› Compliance with regulations</li> </ul>	<ul style="list-style-type: none"> <li>› Customers</li> <li>› Our people</li> </ul>
<b>Health and safety in the air and on the ground</b>	To manage the potential risks and to assure the highest security standards to our customers, employees and the community	Employees			
<b>Retention of talents and turnover control</b>	Actions to improve performance and career management in the various business units, seeking to create an integrated LATAM Airlines Group culture	Employees	<ul style="list-style-type: none"> <li>› Society (communities surrounding airports and operating units)</li> <li>› Investors</li> </ul>	<ul style="list-style-type: none"> <li>› Training and education</li> <li>› Employment</li> </ul>	<ul style="list-style-type: none"> <li>› Our people</li> </ul>
<b>Relationship with governments and specific regulations</b>	Permanent dialogue with governments, local authorities, and entities that represent the industry in order to reach responsible business solutions	-	<ul style="list-style-type: none"> <li>› Customers (passengers/cargo)</li> <li>› Government and regulatory agencies</li> <li>› Society (communities surrounding airports and operating units)</li> <li>› Investors</li> <li>› Environment</li> </ul>	<ul style="list-style-type: none"> <li>› Compliance with regulations</li> <li>› Economic performance</li> </ul>	<ul style="list-style-type: none"> <li>› Governments and Institutions</li> <li>› Society</li> </ul>
<b>Economic and financial sustainability</b>	Synergy in cost and asset management, planning of current and future investments, and focus on the creation of value for the company and its capital providers	Employees	<ul style="list-style-type: none"> <li>› Suppliers</li> <li>› Customers (passengers/cargo)</li> <li>› Government and regulatory agencies</li> <li>› Society (communities surrounding airports and operating units)</li> <li>› Investors</li> <li>› Environment</li> </ul>	<ul style="list-style-type: none"> <li>› Economic performance</li> <li>› Public policies</li> </ul>	<ul style="list-style-type: none"> <li>› Our strategy</li> <li>› Ethics, integrity, and risk management</li> <li>› Customers</li> <li>› Suppliers</li> <li>› Society</li> <li>› Governments and Institutions</li> <li>› Shareholders and Investors</li> </ul>
<b>Promotion of sustainable tourism</b>	Management and monitoring of social and economic impacts fostered by our activities in the communities	-	<ul style="list-style-type: none"> <li>› Suppliers</li> <li>› Customers (passengers/cargo)</li> <li>› Strategic partners (universities, NGOs, tourist agencies)</li> <li>› Government and regulatory agencies</li> <li>› Communities impacted by tourism</li> <li>› Investors</li> <li>› Environment</li> </ul>	<ul style="list-style-type: none"> <li>› Market presence</li> <li>› Indirect economic impacts</li> </ul>	<ul style="list-style-type: none"> <li>› Customers</li> <li>› Suppliers</li> <li>› Governments and Institutions</li> <li>› Society</li> </ul>

\*\* The extent of impacts indicates the main stakeholders and locations, inside and out of our own operations, in where/to which our material topics are more relevant.



# VALUE CHAIN

# CUSTOMERS

The company invests in efficient service to ensure the best possible experience for passengers and clients of the cargo business

With over 60 million passengers carried in 2013, we understand that our relationship with our customer base is critical for a successful business model. Our leadership in Chile (where we have a 76% market share), in Brazil (40%), and in Peru (64%), and our presence among the 12 largest cargo airlines in the world represents the challenge of providing premium services and of building customer loyalty in various markets, in addition to enhancing and standardizing processes.

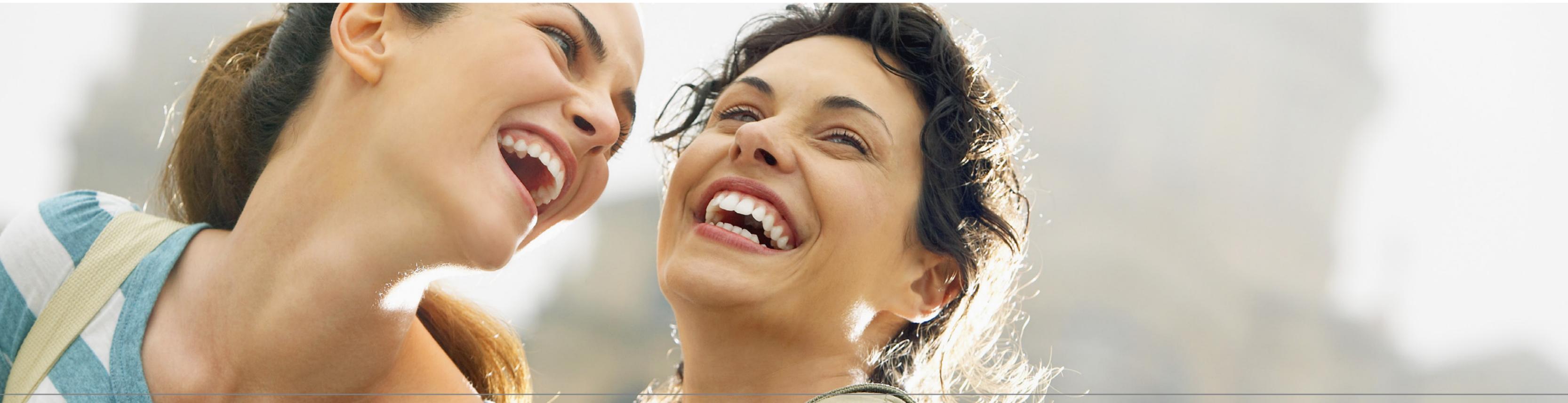
In 2013, we started reviewing our service model with the purpose of integrating and improving the way our business units operate. Also in the course of the year, we worked to update LATAM Airlines Group's commercial policy, which

addresses topics such as reimbursement and compensation practices, in order to operate in a more integrated manner in line with consumer laws of the countries where we operate.

We made substantial advances concerning valuing our clients. We focus on offering the best experience to those who use our services, from planning to the end of the trip, winning the trust of all, making targeted offerings, and respecting the profile of each customer.

It is the transformation of our service policy that shifts the company's focus from passengers to customers.

Presently, we have an integrated service management center, which is responsible for defining the guidelines that will govern the actions of employees at airports and stores, on aircraft, and in the communication channels made available to customers. Management is conducted by our own teams, with certain procedures that are common to both units, such as customer committees and Products and Services Meeting (RPS in the Brazilian acronym). In this forum, already in place at LAN and structured at TAM in 2013, directors of various areas analyze operational and satisfaction indicators to address critical cases and modify strategies based on feedback.





## In 2013, the company reviewed its customer service model, focusing on the pursuit of synergy between the practices at LAN and TAM.

At LAN, there are direct service channels, such as the sales offices, and indirect service channels, such as travel agencies, the Contact Center, the Internet, and social networks (Facebook and Twitter). The Contact Center provides various types of services, such as LAN Tours, ticket sales, and LANPASS, among others. At TAM, the main channels are Customer Service (SAC), sales offices, websites, social networks, and the Ombudsman channel. Both airlines also provide in-flight entertainment tools, such as LAN's magazine IN and TAM's magazine and TV channel *TAM nas Nuvens*.

TAM also has a Call Center and the “*Fale com a Gente*” (Talk to Us) service, which celebrated its 21st anniversary in 2013. With a team of 164 employees, this service recorded approximately 900,000 contacts, by phone, e-mail, or social networks, in 2013. “*Fale 2.0*” (Talk to Us

v2.0) involves the provision of customer service through Facebook and Twitter, and recorded over 90,000 contacts during the year, with a response rate of approximately 70%. All contacts made by customers are recorded and consolidated to improve service.

In 2013, TAM implemented the *Procon-Fone* service, which aims to help the agents of the consumer protection agency in the escalation of requests and complaints made by customers, thus avoiding such complaints becoming lawsuits. Last year, approximately 600 cases were handled through Procon-Fone, and the volume of complaints filed with Procon in relation to the company dropped by 5%.

At the Contact Center, we provide services in Spanish, Portuguese, English, French, and German, with specific channels for passengers (TAM and LAN), cargo (LAN

CARGO and TAM Cargo), and travel (TAM Viagens and LAN Tours), as well as the Multiplus Fidelidade network. For passengers of international flights, we provide a customer service channel (SAC) dedicated to the markets of Europe and the Americas. As part of a strategy to offer an improved experience in our relationship, customers of some categories of LANPASS and TAM Fidelidade are served by a differentiated team.

The service structure has 1,675 external professionals (outsourced workers) and approximately 1,130 of our own employees. We have internal goals that deal with response times. For ordinary cases, we take an average of 24 hours to respond to customers. For urgent cases, response time can be within six hours. However, aspects such as pending issuance of tickets, luggage, rescheduling, reimbursement, and other more complex matters may take longer. On TAM's

social networks, we have an executive group – including TAM Linhas Aéreas CEO, Cláudia Sender – which is responsible for analyzing possible crisis that could affect the reputation of the company.

### Quality in service

Our commitment to customers is based on our codes of conduct, on the laws in force in the markets where we operate, and on the Passenger's Manual – a document that contains the rights and duties of the users of our main service. In 2013, we launched a study to understand the profile of passengers, covering items such as customer motivation and expectations, so that the company can record better results in terms of developing the loyalty of external audiences.

To measure results, we analyzed a series of indicators such as flight punctuality, the satisfaction expressed in surveys, and the volume of complaints registered via Customer Service (SAC) or the Ombudsman department, which impact the remuneration of employees. We also used the seat and belly occupancy rates (cargo capacity) of our flights to plan improvements and adjustments for our operations.

In recent years, we have achieved some positive results: the satisfaction of international and cargo customers, for example, has increased.

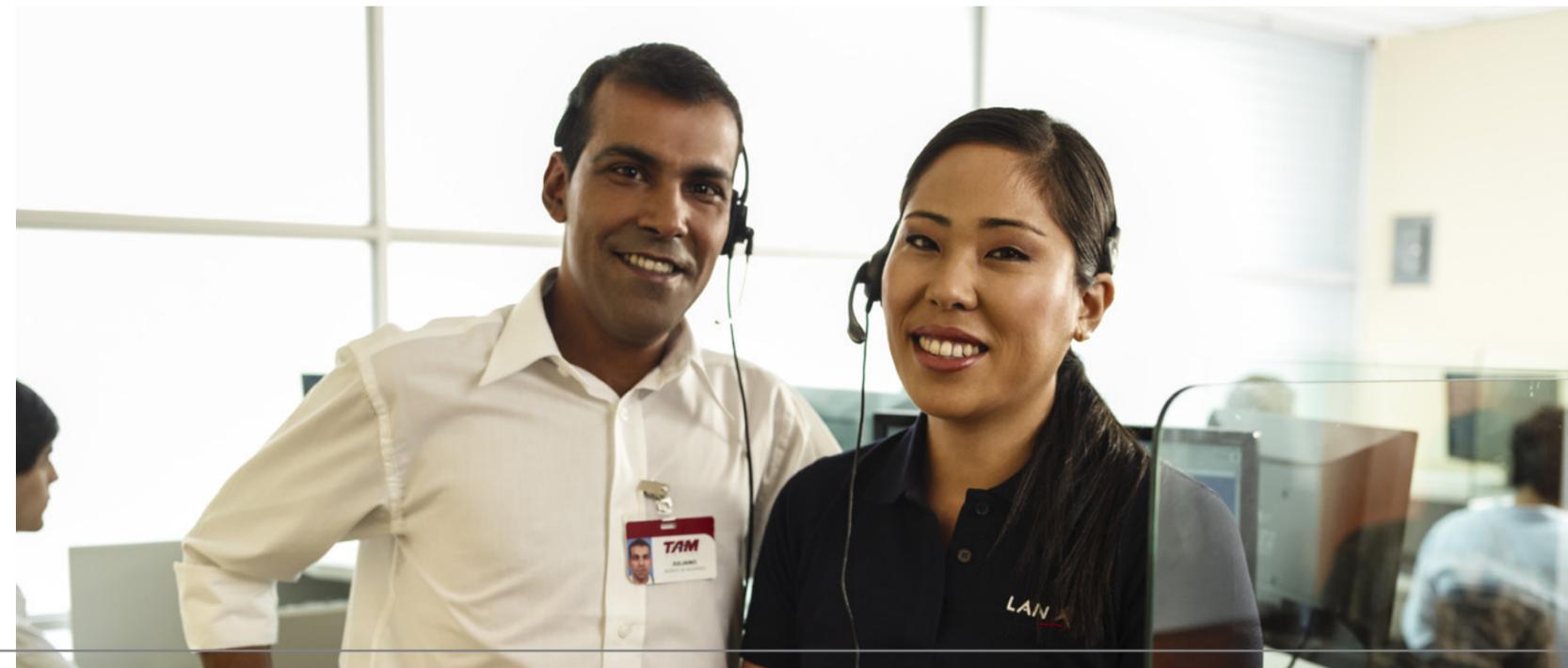
Another important point of attention is privacy. Since we handle personal data and banking information, often times recording this information in our systems

during the purchase and reservations processes, we have information technology guidelines and procedures in place to ensure the protection of the information provided through our channels.

LAN's Code of Conduct has a specific section for this topic, which provides guidelines about information security to employees and partners. At TAM, the Customer Data Protection and Privacy Policy addresses the duties, principles, and responsibilities of the employees of the sales area and other specific divisions, in addition to tourist agencies while handling the information of those who use our services. [\[G4-PR8\]](#)

## Preparation for the World Cup

With the expected attraction of 600,000 tourists to Brazil in a little over a month, according to government estimates, the 2014 World Cup will represent a significant challenge to airlines. Through a work group composed of 120 people and 15 leaders of various areas, TAM has been studying measures to ensure the punctuality and quality of the services to be provided in June and July, when the World Cup will take place. One of the main investments lies in hiring additional personnel to work in the call center and airports. In addition, we have expanded investments in training.



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**SATISFACTION – CARGO CUSTOMERS\*** [G4-PR5]



\* In 2012, the number of people surveyed doubled, and a sampling error below 5% was maintained

Satisfaction surveys [G4-PR5]

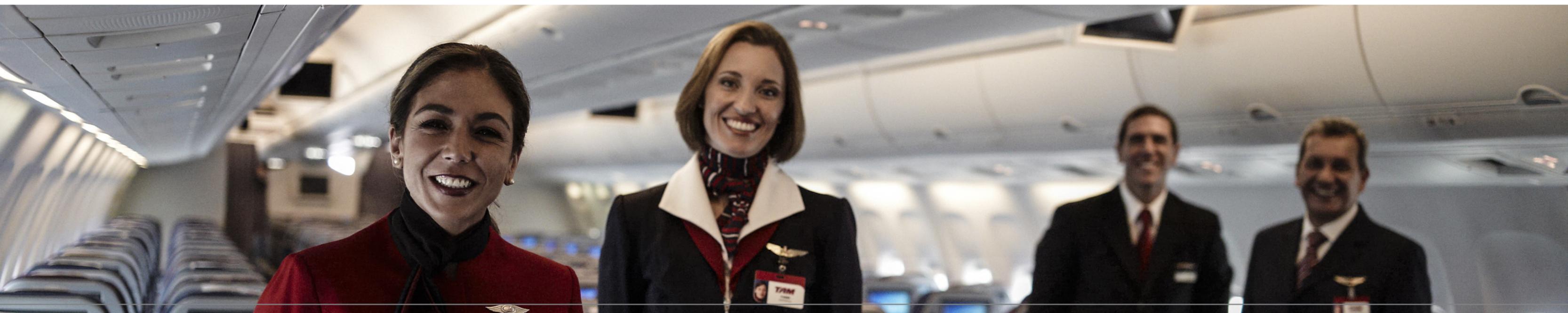
We measured the satisfaction of our passengers using the Net Promoter Score (NPS) methodology. This indicator is obtained through an online questionnaire, to be completed after passengers fly with us. This questionnaire covers topics pertaining to their experience during their last trip (in-flight service, punctuality, airports, and service quality). In addition, we conduct satisfaction surveys with the members of the frequent-flyer programs (LANPASS and TAM Fidelidade) and at various points of contact.

These are strategic results; therefore, they are not publicly disclosed. However, the data is regularly presented to employees, influencing the value of their annual bonuses in all levels of the organization. For the cargo business, we conduct a satisfaction survey that maps the percentage of customers who assigned the highest possible score to their experience with the company.

For the passenger business, we recorded stable results. Generally, passengers are more satisfied with the services provided in the markets served by LAN and with business class; in terms of significant operations, Chile presents a satisfaction rate that exceeds Peru and Brazil. The main points of dissatisfaction in these countries are punctuality, in-flight experience, ticket prices, and services provided at airports. Satisfaction can be explained mainly due to the sense of safety the airline inspires and to in-flight services (which also have a positive influence on indicators).

Regarding the cargo business, overall satisfaction with the service is monitored annually for national and international operations. In the first case, we measure five points (locations); in the second, 20, which is over 84% of the total revenue of the Cargo Unit. We recorded over 2,600 responses from customers in 2013, twice as many as in 2012.

In 2013, the satisfaction of cargo customers increased by 4% over the previous year (see chart). Among the aspects that require improvement, we highlight the resolution of inconveniences, the service provided by the Contact Center and by the sales executives, and the perception of the quality/price ratio. Results improved more noticeably in Miami, São Paulo, and Bogota. However, in Lima and Frankfurt, there was a decrease in satisfaction. In Santiago and Buenos Aires, we recorded stable rates. In addition, among the aspects that need improvement are the timely receiving of cargo at the origin, the maintenance of its conditions, and the itineraries available. In 2014, there will be new tools to measure satisfaction.





## Punctuality

In addition to guiding our strategy, the opinion of our customers generates permanent management improvements. In 2013, for example, as a result of passenger complaints concerning the delays in domestic flights in Brazil, we developed a punctuality project in the airports in São Paulo (Guarulhos and Congonhas), Brasília (Federal District), and Rio de Janeiro (Galeão). This initiative, which involved 145 people and nine leaders in 27 work forums, improved the punctuality of flights throughout the year.

In 2013, the percentage of delayed arrivals for the short-haul flights operated by the LATAM Airlines Group recorded an improvement of over 2.7% compared with 2012, which was driven by LAN's and TAM's operations. For long-haul flights, there was a slight increase of 0.7% in the number of delayed flights, which was caused by problems with the new long-haul fleet.

### OUR PUNCTUALITY

Short-haul flights (under 3h) with delays of over 15 minutes

16,2%

Long-haul flights with delays of over 15 minutes

19,8%

### Benefits and exclusiveness

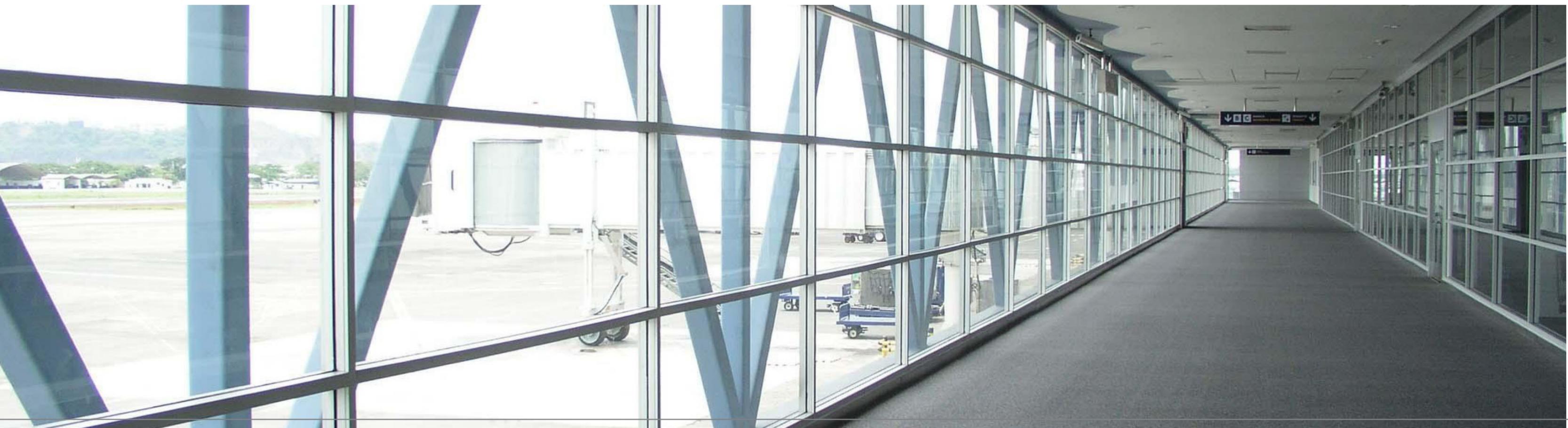
With the purpose of improving the customer experience and turning LATAM Airlines Group into the company of choice for flights and services in Latin America, in recent years we have been investing in the modernization of our customer services. Concerning passengers, we highlight a few important actions, such as the self check-in (whether online or through kiosks at airports), the use of a virtual assistant to answer questions on the company websites, and the launch of apps for smartphones (at TAM), through which it is possible to cancel or change reservations, in addition to obtaining information on scheduled flights.

The Customer Care area for the Cargo Unit, created in 2013, supports our customers by providing timely information and solutions that meet their needs in case of problems with flights. These services include the notification, via e-mail, about the incident and its progress, the online tracking of cargo, and the digitizing of transportation documents. After the creation of this area, the positive perception our customers had of how we handle problems increased by 49.2 points, with a satisfaction rate of 52.4%.

Moreover, we developed our e-business, a set of electronic initiatives (e-tracking, e-booking, e-freight, e-AWB) that enables us to deliver added value

to our customers by enhancing their experience, decreasing operating costs, increasing change speed, and reducing the use of paper. [\[G4-EN27\]](#)

Our customer loyalty programs include the LANPASS and TAM Fidelidade programs. They allow us to offer advantages and convenience to over 19 million frequent flyers of LATAM Airlines Group, located mainly in Brazil, Chile, Argentina, Peru, Colombia, and Ecuador. At LAN alone, the program allowed 360,000 passengers to fly free of cost in 2013.



## Customer loyalty programs provide customers with advantages and benefits, ensuring the best experience.

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The first program, created by LAN in 1984, offers a number of benefits through the accumulation of LANPASS miles, which can be redeemed for free tickets, other products in the catalog, or gift cards, among other prizes. Miles are accumulated by flying with LAN, TAM, and other oneworld member airlines and by purchasing products from participating merchants or by using the services provided by participating companies. In 2013, the network was reinforced with new partners in Chile, Argentina, Peru, Ecuador, and Colombia.

In January 2013, a new category of LANPASS membership, called Comodoro Black, was launched; it is the highest premium category and offers its members an executive service called Special Services, access to priority services for their immediate family, and maximum priority in upgrades among the categories.

TAM Fidelidade is TAM's frequent-flyer program, created in 1993. It was the first of its kind in Brazil and it has over 10.5 million members in five categories: White,

Blue, Red, Red Plus, and Black. The program is a part of Multiplus, a TAM unit that was created in 2009 and that has been listed in the Stock Exchange since 2010. It is the largest customer loyalty network in Brazil and allows its members to earn points from various companies operating in different segments via a single account, whether directly or indirectly (through transfers from an associated program), in over 13,000 stores; members can redeem their points for over 420,000 options of products and services. In December 2013, the Multiplus network had over 460 partners and 12 million members.

Both programs remain independent and no changes were made to their rules, categories, or accounts. However, members can now earn and redeem points in either of them, according to the rules, rates, and availability of each company. In addition, we have been working to offer access to the main preferred benefits when members of one program fly with another company, such as priority check-in service, access to VIP rooms, and priority boarding.

## In-flight health and safety <sup>[G4-PR1]</sup>

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Given the nature of LATAM Airlines Group's businesses, the categories of products and services through which the impact on the health and safety of our clients are assessed are the updating of the first-aid kits (FAK), implementation of new kits, the installation of Automated External Defibrillators (AED), the training of crews on the use of the

AED, the ability of doctors on duty to respond via telephone, and the response of the staff on duty for the MedAire calls. In 2013, we updated the contents of 100% of the LATAM Airlines Group's fleet kits (Stat Kit 700) in order to meet the standards of all subsidiaries. The equipment is being installed gradually. There were delays in the replacement of

old FAKs, and at the end of 2013, LATAM Airlines Group was still waiting for the inputs required for the implementation of the new kits that had been purchased. For 2014, our goal is to complete the implementation of the new FAKs.



## OUR PEOPLE

We are committed to developing a new corporate culture that takes into consideration multiculturalism and the expectations of our internal audience

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Reflecting the combination of the workforces of two companies that have a strong presence in Latin America, the LATAM Airlines Group had, at the end of 2013, approximately 52,000 employees in administrative, executive, operational, ground service, and crew positions in 20 countries. This number is lower than the previous year because of the implementation of the staff restructuring plan, which resulted in the termination of part of TAM's crew (approximately 10% of its total number of employees) and part of LAN's employees. This process occurred given the need to adapt the supply of services – especially in the domestic segment

– and to unify customer service areas, to increase flight occupancy rates, and to rebalance the company margins, which had been affected by high fuel costs and by the depreciation of the Brazilian real against the dollar.

This restructuring process was carefully implemented after studies to adjust to the new operational reality of the company, which were monitored by governments and trade unions. The option to adhere to the Voluntary Restructuring program was offered to employees, composed of unpaid leave and a voluntary resignation severance package. At TAM, 50% of the crewmembers adhered.

This process was an important opportunity to integrate the human resources processes of the LATAM Airlines Group and to improve the dialogue with trade and labor unions in each country. Considering the high level of unionization found in a number of countries, such as Argentina, Chile, and Brazil, our relationship with these entities is key for the performance of the business. In our home markets – Argentina, Chile, Peru, Colombia, Ecuador, Brazil, and Paraguay – the internal audience is governed by collective bargaining agreements, which, at the end of 2013, either were in effect or had been renewed. At the end of the year, 31% of our employees were unionized. [\[G4-11\]](#)

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With the restructuring of the staff and the new definition of the Board of Directors of the LATAM Airlines Group, we started the integration of the areas, especially those associated with operations and corporate decision making. Some impacts, especially the cultural and language barriers between employees, are being managed in a number of positions and areas through the provision of Portuguese classes to Spanish-speaking employees and vice-versa.

The integration effort is a part of a bigger plan, launched in 2013: the generation of a new LATAM Airlines Group culture. We have started mapping the best practices in place at LAN and TAM and assessing the conduct and attributes that we would like to develop in our staff in various markets. This proposal should be completed and disclosed in the first half of 2014 under the coordination of the LATAM Airlines Group

## Local hiring <sup>[G4-EC6]</sup>

We are committed to contributing to local development through our operations, distributed across more than 23 countries worldwide. In 2013, the rate of local hiring reached 97.38% for general employees and 79.73% for senior management.

Regarding our preference for local hiring, LATAM Airlines Group publishes all vacancies available on the company website and, whenever possible, in training centers, newspapers, local employment agencies, and others.

Culture Committee, which is formed by the members of the Executive Board of LATAM Airlines Group.

Hence, our long-term goal is the achievement of high performance, a result that is directly influenced by a good work environment and by efficient relationships with customers and partners. To support this process and to develop our performance management with succession perspectives and integrated career plans, we are developing a LATAM Airlines Group tool to measure the performance of all employees. Today, TAM and LAN have separate performance assessment processes.

In 2013, 32% of the men and 34% of the women in the LATAM Airlines Group underwent performance and career development evaluations (which is equivalent, respectively,

Our definition of local employees considers their nationality and the country where they work: employees are considered local when they work in the region they were born. For hiring purposes, we understand the local community as the one located closest to the place of employment, such as region or municipality.

The definition of senior managers for LATAM Airlines Group includes individuals with administrative and decision-making skills: CEO, Senior VP, VP, Senior Director, Director, Senior Manager, Manager, and Sub-manager.

to 10,237 male employees and 7,005 female employees), with an average of 33%. This indicator was affected because fewer employees underwent this evaluation at TAM (15% of TAM employees). The annual evaluation process does not consider employees who had been with the company for less than six months as of December 31, 2013, who were on medical leave of over 180 days, whose performance is not subject to evaluation, and command crew. Considering only those employees who are subject to evaluation, in 2013 the process covered 95% of the employees (the goal for the year was 90%). <sup>[G4-LA11]</sup>

Throughout the year, we conducted our first integrated organizational climate survey, which covered 71% of the internal audience of the LATAM Airlines Group. The results showed an average acceptance of the work environment, with a favorability of 58%. <sup>[G4-PR5]</sup>

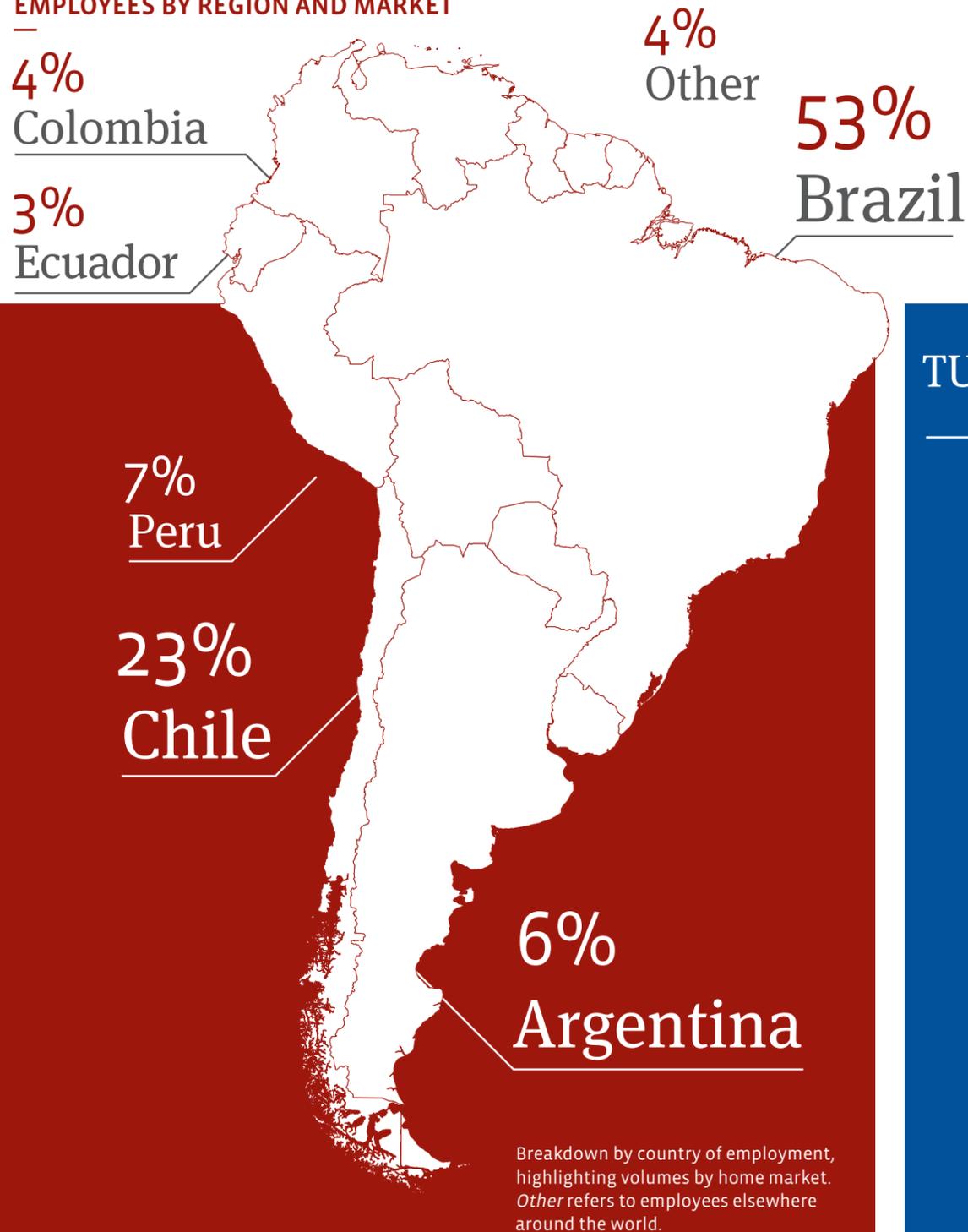


Training and development

The internal audience of the LATAM Airlines Group is very diverse – employees come from over 50 different geographical areas. This is also expressed in the distribution of employees by operation, gender, and positions. To ensure the alignment of our practices, we instruct our employees to act according to the company's codes of ethics and conduct.

EMPLOYEES BY EMPLOYEE CATEGORY <u>[G4-10]</u>	LAN		TAM		LATAM AIRLINES GROUP	
Operations	2,582	6,596	3,099	11,639	<b>5,681</b>	<b>18,235</b>
Support ( <i>overhead</i> )	1,196	1,264	812	664	<b>2,008</b>	<b>1,928</b>
Operational support	688	1,548	733	1,467	<b>1,421</b>	<b>3,015</b>
Commercial support	957	862	491	399	<b>1,448</b>	<b>1,261</b>
Crew	3,046	3,026	3,624	3,691	<b>6,670</b>	<b>6,717</b>
Sales	1,865	644	1,325	584	<b>3,190</b>	<b>1,228</b>
Total	10,334	13,940	10,084	18,444	<b>20,418</b>	<b>32,384</b>

EMPLOYEES BY REGION AND MARKET



TURNOVER

NUMBER OF RESIGNATIONS/TERMINATIONS BY GENDER - 2013 [G4-LA1]

Male 5,132  
Female 3,235

NUMBER OF RESIGNATIONS/TERMINATIONS BY AGE GROUP - 2013

Under 30 4,308  
31-50 3,646  
Over 50 413

NUMBER OF RESIGNATIONS/TERMINATIONS BY REGION - 2013

Chile 1,564	Colombia 174
Brazil 5,113	Ecuador 484
Peru 424	International Businesses 144
Argentina 107	Cargo Business 357

NUMBER OF NEW HIRES BY GENDER - 2013

Male 3,521  
Female 2,086

NUMBER OF NEW HIRES BY AGE GROUP - 2013

Under 30 4,047  
31-50 1,502  
Over 50 58

NUMBER OF NEW HIRES BY REGION - 2013

Chile 1,350	Colombia 156
Brazil 2,413	Ecuador 398
Peru 593	International Businesses 193
Argentina 79	Cargo Business 425

TURNOVER RATE BY GENDER (%) - 2013

Male 15.85%  
Female 15.84%

TURNOVER RATE BY AGE GROUP (%) - 2013

Under 30 21.52%  
31-50 12.39%  
Over 50 12.34%

TURNOVER RATE BY REGION (%) - 2013

Chile 14.14%	Colombia 10.22%
Brazil 20.11%	Ecuador 28.17%
Peru 11.16%	International Businesses 7.27%
Argentina 3.91%	Cargo Business 8.14%

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The restructuring of the Human Resources area will lead changes in career management. Presently, LAN has a development plan that uses growth and succession criteria for its employees, which was not done systematically at TAM. The adjustment of salaries and positions is at the core of this process, which is being implemented in both business units.

The companies offer a regular calendar for training and qualification to their employees, aiming to refresh their knowledge, to update processes, and to offer the

best experience to customers. In 2013, we invested US\$37,883,000 in internal courses and US\$396,000 in the granting of 133 scholarships. [\[G4-LA10\]](#)

The company has corporate universities that offer online training courses about topics such as safety, leadership, and service excellence. The partnerships with universities and knowledge centers is another critical point, especially in markets where education falls short of what is required by the companies, such as in Chile and Peru, where the market is more restricted, with less competition.

Currently, one of the main challenges of the company is the employee turnover rate. The average turnover rate for LATAM Airlines Group is 15%, especially in operational areas. In 2013, staff changes in Brazil due to the integration of LAN and TAM affected this indicator. Historically, our annual goal is an average rate of 10%, which can be readjusted or modified for 2014 (an issue that is still under analysis). [\[G4-LA1\]](#)

## Education and training LATAM Airlines Group – 2013 [\[G4-LA9\]](#)

Training hours \*

	Managers	Operations	Support (overhead)	Operational support	Commercial support	Crew	Sales
	1,142,498	613,445	59,961	88,825	63,282	224,544	92,441
	1,008,251	203,814	60,227	36,177	69,296	283,878	354,859
<b>Total</b>	<b>2,150,749</b>	<b>817,259</b>	<b>120,189</b>	<b>125,002</b>	<b>132,578</b>	<b>508,421</b>	<b>447,300</b>

\*Only training hours are included, since there are no records with the same criterion to identify the total number of participating employees at LAN (number of times an employee attended training) and at TAM (number of assistances).

**= 2,150,749**

## Training in human rights <sup>[G4-HR7]</sup>

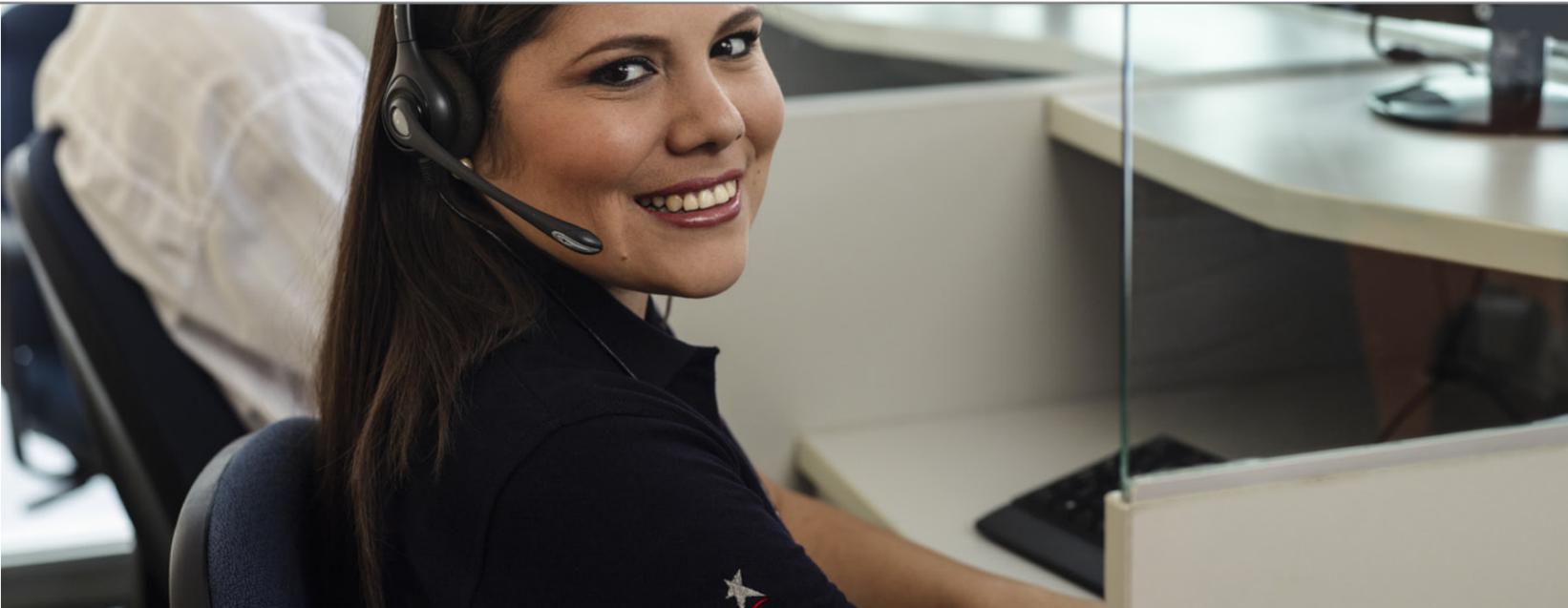
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In 2013, 91% of the security employees were trained in human rights policies and procedures. At LAN, there are no specific courses on human rights; however, notions of proper treatment are provided, according to the AVESEC course. In our home markets, Venezuela provides training to

100% of its employees; the Ecuador and Colombia operations recorded lower rates (50% and 62%, respectively). At TAM, the Corporate Security team does not organize or take part in specific courses on the subject; however, the contractors that provide security services offer training to their employees,

pursuant to Brazilian law, and refresher courses every two years. Since human rights are part of TAM's code of ethics, 100% of its employees are aware of this topic. There is also a leadership course that addresses harassment and discrimination. In 2013, 142 employees received this training.





## Benefits [G4-LA2]

The benefits offered at the LATAM Airlines Group comply with our general remuneration policy – which includes fixed salary, performance-related pay, and benefits – and are in line with the market. We are currently analyzing a way to improve our competitive position in the Brazilian market.

The benefits we currently offer at the four business units (Spanish speaking countries, Domestic Brazilian Market, International Business, and Cargo) include food vouchers, transportation allowance, life insurance, health plan, coverage for impairment/disability, parental leave, pension funds, and child care assistance.

### Health and safety

Health and safety are the core values of LATAM Airlines Group and refer to the development of efficient and safe operations for our customers and for the society, as well as to the well-being of our employees. Our work on this topic includes five aspects: operational safety and corporate security, emergencies, audits, and occupational safety.

The operational safety pillar refers to ensuring the safety and the proper operation of all our flights in all phases, from maintenance to operation, including mapping of risks, technology adjustments, and efficiency and quality controls. In turn, corporate security refers to the prevention of illegal in-flight practices involving passengers, crews, ground teams, and airport facilities.

For emergencies and audits, we operate in line with the authorities that regulate the industry and the markets in which we operate; to this effect, we highlight our partnership with the International Air Transport Association (IATA), which supports our periodic operational safety audits (*learn more on page 57*). [G4-14]

Concerning occupational safety, the initiatives seek to prevent risks that are inherent to specific positions, such as the handling of parts, inputs, and equipment for maintenance operations and the risks related to flying, for crews. Currently, 100% of the internal audience is affected by the decisions made by the hygiene, health, and safety committees, which are broken down by region, in order to analyze each scenario and to identify requests for activities to ensure a safe internal environment.

We periodically train new employees in topics pertaining to the enforcement of the guidelines established by the aviation authorities; likewise, we have a calendar of training courses on in-flight safety, on the correct use of personal protective equipment and hearing protection, and ergonomics, among others.

Employees holding specific positions are trained in first aid and in firefighting, which is also offered to the community.

Finally, since 2012 we have been applying the Psychological First Aid (PAP) program to help employees handle emergencies and work in conjunction with local authorities, fire departments, and other support institutions in incidents such as aviation accidents.

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In 2013, LAN launched the new version of its Safety, Quality, and Environment Policy. With the commitment to meeting the highest operational standards in its flights and administrative activities, this document addresses international regulatory compliance and reinforces safety as one of the non-negotiable values of the company and of its employees, highlighting communications pertaining to risks, actions, and unsafe conditions, which must be put into practice by teams during any and all exposure. Another highlight of this policy is the proposal for the development of a management system that allows goals, objectives, and resources to be reviewed, implementing best practices and adding value to all stakeholders.

Some units, such as TAM MRO, in São Carlos (SP), have their own occupational health, safety, and environment policy to cover local specificities, highlighting aspects of the activities associated with maintenance, repair, and inspection of aircraft and their components and focusing on environmental controls and incident prevention.

In 2013, our occupational safety result (consolidated LAN + TAM) was 371 accidents, which was a decrease from 2012. The injury severity index recorded was 3.02, which was also lower than the previous year. [\[G4-LA6\]](#)

There are company employees who are involved in professional activities that offer high rates of risks of diseases in the maintenance process, such as exposure to particulate matter, solvents, noise, UV radiation, and vibrations while working at airports (exposure to noise and vibration). We have assistance programs for serious diseases that provide employees with educational and training actions; advisory programs (*Management Body of Work Accidents Social Security - Security Mutual*); risk prevention and control programs,

such as the qualitative and quantitative assessment of health risks; and treatment programs, such as the Epidemiological Surveillance Program. [\[G4-LA7\]](#)

In terms of safety, we have not registered any aviation accidents at LAN in 22 years. At TAM, no severe accidents have occurred since 2007. In September 2013, TAM's flight JJ 8065, which operated in the Madrid-Guarulhos (São Paulo) route, had to make an emergency landing at the Fortaleza Airport, in Ceará, due to severe turbulence. In this incident, passengers and crewmembers were injured and received medical assistance after landing. The case was investigated by the Aviation Accident Investigation and Prevention Center (CENIPA), an agency related to the Brazilian Air Force Command; it was rated as an aviation accident without any fatalities.

**LATAM AIRLINES GROUP HEALTH AND SAFETY INDICATORS** [\[G4-LA6\]](#)

	2012	2013
	Employees + Contractors	Employees + Contractors
Total number of accidents	876	369
Injury severity rate	4.08	2.96
Total rate of occupational diseases	0.12	0.16
Total number of lost days	4.405*	5766
Total absenteeism rate	47.89*	50.18
Total fatalities for the period (report reason: accidents at work or while commuting)	2**	0

\* Data for LAN only  
 \*\* Data for TAM only

# SOCIETY

Contribution to local development and the control of negative impacts are among our initiatives to expand the generation of social value

The LATAM Airlines Group has been working to expand the creation of value in the various regions and locations where it operates. Given the nature of its business, it is responsible for a number of positive impacts – such as the generation of employment opportunities and the promotion of tourism and local economies – and of adverse impacts, such as the generation of noise and emissions that affect the quality of the life of the population residing near airports.

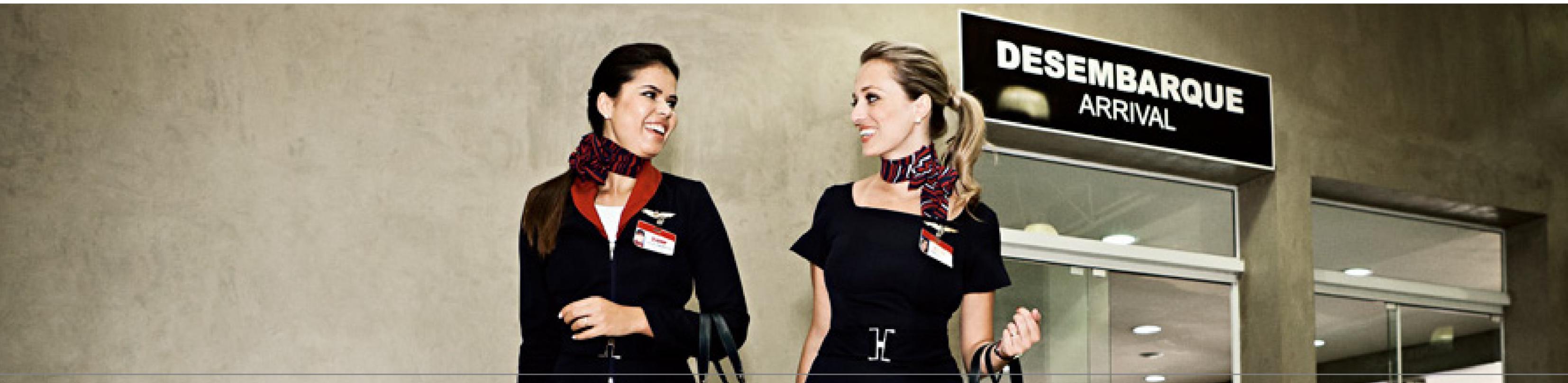
Aware of this scenario, we have implemented a number of initiatives that involve the management of social and environmental impacts, the strengthening of relationships, and the contribution – through investments, concessions, and partnerships – to promote greater connectivity between

the regions where we are present. This is in line with our strategic pillars (*learn more on page 20*) and with the nature of the sustainability challenges in the airline industry.

Our relationship with surrounding communities, civil society organizations, and other audiences is coordinated at LAN by the Board of Institutional Relations and Corporate Social Responsibility; at TAM by the Board of Institutional Relations and Sustainability; and in the cargo business by the Sub-management Area for Corporate Matters and Corporate Social Responsibility. Through constant dialogue and the independent management of each unit, we can operate pursuant to local needs in relation to various topics, such as sustainable tourism,

organ and wildlife transportation, and financial support for social and environmental projects.

During the development of the LATAM Airlines Group Materiality Matrix, we identified that a number of topics deemed strategic for the company involve the appropriate management of their impacts on society and, consequently, on the environment. Thus we believe that some aspects, such as fostering of sustainable tourism, control of emissions and noise, and pursuit of technological solutions in the area of fuels, have a cross-divisional effect on our company and should be prioritized in our practices and relationships.





### Our impacts [G4-SO2]

Among the potential or actual adverse social impacts concerning the proximity of our operations, we identified aspects such as the lack of connectivity due to the shutdown or the interruption of passenger or cargo activities, especially in destinations where the LATAM Airlines Group is the sole operator (such as on Easter and Chiloé Islands, in Chile).

Air quality and noise generation issues in the vicinity of airports are clear examples of the social and environmental implications of our operation. Given the constant movement of aircraft in the surroundings of or within urban centers – such as at the Congonhas Airport, located in São Paulo, Brazil, and at the Newark Airport, located in the surroundings of New York, United States – we understand that our commitment to the environment must also be translated into improvements

that affect the society's quality of life.. There are carbon dioxide emissions across virtually the entire country and the generation of hazardous waste is concentrated in cities where maintenance services are provided.

In 2013, we maintained our investment plan for the renewal of our fleet and made advances in the industry-specific dialogue about the development of biofuels with a second commercial flight operated by LAN Colombia. This practice represents a path to reduce air emissions. We also expanded the reach of our Smart Fuel and Lean Fuel programs with actions to reduce energy consumption and with more efficient engine washing processes (*learn more on page 72*).

Noise is equally relevant: under the coordination of ANAC, in Brazil, TAM manages and controls the

acoustic impacts of its aircraft on urban centers. The same happens in Argentina, under the control of the government authority. In Colombia, LAN only operates with aircraft approved for Category 3 noise limits, a national standard. In Chile, LAN already complies with the restrictions established in these future standards to be implemented (*learn more on page 77*).

What we do [G4-SO1, G4-EC7]

LATAM Airlines Group has corporate responsibility and social and service investment fronts, which seek to leverage public benefits to help enable our proposal of fostering connectivity between people and regions. Our challenge lies in the generation of the lowest possible negative impact and in the reinforcement of positive impacts, which are managed according to the local needs. However, these practices are not systematized and integrated in all countries, and these impacts cannot be measured directly.

In partnership with volunteers of LAN, authorities, and local schools in Chile, Colombia, Ecuador, Peru, and Argentina, we have developed the Caring for my Destination program, in which students and community members work together to restore public areas of interest, monuments, and/or important buildings in their cities. As a part of the program, students and authorities attend training lectures on tourism, environmental, and local culture awareness, which seek to foster responsible tourism and the Latin American historical and cultural heritage. In addition, local tour entrepreneurs are invited

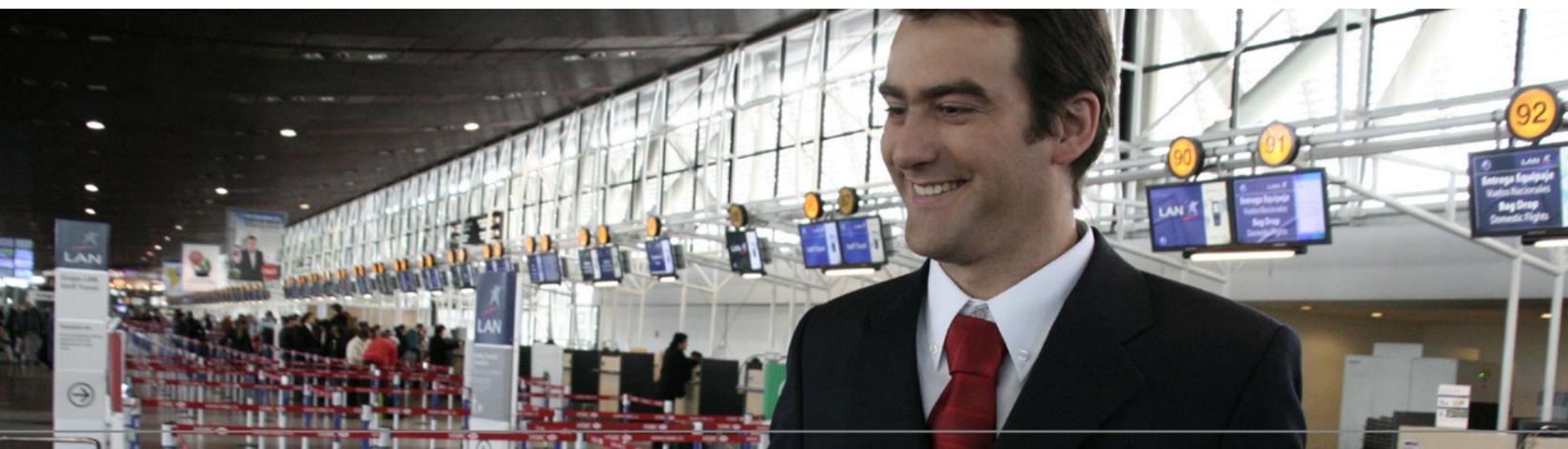
to attend training lectures on best practices, which aim to promote sustainability in their operations. Since its creation, this program has been developed in 17 locations, with the participation of over 2,000 students and volunteers of LAN.

In Chile, there were three editions of the program in 2013, involving 210 students and 18 volunteers of the company, with actions on Easter Island (restoration of Playa Pea), Punta Arenas (restoration of Parque Avenida Bulnes), and Coyhaique (restoration of Plaza de la Prensa). Also in Chile, LAN established a partnership with Programa de Innovación en Turismo Sostenible, a project that aims to improve competitiveness in the tourism industry, reducing the discrepancy in information related to sustainability. Through this partnership, 15 seminars and workshops on sustainable tourism were held in nine regions in Chile, with a total of approximately 800 participants. In Chile, LAN also organizes projects involving care for the environment and social actions, including the support to institutions such as *Un Techo para mi País*, *América Solidaria*, *Coaniquem* and *Teletón*, among others, and help for organ transportation in flights.

In Ecuador, LAN organizes a version of Caring for my Destination, developed with volunteers of the company on Tourism Day, and the *Toqué el Cielo con LAN* project (LAN Kids), which seeks to familiarize children with aviation through their first flight to a tourist attraction in their city of destination.

In Peru, development programs include *Chicos que Sueñan*, *Chicos que vueLAN*, which offers lectures to foster awareness and understanding about the environment and reputation monitoring practices, donations to institutions, and humanitarian aid. In 2014, we aim to have an analysis ready before the editions of the Caring for my Destination program in order to better understand local needs.

In Colombia, Caring for my Destination was carried out in 2013, in Girón and Santa Fe de Antioquia, where the main park in the municipality and the Acequia del Llano were renovated, respectively. In this country, through an agreement, we donated air tickets to the *Operación Sonrisa Colombia* foundation (US\$47,722) to enable the travel of volunteer experts





to perform surgeries and to rehabilitate children born with cleft lip and palate. For 2014, our objectives include bringing together 150 volunteers of the company for two editions of Caring for my Destination, to donate 400 air tickets to *Operación Sonrisa Colombia*, and to establish an agreement with another foundation, among other actions.

The main programs in Argentina are Caring for my Destination, *Todos Podemos Volar* (a flight experience for

students attending public municipal schools), corporate volunteerism and environmental education actions, recycling and waste sorting, solidarity campaigns, and humanitarian aid actions.

At TAM, support for sustainable tourism, environment, and citizenship has been provided since 2010 through the Bids to Support Social and Environmental Projects, which has already served 22 projects of national and

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international organizations. Since 2010, over 186,000 people have benefitted. In 2012, the call for bid registered over 200 applications and selected five projects, which received the support in the following year and were executed by the following organizations: Instituto Peabiru, Instituto de Pesquisas Ecológicas (IPÊ), Projeto Tamar, Ecomar, and Associação Movimento Mecenas da Vida. In 2013, approximately 11,230 people benefitted

from the actions by various NGOs. The Brazilian company also offers tickets to a number of NGOs and local institutions. In 2013, over 1,100 tickets were granted.

**SOCIAL IMPACT MANAGEMENT PROGRAMS\*** [ G4-SO1]

	LATAM
Social impact assessments	0%
Environmental impact assessments and continuous monitoring	100%
Public disclosure of environmental and social impact assessments	100%
Community programs for local development based on local needs	50%
Stakeholder engagement plan based on the map of priority stakeholders	75%
Committees or groups for public inquiry (community), based on local communities and processes that include vulnerable groups	0%
Occupational health and safety boards or committees and other institutions	100%
Formal processes for complaints or dialogue and advocating for local communities	100%

\* For this indicator, we considered the operations in line with indicator G4-EC9: International Business Unit; Domestic Brazilian Market (TAM); LAN; and Cargo Unit.

## In benefit of communities <sup>[G4-EC7]</sup>

Concerning investments in services for public benefit, LATAM Airlines Group makes donations in kind or of tickets in its business units and supports NGOs that develop projects for environmental responsibility, education, and conservation; health; psychosocial treatment and support for children and patients; and other issues (see table). Corporate investments in the operational structure are also translated into benefits for customers and members of the community.

One such example of this is the Santiago international airport in Chile, which faces saturation problems. In 2013, LAN implemented a remodeling project that created 13 new slots for Airbus A320, with an investment of US\$5 million. In Brazil, TAM also launched a new cargo terminal in Manaus and installed new Ground Support Equipment (GSE) in Guarulhos, Florianópolis, and Vitória.

### MAIN INFRASTRUCTURE AND SERVICE INVESTMENTS FOR PUBLIC BENEFIT <sup>[G4-EC7]</sup>

Business Unit	Total investment (US\$ or tickets)	Type of engagement	Projects	Expected impacts
TAM	Over 1,100 passengers	Pro bono	Social Entrepreneur Award; WWF-Brasil; Ashoka; Fundação Amazonas Sustentável; Instituto Rodrigo Mendes; Amigos do Bem; and others	<ul style="list-style-type: none"> <li>› Environmental conservation, education, and prevention</li> <li>› Cultural exchanges</li> <li>› Protection of labor and human rights</li> <li>› Connectivity in health and education projects</li> </ul>
	US\$152,000 (approximately)	In kind	CO <sub>2</sub> Neutral Tourism; Eco-tourism in the surroundings of the Monte Alegre State Park; Learning to Care for the Sea and the Sea Turtles (Tamar); Conservation of the tucuxi on Pipa Beach (RN); and others	
LAN CHILE	US\$193,685	Commercial	Caring for my Destination	<ul style="list-style-type: none"> <li>› Support for sustainable tourism</li> <li>› Psychosocial development of children</li> <li>› Support for the transportation of patients, volunteers, and people who cannot pay for tickets</li> <li>› Elimination of poverty in precarious communities</li> </ul>
	US\$227,392	Commercial	Un día en LAN	
	607 tickets	Pro bono	América Solidária; Toqué el Cielo; Coaniquem; fundação María Ayuda; Programa Innovación para el Turismo Sostenible	
LAN ECUADOR	US\$67,130	Pro bono	“Toqué el Cielo” Project with LAN	<ul style="list-style-type: none"> <li>› Support for sustainable tourism</li> <li>› Environmental and tourism awareness and education</li> </ul>
		Commercial	Caring for my Destination	
LAN ARGENTINA	US\$ 67,130 mil	Commercial	Todos Podemos Volar; Caring for my Destination; Corporate Volunteerism; Investment in the development of environmental management	<ul style="list-style-type: none"> <li>› Support for sustainable tourism</li> <li>› Environmental and tourism awareness and education</li> <li>› Creation of an integrated environmental management system</li> </ul>
	US\$1,330	In kind	Agreements to benefit NGOs	
LAN PERU	US\$70,200	Commercial	Caring for my Destination; Chicos que Sueñan, Chicos que Vuelan	<ul style="list-style-type: none"> <li>› Support for sustainable tourism</li> <li>› Environmental and tourism awareness and education</li> </ul>
	1,480 tickets	Pro bono	Operación Sonrisa, Humanitarian Aid, Unicef, San Juan de Dios	
LAN COLOMBIA	US\$105,785	Commercial	Caring for my Destination; Corporate Volunteerism/ Right and Duties Campaign	<ul style="list-style-type: none"> <li>› Support for sustainable tourism</li> <li>› Environmental and tourism awareness and education</li> <li>› Awareness about the rights and duties of passengers</li> </ul>
	276 tickets	Pro bono	Operación Sonrisa	

[Economic impacts, connectivity, and sustainable tourism](#) [G4-EC8]

We understand that our presence can foster local development where we operate. The new routes created/announced in the last two years (such the Belém-Miami, at TAM, and the Santiago-Aruba or the Santiago-Chiloé, at LAN) are directly related to our proposal of expanding connectivity while generating employment opportunities and income in Latin America.

Studies conducted by the World Travel & Tourism Council (WTTC), such as the “Economic Impact of Travel & Tourism” (*learn more [here](#)*), highlight the role of tourism in the development of local economies, especially in the creation of tourist routes and supply chains of goods and services geared toward visitors.

Since 2013, LAN has been using a measurement tool called *Termômetro da Opinião Pública* (Public Opinion Thermometer). This study seeks to understand how we are perceived by society in terms of our economic, social, environmental, and business performance. This tool

In the specific context of airlines, LATAM Airlines Group's current impact is a good example. Considering that we carry 4.1 million foreign passengers each year to the main destinations in South America and the estimates and calculations developed by various tourism institutions for the average amount spent by tourists in the region, we estimate we annually contribute with the injection of US\$4.3 billion into the tourism industry. This figure includes the amounts spent by tourists in airports, lodging, food, transportation, sightseeing, and shopping.

In partnership with governmental agencies, tour operators, and other business partners, we seek to foster tourism activities, having a direct effect on the tax revenues of municipalities, states, and other locations in the region. One of the most important initiatives in this sense is the Discover

allows us to identify what the communities where we operate value the most in the company. This study was implemented in Chile in 2013, and in 2014 we intend to implement it in the other countries where LAN is present.

program, organized by LATAM Airlines Group in its main home markets in South America, which aims to visit and learn about destinations, in addition to developing a closer relationship between the receptive commercial chain and a large group of international operators in our network.

Through visits from these business partners to the destinations where we operate, we believe that we collaborate to improve sales experience and to affect the generation of employment opportunities and income in locations where tourism is an economic source. In 2013, in addition to the initiatives developed by LAN in Chile and in Colombia, we established a partnership with the Brazilian Tourism Board (EMBRATUR) and the Brazilian government through the Discover Brazil program. Considering the major events that will be held in the country – the World Cup in

## About our reputation

[G4-EC8]

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2014 and the Olympics in 2016 – over 80 tour operators from 20 countries were invited to visit the main destinations and to take part in business meetings with local agents. Ten Brazilian states were visited in four different tours. Adding this initiative to Discover in Chile and in Colombia, LATAM Airlines Group, the governments, and other local partners invested over US\$1 million in this project.

Cargo is another business that brings opportunities and risks in terms of our economic impact. With a large potential to foster foreign trade in Latin America, the Cargo Unit leverages the expertise of LAN CARGO, TAM Cargo (Brazil), MasAir (Mexico), and LAN CARGO Colombia to ensure leadership in the coverage of cargo services that connect the region to North America, Europe,

and, indirectly, Asia. Transportation of inputs, industrial production, and other goods capable of generating an inflow of foreign currency to countries demonstrate the impact we can generate in local economies.

For 2014, the cargo division expects to implement its Stakeholder Relations Plan, which includes communities in most areas where we operate. This will enable us to be well-prepared for potential conflicts, to understand their needs, and to establish direct channels with leaders of groups and organizations. [\[G4-SO2\]](#)

As a result of the impacts that we generate on Latin American economies, we take into account the relevance of sustainable tourism – that is, tourism that fosters

social and economic development while safeguarding local cultural heritage and natural resources – as a priority topic for the LATAM Airlines Group. [\[G4-14\]](#)

We also have specific initiatives in place in the business area that allows us to expand the positive impact we have on local economies. Regarding suppliers, for example, LAN was awarded with the ProPyme seal by the Chilean government, which acknowledges large companies that are committed to paying their small and medium-sized suppliers in less than 30 days (*learn more on page 60*).

## Club LATAM

Recently created, Club LATAM is a platform developed especially for travel agents and tour operators in Brazil, with the purpose of boosting sales and delivering unique experiences to this target audience. Over 200 of LATAM Airlines Group's major customers attended the launch of this initiative in São Paulo in order to understand the proposal presented to strengthen relationships and

stimulate the achievement of better results in the sales of TAM and LAN tickets. Relationship, communication, training, management, and recognition activities will be carried out to support achievement of goals, which are expected to reach 200 million passengers carried by 2020. Learn more on our microsite: [www.clublatam.com.br](http://www.clublatam.com.br).



### Support for transportation [G4-SO1, G4-EC7]

Since 2002, LAN has transported kidneys for transplants, free of charge, through a partnership established with Corporación del Transplante in Chile. By the end of 2013, we had carried 185 organs to different regions of the country – an average of 17 organs per year.

Since 2001, through a partnership with the Brazilian Ministries of Health and Defense, TAM has adopted the same procedure, transporting various types of organs, including corneas and bones. In 10 years, we have carried 6,000 organs on our aircraft. To expedite this process, in 2013 we created a direct channel to serve the Brazilian National Transplant Center (CNT).

Both companies have policies that govern the granting of tickets to NGOs and institutions. At the corporate level, LAN provides annual support to two NGOs whose operations require the transportation of volunteers in South America. In other Spanish speaking markets, there are specific grants in place for foundations and organizations.

TAM supports organizations that work with topics associated with sustainability, such as environmental preservation, citizenship, and human rights protection. The company also carries wildlife for repatriation; this work is free of charge, in partnership with the Brazilian Institute for the Environment and Renewable Natural Resources (IBAMA).

LATAM Airlines Group's cargo business has policies in force to protect the transportation of animals and to support their rescue and repatriation. Moreover, through the *Avião Solidário* initiative, the company supports the transportation of humanitarian aid in emergency and disaster situations and provides consistent help to countries where it operates.

In terms of connectivity, another action is the transportation of works of art to and from Latin America, crossing borders and bridging gaps between different cultures. In 2013, these initiatives enabled the cargo unit of the LATAM Airlines Group to transport over 250 tons of solidarity.



## GOVERNMENTS AND INSTITUTIONS

Dialogue with authorities and industry-specific entities allows us to comply with public regulations and policies in effect in the markets where we operate

The relationships that we establish with government agencies and industry-specific entities in the various markets where we are present allow us to play an active role in public discussions related to our business.

Always defending transparent dialogue and the pursuit of joint solutions that focus on efficiency and profitability, the company has teams that are responsible for monitoring and taking part in debates. Because of the merger, we face the challenge of working in an integrated manner in the relationships we maintain with political and industry-specific agents in a number of locations, considering their local specificities.

To maintain dialogue with government agencies and authorities, the LATAM Airlines Group has structured the areas of Public Affairs, Institutional Relations, and

Corporate Affairs, which are distributed between LAN, TAM, and the LATAM Airlines Group S.A. holding. This team has the objective of allowing business growth pursuant to local laws and the government plans for the airline industry.

Among the main institutions with which we maintain relationships, we highlight the aviation authorities of each country, such as the Junta Aeronáutica de Chile; the General Civil Aviation Department of Chile, Peru, and Ecuador; the Agência Nacional de Aviação Civil of Brazil; the Administración Nacional de Aviación Civil of Argentina; the Dirección Nacional de Aviación Civil of Paraguay; the Departamento Administrativo de la Aviación Civil of Colombia; and the public and private agencies of the main airports where we operate. At the same time, we maintain a regular agenda of dialogue

with authorities of the legislative branch and retain consulting companies that specialize in monitoring affairs and bills that could affect the company in the future.

In addition to discussing regulatory affairs, we propose joint business solutions to authorities. In 2013, for example, an effort made by our Brazilian Regulatory Affairs area allowed for tax cuts in Brazilian states (such as for ICMS – tax charged on operations pertaining to the transportation of goods and on the provision of interstate and intermunicipal transportation and communication services) to enable new flights and routes at more competitive prices.

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In Chile and in other markets, we also operate in partnership with governments in order to study routes and flights that allow for the generation of tourism, jobs, and income in locations where the company did not previously operate. We also seek to obtain certifications from regulatory agencies in order to consolidate processes and innovations, as in 2013 in the United States, where we are being authorized by the Federal Aviation Administration (FAA) to conduct an engine washing process that is safer and that produces less environmental impact. We have also established dialogues with authorities to control any potential risks to our operation.

We have sought to strengthen our participation in agencies that represent the aviation industry. Globally, we act through the International Air Transport

Association (IATA), which is key for the exchange of information about new technologies, operational safety, and the current and future challenges in the aviation industry. Regionally, we are members of the Latin American and Caribbean Air Transport Association (ALTA). The markets where we operate also have specific associations (*see table*). [\[G4-16\]](#)

To ensure a good relationship with representatives of the government and associations, we use the LATAM codes of conduct as a reference. As part of our compliance program, we have been developing a schedule of training courses on governance and ethics.

Throughout the year, LATAM Airlines Group received US\$28.783 million in government subsidies – which are not part of LATAM Airlines Group's shareholding structure. For

this indicator, we gathered information on fuel consumption, which accounts for 40% of the company costs. This subsidy mainly refers to tax cuts in specific locations, which result from negotiations with authorities and aim to boost the development of operations. In 2014, LATAM Airlines Group has the objective of collecting data about incentives related to employee training and hiring. [\[G4-EC4\]](#)

## Strategic partnerships [\[G4-16\]](#)



International Air Transport Association (IATA)



oneworld



World Tourism Organization (UNWTO)



Global Compact



Latin American and Caribbean Air Transport Association (ALTA)



Sustainable Aviation Fuel Users Group (SAFUG)

## IATA: joint development

[G4-16, G4-EC2]

Our strategy of being one of the best airlines in the world is closely related to our engagement at IATA, to which we are affiliated as LATAM Airlines Group. We are presently members of a number of committees in this entity, such as the Operation Committee, through which we exchange knowledge with companies from other regions and influence the definition of industry-specific goals and guidelines.

Consequently, our business units, especially in Brazil and Chile, undergo the IATA Operational Safety Audit (IOSA)

and the IATA Safety Audit for Ground Operations (ISAGO). Furthermore, we have obtained the IATA certifications that ensure the quality of our maintenance centers.

We have been playing an active role in climate change forums held by the airline industry. As a company, we have incorporated IATA's commitment to reducing our emissions by 1.5% yearly, expecting to reach a carbon-neutral level by 2020 and then reduce our emissions by 50% by 2050, when compared with the baseline year of 2005.

LAN made advances in 2013. Since 2011, the company, in conjunction with seven other airlines, made a commitment to IATA for the development of the volunteer IENVA program (IATA Environmental Assessment), a system that will assess and improve the environmental management of the industry. One of the main advances was the launch, in 2013, of LAN's Safety, Quality, and Environment Policy, signed by its CEO, Ignacio Cueto, which describes the responsibility and actions to be taken by teams and leaders (*learn more in the Health and Safety section, page 44*).

## Associations and institutions LATAM Airlines Group [G4-16]

### Brazil

- > Brazilian Airline Association (Abear)
- > American Chamber of Commerce for Brazil (Amcham Brasil)

### Peru

- > National Chamber of Tourism (CANATUR)
- > Peruvian Trade Association (COMEX)
- > Chilean Peruvian Chamber of Commerce
- > AmCham Peru (AmCham)

### Ecuador

- > National Chamber of Tourism (CANATUR)
- > Peruvian Trade Association (COMEX)
- > Chilean Peruvian Chamber of Commerce
- > AmCham Peru (AmCham)

### Chile

- > Chilean Airline Association (ACHILA)
- > Chilean Peruvian Chamber of Commerce
- > Chilean Argentine Chamber of Commerce
- > Chilean Brazilian Chamber of Commerce (CBC)
- > North American Chilean Chamber of Commerce (AmCham)
- > Spanish Official Chamber of Commerce in Chile
- > Chilean Federation of Industry (ICARE)
- > Fedetur
- > Santiago Chamber of Commerce

### Argentina

- > Argentine Business Council for Sustainable Development (CEADS)
- > Institute for Corporate Development in Argentina (IDEA)
- > Argentine Brazilian Chamber of Commerce

### Colombia

- > Asociación de Transporte Aéreo Colombiano
- > Asociación Colombiana de Viajes Y Turismo (ANTAO)

### Global / regional

- > Global Compact
- > International Air Transport Association (IATA)
- > Latin American and Caribbean Air Transport Association (ALTA)
- > World Tourism Organization (UNWTO)

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# SUPPLIERS

One of the challenges of our business model: supply chain management gained force in 2013 through mapping of risks

With over 25,000 active suppliers in its records, the LATAM Airlines Group sees major opportunities in the relationship it maintains with its business partners. In addition to the positive impact that we can generate on local economies through the promotion of economic development and the generation of employment opportunities and income in the regions where we operate, we manage and control potential risks across our supply chain; currently, this action is our main management challenge. [\[G4-12\]](#)

Aiming at developing a closer and more focused relationship with suppliers, we have divided our chain into four major categories: aircraft (manufacturers of aircraft and engines); materials and fuels (aircraft-related equipment and technologies, as well as fuels, for ground and air operations); in-flight services (food and catering, utensils, and energy); and general goods and

services, which include everything from computers and information technology to uniforms, lodging, and ground transportation for employees. [\[G4-12\]](#)

The two first groups are classified as direct suppliers, associated with the supply of inputs that are critical for the company's core business activities, while the other two are called indirect suppliers (that support the operation). Most partners are in the second group, while most of the value traded relates to direct suppliers. [\[G4-12\]](#)

Relationships with these companies are concentrated in our Procurement areas at TAM and LAN, which currently work in an integrated manner. Since the merger and under the coordination of the Compliance department, efforts have been made to develop guidelines to manage commercial practices with a focus on full conformity of businesses.

As a main result, we completed our Procurement Policy in 2013. The document contains the clauses and principles that govern our relationship with suppliers, covering the topics ethics, conduct, and human rights and addressing aspects such as bonded or child labor, work conditions, anti-corruption practices, and social and environmental responsibility. The work also resulted in the creation of new clauses that are included in the standard agreements of the company, which provide on topics of sustainability and human rights. A Statement of Commitment, which must be signed by companies, is attached to standard services agreements to confirm their acceptance of the LATAM Airlines Group compliance guidelines. [\[G4-56\]](#)

## For local development

[\[G4-EC8, G4-EC9\]](#)

Our relationship with the commercial partners located in the markets where we operate allows us to contribute to the social and economic development of Latin America. In 2013, 55%\* of our spending with suppliers corresponded to local companies; this procurement category includes agreements with the market of suppliers of the country where the

LATAM Airlines Group unit is located. This percentage considers the relevant operating units of LAN (Chile, Peru, Colombia, Argentina, and Ecuador) and TAM (Brazil only). Purchases whose scope is limited to local needs, with no synergy of specification with other subsidiaries, are directed to the local market.

\* Refers only to Procurement purchases (not including fleet and technical supply purchases).

We understand that the adequate management of the supply chain requires an in-depth understanding of the risks inherent in the commercial relationship. After all, any nonconformity related to our business partners may affect our performance. Hence, in 2013 we implemented a pilot program for the social and environmental identification and screening of suppliers, which considers data on the fiscal and labor aspects of our indirect suppliers, with which we maintain most of our agreements. [\[G4-2\]](#)

This process, which in 2013 focused on TAM operations, resulted in the assessment and categorization of a base of 4,113 suppliers, which corresponds to 54% of the company spending with its supply chain of indirect purchases (not including fleets, technical purchases, and fuels); that is, approximately US\$ 2.1 billion annually. For this group, which is divided into 13 categories (such as water and waste, textiles, apparel, transportation, and logistics),

we conducted a risk classification process, considering the size, nature, and relevance of the business, among other criteria. We arrived at a number of 87 suppliers that presented high criticality and that have potential to generate adverse social impacts, which should be the focus of our management in the coming years. [\[G4-SO2, G4-SO10\]](#)

This analysis resulted in a number of actions, such as the preparation of supplier manuals and the use of questionnaires in a survey, with a view to the future auditing of suppliers with greater criticality. Those suppliers who do not agree may either have their agreements terminated or be required to comply with an adaptation plan, whose terms will be defined according to the criticality of each case. In 2013, no agreements were terminated (0% of the base of suppliers was assessed), given the current phase of the program, and no improvements were agreed upon (0% of the base). [\[G4-SO10\]](#)

Currently, the potentially adverse social impacts identified in the supply chain are as follows: degrading working conditions (potential risk involving apparel suppliers); health and safety related to nutrition (risk involving catering service companies); physical safety (risk involving the mobilization and accommodation of crewmembers and passengers); responsible products (risk involving giveaways and inducements offered in-flight). [\[G4-SO10\]](#)

Going forward with the program, the same process will be applied in other operating units. This model has already been implemented at TAM, where in 2014 we intend to analyze 87 cases of suppliers that offer potential risk, and which will be extended to LAN in 2014 for suppliers in Chile. Starting in 2016, this program will be implemented in other units of the LATAM Airlines Group in Peru, Colombia, Argentina, Ecuador, and Paraguay. [\[G4-SO10\]](#)





## Timely payments

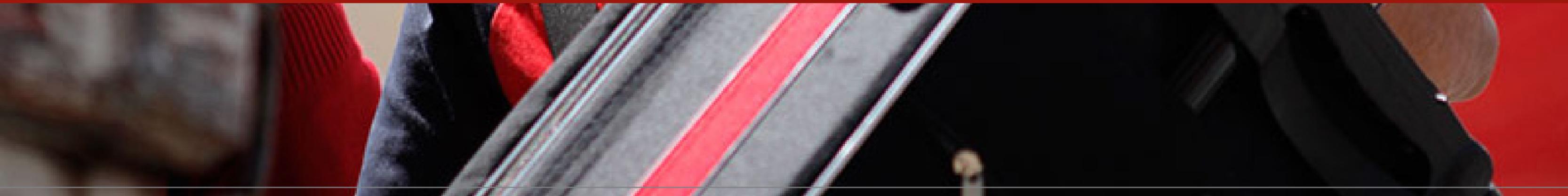
[G4-EC8, G4-15]

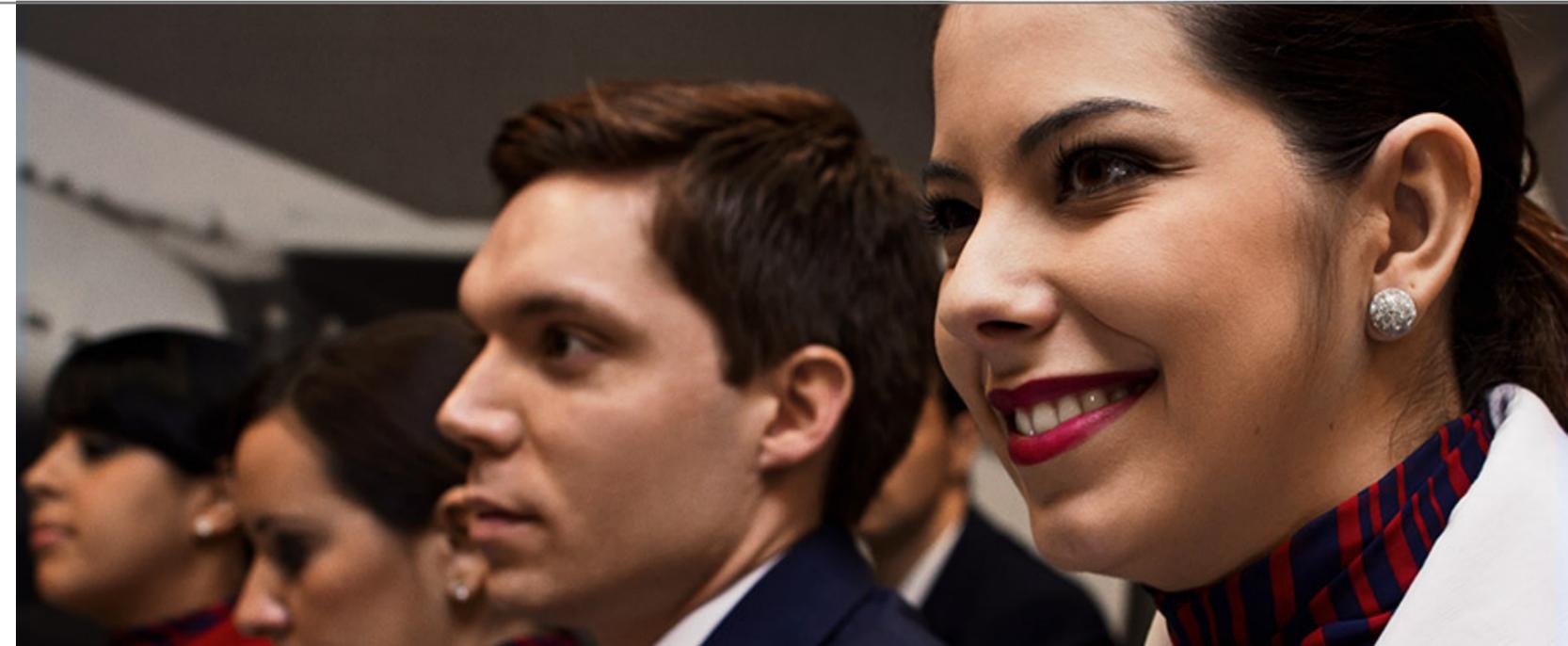
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As a part of our commitment to responsible business relationships, we received the ProPyme seal from the Chilean government in 2013. This initiative recognizes companies that commit to paying their small and medium-sized suppliers in less than 30 days. Eighty major organizations already participate in the project, benefitting 94,000 small and medium-sized companies in Chile.

In order to achieve this result, the LATAM Airlines Group conducted a series of adjustments in its internal procurement process. At LAN, the rate of compliance with the 30-day payment deadline went from 46% in January 2013 to 98% in August of the same year.

This measure resulted in the development of the LATAM Airlines Group Policy for Payments to Suppliers, which focuses on indirect procurement partners (goods and services) and establishes a 30-day deadline (Chile) or a 60-day deadline (other markets) for payments.





## SHAREHOLDERS AND INVESTORS

With communication that is more transparent and integrated with the market, we disclose our investments, results, and business risks

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A year and a half after the creation of the LATAM Airlines Group, we have advanced in the integration of our activities and in the consolidated communication of financial information, especially since the second quarter of 2013. We have been able to structure a solid platform so that, starting in 2014, our operations become more predictable and stable for investors, who are strategic for the company's business model.

Faced with challenges such as business complexity, cultural differences between companies, and balance between costs and revenues, LATAM Airlines Group is currently developing a process to increase the volume and the quality of the information reported to the market.

In 2013, one of the advances was the disclosure of the consolidated operating margin, which is crucial for analysts, and the clarification of our risk management, which is a cross-divisional corporate topic that is being handled by a specific sub-management area from the Finance department.

For the second consecutive year, the LATAM Airlines Group has featured in the Dow Jones Sustainability Index (DJSI) in the Emerging Markets section. This participation is the recognition of our efforts to manage the company with a long-term vision, ensuring a successful present and future.

In 2013, the credit rating agency Standard & Poor's (S&P)

assigned LATAM Airlines Group a BB+ rating, while Fitch assigned a BB rating. These ratings relate to the difficulties posed by LATAM Airlines Group's operational performance at the end of the period assessed (2012). We believe that this scenario is likely to change due to the results posted in 2013 and especially to the increase of US\$1 billion in the capital stock of the company, which was approved after the ratings and enabled part of the investment plan established for the coming years, which focuses on the renewal and optimization of the fleet (*learn more on page 21*) and should strengthen our positioning in the industry.

Communication and relationship

We prioritize clarity and transparency in the reporting of LATAM Airlines Group's consolidated data. To this end, we constantly update the investor and shareholder relations channel with financial and governance information, provided in English, Portuguese, and Spanish: <http://www.latamairlinesgroup.net>.

The website offers relevant materials for analysis and monitoring, such as annual reports, quarterly and annual results, information reported to financial regulatory agencies in the market, updated share prices, and estimated gains. For direct service, there is a specific area in Chile that is responsible for investor relations ([investor.relations@lan.com](mailto:investor.relations@lan.com)). The area periodically

holds shareholder meetings and sends communications, which are available on the IR website.

Shares and dividends [G4-EC1]

LATAM Airlines Group S.A. is traded at the New York Stock Exchange (under ticker LFL), at the Santiago Stock Exchange (under ticker LAN), and at BM&FBovespa (under ticker LATM11). In December 2013, the preemptive rights offering of 62 million primary shares was completed, generating proceeds of approximately US\$784 million. In total, 96.4% of shares were subscribed and fully paid in at US\$15.17 per share (to learn more about shares and prices, click [here](#)), and started being traded at the beginning of 2014. Learn more about LATAM Airlines Group's capital structure on page 16.

Concerning the dividends of LATAM Airlines Group, we maintain what was established in our financial policy: the distribution of 30% of the profit, the minimum required by law. This percentage may increase, depending on the results and circumstances of the year.

For 2011, dividends accounted for 50% of the distributable profit, while for 2012, dividends corresponded to 30% of the distributable profit. In 2013, no dividends were distributed.

Value creation – 2013

Profitability of the LATAM Airlines Group shares: **26.6% (negative)**

Profitability of LAN ADR: **30.8% (negative)**

Market cap (December 31, 2013): **US\$8.4 billion**

# ENVIRONMENT



## OUR APPROACH

Impact reduction is included in LATAM Airlines Group's business model and considers investments in fleet renewal, environmental management systems, and gains in efficiency

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Operational efficiency and the careful control of environmental impacts are at the heart of LATAM Airlines Group's planning. The principles of ethics, excellence, and continuous evolution of our processes aim to transform us into the best airline in Latin America and into one of the best in the world.

LAN's environmental strategy is under the responsibility of the Vice President of Corporate Affairs and is managed by the Environmental Management area. The vice president reports directly to the CEOs of LAN and of the LATAM Airlines Group. The senior management also has committees and departments on this subject. At TAM, management is connected

to three areas: Sustainability Management, which covers the topic cross-divisionally, since it is a part of the Board of Corporate Affairs; the environmental section in Infrastructure and Building Management; and Quality Management, located at TAM MRO. These areas report to the senior executives of the company.

Pursuant to our industry-specific and corporate commitments, in 2013 we focused our management and investments on the improvement and implementation of management systems in business units, on the renewal of our fleet (over 200 new aircraft will be purchased by 2019), and on programs to reduce the consumption of fuel and the company's carbon footprint.

## Environmental training

To ensure the best results, the engagement of our employees is essential. In 2013, a total of 364 employees were trained in environmental issues. Moreover, we offered an Internal Environmental Auditors course to the staff of each of our main hubs.



According to the topics identified through LATAM Airlines Group's materiality matrix, the current corporate challenges are the matters pertaining to eco-efficiency, climate change, noise, air quality in airports, emissions, energy and water consumption, use of biofuels, and the promotion of sustainable tourism. [\[G4-EC2\]](#)

LATAM Airlines Group is undergoing a process to centralize its environmental management and to make it more transparent. To this end, we are actively working to expand the scope of our data and systematize its collection. This data is an achievement and a tool to understand and improve our performance.

In order to establish processes for continuous improvement and to unify all subjects, we are developing a corporate Environmental Management System (EMS). This tool will

enable us to monitor the impacts of various operations. At LAN, the management system was implemented in 66% of the operations. The implementation at the Miami cargo unit went from 27% in 2012 to 79% in 2013, which also occurred at Lan Argentina (from 18% to 46%), at LAN Chile (from 44% to 73%), at LAN Peru (from 29% to 61%), at LAN Ecuador (from 40% to 61%), and at LAN Colombia (from 41% to 67%).

Through our partnerships with strategic players in the industry, we have also developed innovative management standards and important goals to reduce the natural impact of the business. In 2013, LAN maintained its collaborative work with IATA for the development of the IENVA (IATA Environmental Assessment), a specific methodology for the environmental management and monitoring of flight operations. Another important achievement was IATA's

Carbon-Neutral Growth initiative by 2020 – a global agreement that establishes that airlines should present neutral growth by 2020 when compared with the emissions in the baseline year of 2005 (*learn more on page 57*). [\[G4-16\]](#)



## LATAM Airlines Group Environmental guidelines

[G4-EC2, G4-56]



### Excelling

To minimize the impact of operations through a modern fleet, efficient operational management, and the continuous incorporation of new technologies.



### Sustainability

To promote sustainable tourism as a pillar for the development of the region.



### Eco-efficiency

To foster the efficient use of resources and the minimization of waste in all processes.



### Responsibility

To manage our carbon footprint responsibility through the measurement, verification, and reduction of emissions.



### Energy

To foster the development and use of more efficient alternative energy sources, with less impact on the environment.

FOREWORD THE COMPANY OUR STRATEGY VALUE CHAIN **ENVIRONMENT** GRI CONTENTS GLOSSARY LETTER OF ASSURANCE CREDITS CORPORATE INFORMATION

TAM's best practices

TAM MRO, TAM S.A.'s maintenance, repair, and inspection unit, located in the city of São Carlos, stands out for its comprehensive environmental management work. Its system is based on ISO 14001, for which it has been preparing through the analysis of improvements planned for 2014 and the certification process for 2015 and 2016.

Among the actions undertaken at the unit, we highlight the management of solid waste, with the sorting of waste and the co-processing of hazardous materials (class I).

The unit also has two Wastewater Treatment Stations (ETE), which are responsible for treating all the water used before its discharge into Ribeirão das Araras: one for industrial waste (wastewater from maintenance activities in general) and the other for water containing galvanic elements (wastewater in the electroplating process). Domestic wastewater is monitored and sent for treatment at the ETE built in partnership with the municipality of São Carlos. Located in an area rich in biodiversity, TAM MRO has never been notified of or assessed a fine by environmental agencies on account

of its treatment system. At the unit, we also conduct the environmental monitoring of surface and groundwater, in addition to reforestation and conservation of native species.

Summary of LATAM Airlines Group's performance – 2013 [G4-EC2, G4-EN1, G4-EN18, G4-EN19, G4-EN30]

ENVIRONMENTAL COMMITMENTS	Improved annual efficiency in fuel consumption	Carbon-neutral ground operations	Implementation of an Environmental Management System (EMS)	Energy efficiency in infrastructure	Reduced waste generation	Carbon-neutral growth	Reduced energy consumption
BASE YEAR	2009	2011	2012	2012	2012	2013	2013
	> Reduced fuel consumption per unit transported by 2020	> Carbon-neutral ground operations by 2020	> EMS implemented in the main hubs by 2016	> Energy consumption reduced by 10% by 2020	> Minimized waste generation by 2020	> Define strategy to fulfill the commitment made by the industry for carbon-neutral growth by 2020	> Savings in energy consumption by 2015
GOAL	1.5% per year	Carbon neutral	100% implementation	10%	10%	Minimize cost premium from the industry commitment	US\$ 200.000
ACHIEVEMENTS	> LAN: Reduction of 3.42% compared with 2012	> LAN: Reduction of 9.74% of carbon emissions in ground operations compared with 2012	> LAN: Rate of EMS implementation of 66%, corresponding to almost twice the implementation rate recorded in 2012, and of 79% and 73% in the Miami and Chile units, respectively.	> LAN: Insufficient data was gathered to manage this commitment > TAM: Total consumption was reduced by 21.6% compared with the previous year	> LAN: Reduction of 308 tons in the production of waste, which is equivalent to 17.06% of the total for 2012 > TAM: Em relação a 2012, a TAM aumentou em mais de 50% o total de resíduos enviados para reciclagem	> LAN and TAM: Unified commitment of the industry on the matter. IATA commitment and action plan of the International Civil Aviation Organization (OACI)	> LAN and TAM: This indicator will start to be analyzed in 2014



## Achievements and challenges, by airline

[G4-EN6, G4-EN8, G4-EN18, G4-EN19, G4-EN21, G4-EN23]

At TAM:

-  **31.4%**  
of waste recycled
-  **379.82**  
tons of waste recycled
-  **21.61%**  
reduction in the consumption of electricity

At LAN:

-  **3.42%**  
reduction in fuel consumption
-  **17.06%**  
reduction in the generation of waste
-  **3.42%**  
reduction in CO<sub>2</sub> emissions (kg CO<sub>2</sub>/100RTK\*)
-  **3.77%**  
reduction in NOx emissions (NOx g/RTK \*)
-  **6.65%**  
reduction in water consumption (LAN Chile + LAN Colombia)
-  **8.18%**  
increase in energy consumption

\* RTK (Revenue Tonne Kilometer): total do negócio de peso transportado por quilômetro.



## CARBON EMISSIONS

**A core strength of our operation, monitoring of our carbon footprint is stimulated by management and focused on efficiency, on the renewal of our fleet, and on internal awareness**

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Aware of the impact airlines have on climate change – approximately 2% of all anthropic CO<sub>2</sub> emissions (resulting from human activities) are produced by the industry – the LATAM Airlines Group has a plan with initiatives to reduce its carbon footprint. The practices include efficiency projects and investments in the renewal of our fleet, the monitoring of flight-related emissions, and the transportation required to conduct our activities.

We have been developing corporate data integration between LAN and TAM and aligning the process to develop emissions inventory to improve our management.

Both LAN and TAM already had management historical data in 2012, prior to the merger process. At LAN, measurements and practices adopted are the model for LATAM Airlines Group and a benchmark in the Latin-American airline sector and were implemented in 2010 based on the GHG Protocol methodology ([www.ghgprotocol.org](http://www.ghgprotocol.org)). TAM has also been preparing its inventories based on the same tool since 2008 and gradually expanding the scope of the data.

FOREWORD THE COMPANY OUR STRATEGY VALUE CHAIN **ENVIRONMENT** GRI CONTENTS GLOSSARY LETTER OF ASSURANCE CREDITS CORPORATE INFORMATION

## LAN and TAM emissions – 2013

[G4-EN15, G4-EN16, G4-EN17, G4-EN18]

			Total tonnes of emissions of CO <sub>2</sub> equivalent
Scope 1: Direct	<b>Fuel consumption in stationary and mobile sources; refrigerant gases</b>	LAN	<b>5,631,210</b>
		TAM	<b>6,213,477</b>
Scope 2: Indirect	<b>Emissions from the consumption of electric energy in infrastructure</b>	LAN	<b>16,624</b>
		TAM	<b>1,973</b>
Scope 3: Indirect and others	<b>Transportation of employees, suppliers, and others</b>	LAN	<b>2,998</b>
		TAM	<b>1,284</b>

## Greenhouse gas emissions at the LATAM Airlines Group - 2013

[G4-EN15, G4-EN16, G4-EN17, G4-EN18]

# 79 kg CO<sub>2</sub>/100 RTK\*



\* Based on the emissions of flight operations.

In 2013, our performance was 79 kg CO<sub>2</sub>/100 RTK, at LATAM Airlines Group; 99.5% of our total emissions correspond to flight operations, thus to the consumption of fuel (see table). Therefore, we aim to develop measures to ensure our eco-efficiency, especially through the renewal of our fleet and the rational use of fuels (*learn more on page 73*).

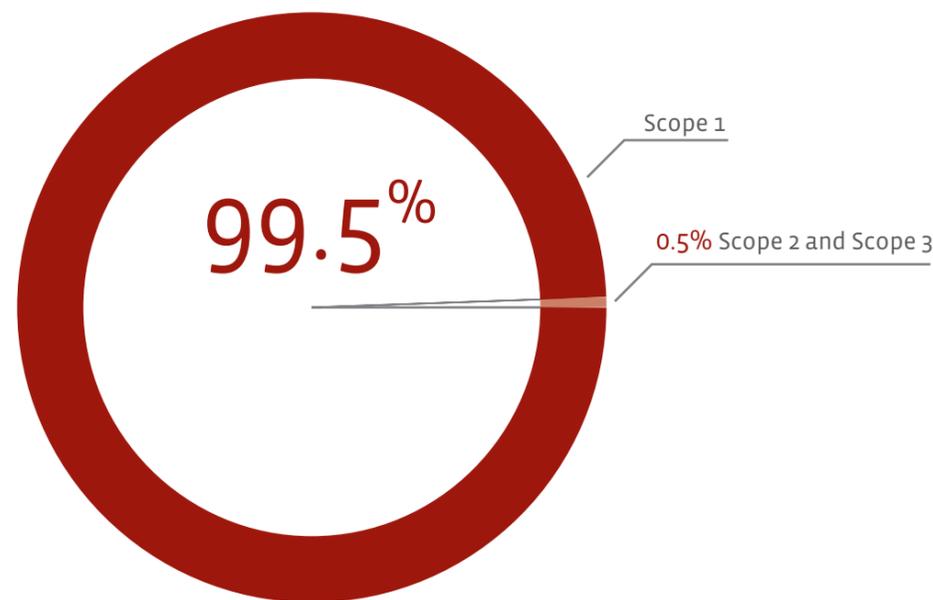
We also seek to extend our practices to our audiences, such as customers and suppliers, in order to achieve improvements in our secondary operations, such as the transportation of employees and office activities. At the Cargo Unit, we have a CO<sub>2</sub> emissions calculator

(<http://www.lancargo.com/calculadora-co2>), which customers can use to calculate the impact generated by cargo transportation. In Santiago, LAN developed the Carpooling Program, which stimulates employees to share their vehicles (taxis, cars, vans, and others) to contribute to the reduction of emissions. TAM also has a program that serves the same purpose, called *Caronetas*.

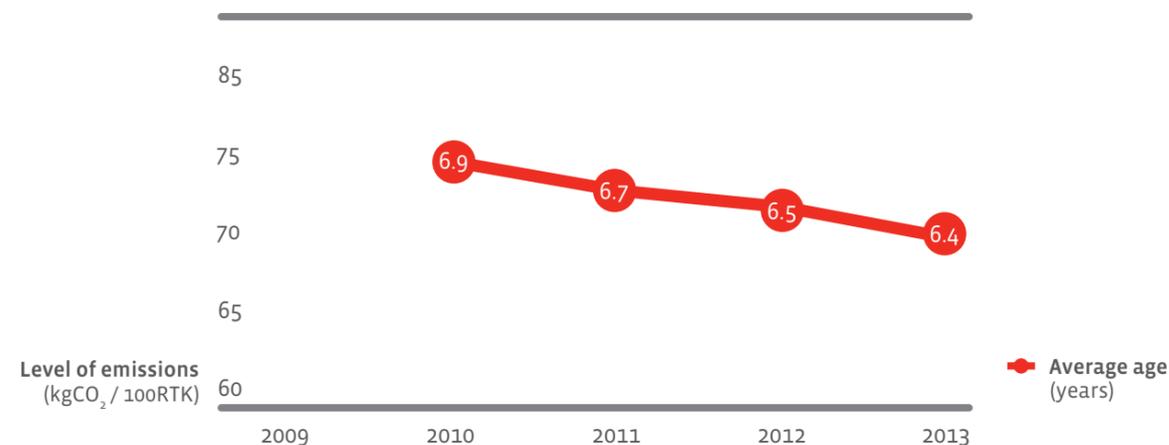
Since 2008, TAM has been developing initiatives that aim to reduce aircraft weight, stimulating crewmembers to carry less luggage on short-haul flights and other measures to save energy on layovers and connecting flights.

In compliance with the commitment undertaken by LATAM Airlines Group to manage impacts properly, LAN has also set the goal of neutralizing the impact of its ground operations by 2020. This measure is implemented through the purchase of certified carbon sequestration credits. In 2012, LAN Peru managed to achieve a rate of zero impact in the country, neutralizing the tons of CO<sub>2</sub> emitted by the company locally through the purchase of certified carbon sequestration bonuses of a native species reforestation project located in the Peruvian Amazon Rainforest, conducted by the company Bosques Amazónicos (BAM).

**EMISSIONS BY SCOPE – LATAM AIRLINES GROUP (2013)**  
[G4-EN15, G4-EN16, G4-EN17]



**MODERNIZATION OF THE FLEET AND CO<sub>2</sub> EMISSIONS – LAN** [G4-EN18]



**Emissions of NO<sub>x</sub>, SO<sub>x</sub>, and refrigerant gases**

[G4-EN20, G4-EN21]

In addition to CO<sub>2</sub> (carbon dioxide) emissions, the ozone layer is also affected by nitrogen oxides (NO<sub>x</sub>) and sulfur oxides (SO<sub>x</sub>) released in the transportation of cargo and passengers.

In 2013, the company emitted a total of 2.7 g NO<sub>x</sub>/100 RTK and a total of 12.3 g SO<sub>x</sub>/100 RTK. There are also HCFC (hydrochlorofluorocarbons) refrigerant gases, with a high potential to contribute to the greenhouse effect.



LAN (KG)

HCFC-22 **1,163**  
HCF-125 **11**  
HFC-32 **11**



TAM (KG)

HCFC-22 **0**  
HCFC-141b **117.6**  
R-22 **2,765.6**  
HFC-134a **30**  
Halon-1301 **350**  
Halon-1211 **45**

**Transparency**

Since 2010, LAN has reported the results of its emissions to the CDP (Carbon Disclosure Project), a non-profit organization that aims to stimulate companies to present their emissions and to take steps to reduce them. The company discloses its data voluntarily and commits to improving its performance, in compliance with the CDP assessment methodology.

## ECO-EFFICIENCY AND FUELS

In addition to programs for the reduction of energy consumption in our operations, we aim to contribute to the energy efficiency of the airline industry

We seek efficiency in our flight operations, considering the sustainability of the business and the reduction of environmental impacts. Our projects are based on three pillars: the modernization of our fleet, which enables us to operate with more efficient engines, reducing fuel consumption and emissions; operational efficiency, offering training to 60% of our operational, maintenance, and administrative staff in order to boost results; and the pursuit of a rational use of fuels. [\[G4-EN30\]](#)

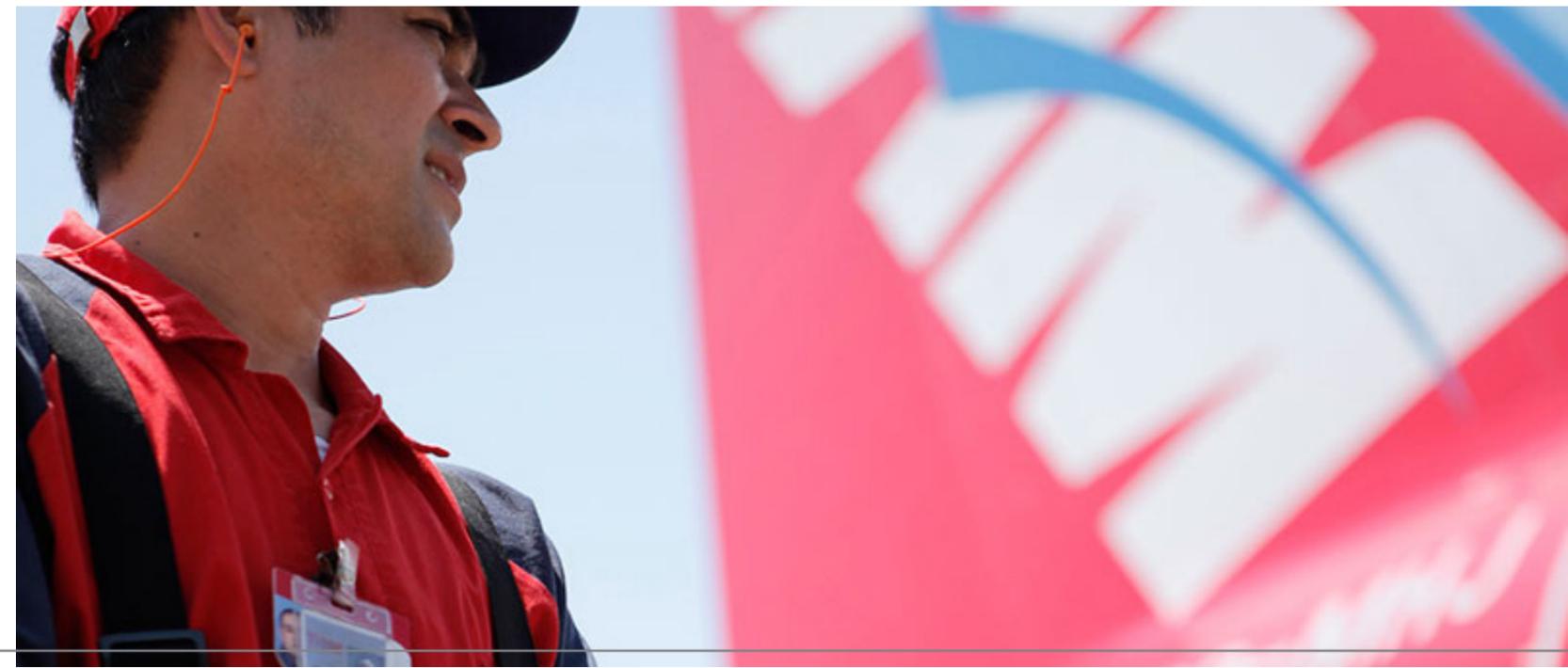
In 2013, we obtained positive results for the two main efficiency projects of LATAM Airlines Group: Lean Fuel (LAN) and Smart Fuel (TAM). Through these programs, it was possible to record total savings (LATAM Airlines Group) of 229,361 tons of CO<sub>2</sub> emissions and a significant reduction in fuel purchase costs. [\[G4-EN19, G4-EN6\]](#)

The Lean Fuel program comprises 17 initiatives and actions, which include the optimization of flight paths and airspeeds, the reduction of unnecessary weight and its proper distribution within the aircraft, the improvement of the engine washing method, and the renewal of our fleet (improved combustion in engines). In 2013, this generated savings of 157,986 tons of CO<sub>2</sub>, at LAN. Total fuel savings increased by 3.42%. [\[G4-EN19, G4-EN6, G4-EN27\]](#)

Additionally, TAM's Smart Fuel enabled savings of 71,374 tons of CO<sub>2</sub>. This project consists of 14 initiatives, such as the reduced use of the APU (Auxiliary Power Unit) while on the ground, single-engine taxiing, and the use of Standard Operating Procedures (SOP). [\[G4-EN19, G4-EN6, G4-EN27\]](#)

Another important initiative is the increase of aircraft capacity, focusing on the efficient occupancy of seats (passengers) and bellies (cargo), which has a direct effect on costs and environmental indicators.

New and modern aircraft also imply a reduction in consumption and, therefore, in emissions as well (*learn more on page 16*). In 2013, we received the first Boeing 787 Dreamliners, which are a part of the plan concerning the use of efficient equipment and assets. Presently, we can make calculations that allow us to estimate the benefit of the new technologies applied to our aircraft (*see table on the next page*).



FOREWORD    THE COMPANY    OUR STRATEGY    VALUE CHAIN    **ENVIRONMENT**    GRI CONTENTS    GLOSSARY    LETTER OF ASSURANCE    CREDITS    CORPORATE INFORMATION

## Fleet in the service of eco-efficiency [G4-EC2, G4-EN27]

Our estimates concerning the reduction generated in emissions due to the renewal of the fleet, by 2019, are as follows:

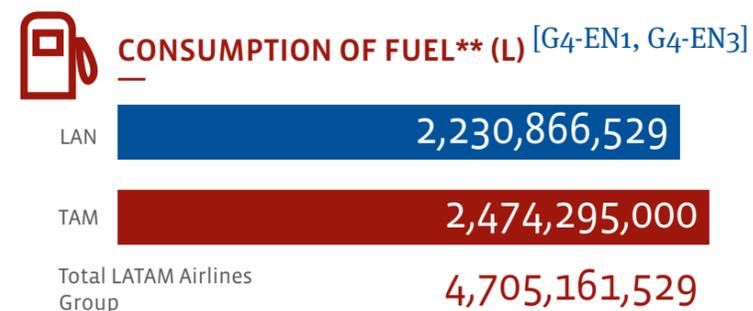
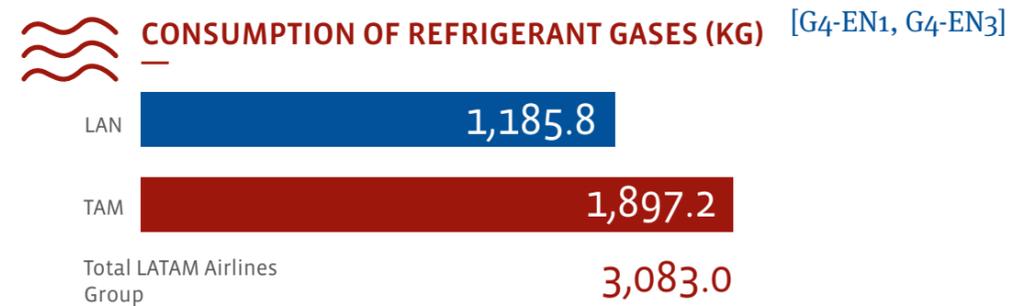
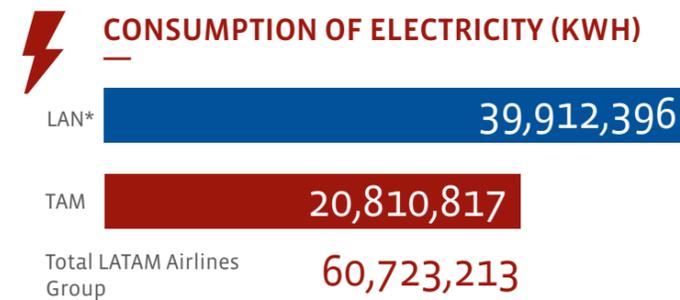
- > A reduction of 12% in the ASK cost (*Available Seat Kilometer*) with the new Boeing 787 Dreamliners
- > A reduction of 17% in the ATK cost (*Available Tonne Kilometers*, a measure of passenger and cargo capacity) with the new Boeing 777s (compared with the Boeing 767s)
- > A reduction of 25% in the AK cost with the new Airbus 350s (compared with the A330s)
- > An increase of 5% in fuel efficiency with the installation of winglets (Boeing 767s)

## Fuel and energy consumption – LATAM Airlines Group (2013)

**60,723,213** kWh  
of electric power

**3,083** kg  
of refrigerant gases

**4,734,304,462** L  
of fuel  
(which corresponds to the consumption of jet fuel only)



\* Data does not include Argentina and Ecuador.

\*\* Corresponds only to the consumption of jet fuel.



## Biofuel <sup>[G4-EC2]</sup>

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TAM was the first airline in Latin America to conduct a biofuel-powered flight, in 2011. The flight occurred in Brazil; it departed from and arrived at the Galeão airport (Rio de Janeiro), using a blend of jatropha curcas oil, a Brazilian vegetal biomass. In turn, LAN conducted the first biofuel-powered commercial flight in South America, in Chile, in 2012. LATAM Airlines Group also conducted flights in 2012 in Chile using a mixture of JET1 and Cameline, and in Colombia, in the Bogota-Cali route, using the same fuel mix.

The initiatives are parts of LATAM Airlines Group's understanding about the importance of the future use of this type of technology: a product produced using a blend of natural biological residues and/or resources capable of reducing CO<sub>2</sub> emitted during flights by 80%. In order to add to the discussion about the subject, TAM is a member of ABRABA (Brazilian Alliance for Aviation Biofuels).

Biofuel research has been extensively discussed in the industry, with public and private entities. The main hurdles for the global implementation of this input are the high production costs and the need to implement it on a large scale in Latin America and in other markets in order to ensure the routine fueling of the operations. We expect to have this type of fuel readily available by 2030.

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# WASTE AND WASTEWATER

In 2013, we expanded waste sorting, increased the percentage of materials recycled, and made advances in best practices for wastewater treatment

LATAM Airlines Group's work in the management of waste and wastewater prioritizes the control, disposal, and efficient use of discarded materials. In order to conduct our air or ground operations, we require a number of inputs – such as oils, fuels, parts, and office supplies – which, when discarded, may become hazardous and non-hazardous waste.

Non-hazardous waste is the most common in relation to on-board meals/catering and in the administrative office and includes paper, PET bottles, aluminum, and similar materials. At LAN, there is a recycling project that includes the collection of waste generated in all operations that is destined to entities or companies for proper disposal or reuse/recycling.

Depending on the destinations we serve, we take measures to reduce environmental impacts. LAN flights to Easter Island,

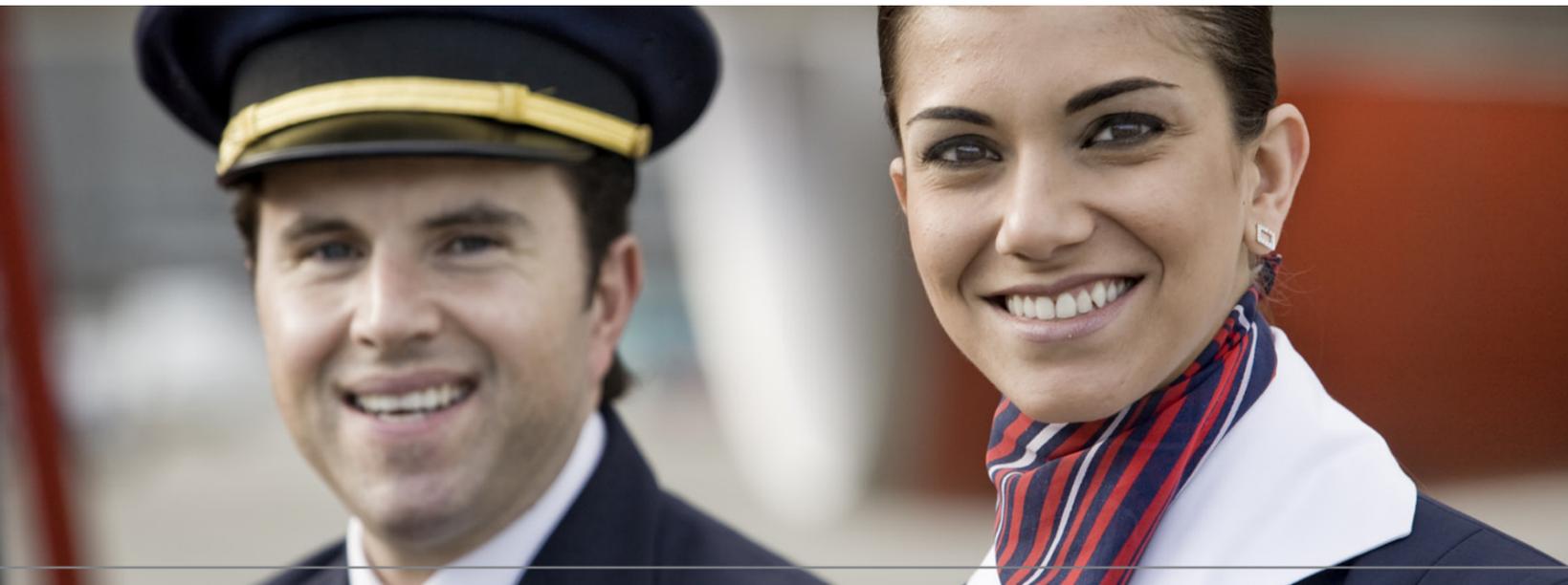
for example, do not generate waste locally: all material to be disposed of is shipped back to Santiago in order to protect the local ecosystem. In 2013, the LATAM Airlines Group generated a total of 2,707.9 tons of hazardous and non-hazardous waste (see charts on the next page). [\[G4-EN23, G4-EN30\]](#)

TAM has the In-flight Waste Sorting program, available on a number of domestic flights in Brazil, with service trolleys adapted with compartments for organic and recyclable waste. The action, whose processes will be reviewed in 2014, complies with a waste disposal guideline implemented by the Brazilian Airport Infrastructure Company (INFRAERO), in the Congonhas Airport, in São Paulo. Approximately 85% of the materials collected in-flight are recyclable.

There are sets of recycling bins for each type of waste (paper, plastic, metal, non-recyclable, etc.). At the base

of the cargo business in Miami, LAN has a system to compress plastic waste, which improves the recycling process. In partnership with specialized suppliers, we are also recycling the uniforms used by teams.

Hazardous waste is more frequently produced in the aircraft maintenance activities we conduct in hangars, maintenance centers, and at the TAM MRO unit, such as solvents, used detergents, batteries, oil and kerosene containers, fluorescent lights, contaminated fuels, and sludge. These materials are either recycled, sent to landfills, or incinerated.



FOREWORD THE COMPANY OUR STRATEGY VALUE CHAIN **ENVIRONMENT** GRI CONTENTS GLOSSARY LETTER OF ASSURANCE CREDITS CORPORATE INFORMATION

Water and wastewater [G4-EN8]

Management of water resources withdrawn for the operation and wastewater discharged into bodies of water is one of the main challenges of the LATAM Airlines Group. In 2013, LAN's Environmental Management Department conducted a study whose diagnosis shows that wastewater from the engine washing process is not hazardous; therefore, it may be reused in other activities. This water, which used to be collected by a specialized company, is now reused. In the same year, water consumption at LAN (excluding Argentina and Miami) was reduced by 6.65%, a result of the improvements in the operations.

TAM MRO, in São Carlos, has the best wastewater management practices, treating industrial and organic waste and conducting the environmental monitoring of local surface and groundwater. The challenge of properly disposing of the various types of waste and water used in our operations is extended to our suppliers, which, since 2013, have been encouraged to develop best practices through our Procurement Policy.

Waste – LATAM Airlines Group

[G4-EN23]

2,707.8

tons of waste were generated in 2013



# NOISE AND AIR QUALITY

In addition to complying with a number of noise regulations, we have the challenge of pursuing new technologies to reduce our noise and air quality impacts

The initiatives that contribute to noise reduction and improvement of air quality in the vicinity of airports focus on the acquisition of cleaner aircraft, on the planning of flight paths, and on the pursuit of methods to move aircraft with the lowest impact possible, from takeoff and landing operations to taxiing for maintenance. One of these procedures is the one-engine taxi, which allows operations to be conducted in hangars and airports using a single engine.

In LAN Cargo's operations, the current engine technology has reduced the impact of noise pollution. Modern aircraft emit less noise, thus the result is especially relevant in airports where there is intense air traffic and those located within the urban areas of large cities, such as Congonhas (São Paulo), Santos Dumont (Rio de Janeiro), and Newark (New York).

As a part of our risk management and planning activities, we have been conducting, over the past two years, an in-depth analysis of the applicable legislation concerning the noise and air quality topics in the markets where we

operate. The entire LAN fleet complies with the Chapter IV standard, the best safety certification currently in existence, according to the International Civil Aviation (ICAO). The efforts made to modernize the fleet have been very important, considering that the new Boeing 787-800s contribute to reducing noise pollution and reducing the airport area of influence. [\[G4-2, G4-46, G4-EN27, G4-SO2\]](#)

In 2013, LATAM Airlines Group proceeded with its project to modernize the Airbus A320 fleet through the acquisition of sharklets, which are cutting-edge technology devices that are installed on wing tips to reduce aerodynamic drag. This ensures a more efficient takeoff, achieving improved efficiency in fuel consumption and reducing the emissions of CO<sub>2</sub> (by approximately 4%), as well as noise. In April 2013, the company received the first Airbus 320s equipped with sharklets from a total of over 100 aircraft with this technology, which will be received by 2017. [\[G4-EN27, G4-SO2\]](#)

The company reinforces compliance with noise regulations where it operates:

- > Brazil: Regulation 121, issued by the National Civil Aviation Agency of Brazil (ANAC).
- > United States: Airport Noise and Capacity Act 1990 (ANCA), issued by the Federal Aviation Administration (FAA).
- > Colombia: Currently, flight permissions are limited to aircraft above category 3 noise level - a criterion met by LATAM Airlines Group.
- > Argentina: In this country, we follow the permission for category 3, pursuant to chapter 91,805 of the Civil Aviation Regulations of Argentina.
- > Chile: There are no restrictions or regulations in place; however, LAN complies with the same flight regulation for category 3 aircraft or above for noise.



# GRI CONTENTS

## TABLE OF CONTENTS

This Sustainability Report contains responses to various aspects of the social and environmental indicators, in compliance with version G4 of the GRI Guidelines

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Description	Omission	Global Compact	External assurance	Page/response
<b>GENERAL CONTENT</b>				
<b>Strategy and analysis</b>				
G4-1	Message from the senior management		Yes	4, 5, 6, 7
G4-2	Description of key impacts, risks, and opportunities		Yes	4, 5, 6, 7, 17
<b>Organizational profile</b>				
G4-3	Name of the organization		Yes	9
G4-4	Primary brands, products, and/or services		Yes	9, 11
G4-5	Location of organization's headquarters		Yes	9
G4-6	Countries where the organization operates and where its major operations are located		Yes	9
G4-7	Nature of ownership and legal form		Yes	9
G4-8	Markets served		Yes	9, 11
G4-9	Scale of the organization		Yes	9, 11, 12
G4-10	Employee profile	Principle 6	Yes	40
G4-11	Percentage of employees covered by collective bargaining agreements	Principle 3	Yes	38
G4-12	Description of the organization's supply chain		Yes	58
G4-13	Changes regarding the organization's size, structure, ownership, or its supply chain		Yes	There were no significant changes in 2013.
G4-14	Explanation of whether and how the precautionary principle is addressed by the organization		Yes	All services of the LATAM Airlines Group, including routes, itineraries, maintenance activities, and customer loyalty programs, are developed pursuant to the applicable legislation, considering the potential risks and impacts they may have on consumers and society. However, the company does not formally adopt the precautionary principle in its business planning.
G4-15	Externally developed economic, environmental, and social charters, principles, or other initiatives		Yes	The LATAM Airlines Group is a signatory to the Global Compact of the United Nations.
G4-16	Membership of associations and/or organizations		Yes	56, 57, 65

Description	Omission	External assurance	Page/response
<b>Material aspects and boundaries</b>			
G4-17	List all entities included in the organization's consolidated financial statements and other equivalent documents not covered by the report	Yes	The GRI indicators do not contain information about Multiplus S.A., TAM Paraguay, or the International Business offices that are not located in the home markets.
G4-18	Process for defining report content	Yes	7, 28
G4-19	List of material aspects	Yes	28, 29
G4-20	Materiality and boundaries of each aspect within the organization	Yes	28, 29
G4-21	Materiality and boundaries of each aspect outside the organization	Yes	28, 29
G4-22	Restatements of information provided in previous reports	Yes	This is the first report produced by the LATAM Airlines Group; therefore, no data or boundary was restated.
G4-23	Significant changes in the scope and coverage of each aspect in relation to previous reports	Yes	
<b>Stakeholder engagement</b>			
G4-24	List of stakeholder groups engaged by the organization	Yes	28, 30-62
G4-25	Basis for identification and selection of stakeholders with whom to engage	Yes	28, 30-62
G4-26	Approaches to stakeholder engagement	Yes	28, 30-62
G4-27	Key topics and concerns that have been raised through stakeholder engagement	Yes	28, 30-62
<b>Report profile</b>			
G4-28	Reporting period	Yes	This is the first integrated report produced by the LATAM Airlines Group. The previous report prepared by LAN was in 2012, and by TAM in 2011 and 2012.
G4-29	Date of previous report	Yes	
G4-30	Reporting cycle	Yes	The report will be presented annually.
G4-31	Contact point regarding the report	Yes	7
G4-32	"In accordance" option and the GRI Content Index	Yes	7
G4-33	Organization's policy and practice with regard to external assurance	Yes	7, 84 and 85
<b>Governance</b>			
G4-34	Estrutura de governança da organização	Yes	13, 14, 15

Description	Omission	Global Compact	External assurance	Page/response
<b>Ethics and integrity</b>				
G4-56		Principle 10	Yes	14, 17, 58, 66
<b>SPECIFIC DISCLOSURES</b>				
<b>Category: Economy</b>				
<b>Economic performance</b>				
G4-DMA			No	25
G4-EC1			Yes	25
G4-EC2		Principle 7	Yes	57, 65, 66, 67, 73, 74, 78
G4-EC4			Yes	56
<b>Market presence</b>				
G4-DMA			No	39
G4-EC6		Principle 6	Yes	39
<b>Indirect economic impacts</b>				
G4-DMA			No	48, 51, 52, 54, 58, 60
G4-EC7			Yes	48, 51, 54
G4-EC8			Yes	52, 58, 60
<b>Procurement practices</b>				
G4-DMA			No	58
G4-EC9			Yes	58
<b>Category: Environmental</b>				
<b>Materials</b>				
G4-DMA			No	67, 73
G4-EN1		Principle 7	Yes	67, 73
<b>Energy</b>				
G4-DMA			No	68, 72, 73
G4-EN3		Principles 7, 8	Yes	72
G4-EN6		Principles 8, 9	Yes	68, 73

Description	Omission	Global Compact	External assurance	Page/response
<b>Water</b>				
G4-DMA			No	68, 73
G4-EN8		Principles 7, 8	Yes	68, 76
<b>Emissions</b>				
G4-DMA			No	67, 68, 70, 71
G4-EN15		Principles 7, 8	Yes	70, 71
G4-EN16		Principles 7, 8	Yes	70, 71
G4-EN17		Principles 7, 8	Yes	70, 71
G4-EN18		Principle 8	Yes	67, 68, 70, 71
G4-EN19		Principles 8, 9	Yes	67, 68, 70, 71
G4-EN20		Principles 7, 8	Yes	71
G4-EN21		Principles 7, 8	Yes	71
<b>Effluents and waste</b>				
G4-DMA			No	68, 75, 76
G4-EN23		Principle 8	Yes	68, 75, 76
<b>Products and Services</b>				
G4-DMA			No	32, 76, 77, 78
G4-EN27		Principles 7, 8	Yes	32, 76, 77, 78
<b>Transportation</b>				
G4-DMA			No	67, 72, 75
G4-EN30		Principle 8	Yes	67, 72, 75

Description	Omission	Global Compact	External assurance	Page/response
<b>Category: Social - labor practices and decent work</b>				
<b>Employment</b>				
<b>G4-DMA</b>	Management Approach		No	41, 44
<b>G4-LA1</b>	Total number and rates of new employee hires and average employee turnover by age group, gender, and region	Principle 6	Yes	41
<b>G4-LA2</b>	Social benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation		Yes	44
<b>Occupational health and safety</b>				
<b>G4-DMA</b>	Management Approach		No	45
<b>G4-LA6</b>	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender		Yes	45
<b>G4-LA7</b>	Workers with high incidence or high risk of diseases related to their occupation		Yes	45
<b>Training and education</b>				
<b>G4-DMA</b>	Management Approach		No	39, 42
<b>G4-LA9</b>	Average hours of training per year, per employee	Principle 6	Yes	42
<b>G4-LA10</b>	Programs for skills management and lifelong learning		Yes	42
<b>G4-LA11</b>	Percentage of employees receiving regular performance and career development reviews	Principle 6	Yes	39
<b>Category: Social – human rights</b>				
<b>Security practices</b>				
<b>G4-DMA</b>	Management Approach		No	43
<b>G4-HR7</b>	Percentage of security personnel trained in the organization’s human rights policies or procedures	Principle 1	Yes	43
<b>Category: Social - society</b>				
<b>Local communities</b>				
<b>G4-DMA</b>	Management Approach		No	47, 48, 50, 53, 54, 59, 77
<b>G4-SO1</b>	Percentage of centers with implemented development programs, impact assessments, and local community engagement	Principle 1	Yes	48, 50, 54
<b>G4-SO2</b>	Operations with significant potential or actual negative impacts on local communities	Principle 1	Yes	47, 53, 59, 77
<b>Compliance with Regulations</b>				
<b>G4-DMA</b>	Management Approach	Confidential data	No	Not reported
<b>G4-SO8</b>	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Confidential data	No	Information concerning this indicator is confidential.

Description	Omission	Global Compact	External assurance	Page/response
<b>Supplier assessment for impacts on society</b>				
<b>G4-DMA</b>	Management Approach		No	59
<b>G4-SO9</b>	Percentage of new suppliers that were screened using criteria for impacts on society		Yes	No social criteria for screening suppliers were used in previous years. The company’s current suppliers were screened during 2013.
<b>G4-SO10</b>	Significant and potential negative impacts on society in the supply chain and actions taken		Yes	59
<b>Mechanisms for grievances about impacts on society</b>				
<b>G4-DMA</b>	Management Approach		No	
<b>G4-SO11</b>	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms		No	No data was recorded for 2011 and 2012. Data for 2013 is confidential concerning the number of grievances. However, incidents can be reported by phone, on our website, by fax, by letter, through the regulatory agencies of the industry, through consumer rights organizations, or through the press and social networks.
<b>Category: Social - product responsibility</b>				
<b>Customer health and safety</b>				
<b>G4-DMA</b>	Management Approach		No	37
<b>G4-PR1</b>	Percentage of significant product and service categories for which health and safety impacts were assessed		Yes	37
<b>G4-PR2</b>	Incidents of non-compliance with regulations or voluntary codes concerning the health and safety impacts of products and services		Yes	organization did not identify any incidents of non-compliance.
<b>Product and service labeling</b>				
<b>G4-DMA</b>	Management Approach		No	34, 39
<b>G4-PR5</b>	Customer satisfaction		Yes	34, 39
<b>Marketing Communications</b>				
<b>G4-DMA</b>	Management Approach	Confidential data	No	Not reported
<b>G4-PR7</b>	Incidents of non-compliance with regulations and voluntary codes concerning marketing communications	Confidential data	No	Information concerning this indicator is confidential.
<b>Customer privacy</b>				
<b>G4-DMA</b>	Management Approach	Confidential data	No	Not reported
<b>G4-PR8</b>	Complaints regarding breach of privacy and loss of customer data	Confidential data	No	Information concerning this indicator is confidential.
<b>Compliance with Regulations</b>				
<b>G4-DMA</b>	Management Approach	Confidential data	No	Not reported
<b>G4-PR9</b>	Significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Confidential data	No	Information concerning this indicator is confidential.

# GLOSSARY

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## Home markets

Markets where the LATAM Airlines Group has direct operations (Chile, Brazil, Peru, Colombia, Ecuador, Argentina, and Paraguay)

## Hubs

Major operation centers (airports) where international departures are concentrated

## Compliance

Procedures and norms concerning compliance with corporate practices

## Catering

Food services

## Risk rating agency

Agencies that assess the creditworthiness of organizations that issue shares in public markets

## American Depositary Receipt (ADR)/

## Brazilian Depositary Receipt (BDR)

Securities issued and negotiated in the United States and Brazil

## Synergies

Value saved due to the merger between LAN and TAM (gains through the integration of operations)

## Slots

Areas occupied in airport facilities, authorized for airlines

## Belly

Internal space inside passenger aircraft, destined for the accommodation of cargo

# INDEPENDENT REVISION REPORT OF LATAM SUSTAINABILITY REPORT 2013

Mr.  
Bruno Ardito  
Director of Corporate Relationships  
Present

Dear Mr. Ardito,  
Hereby, you can find the outcomes of the  
revision of LATAM Sustainability Report 2013  
according to the following aspects:

## Scope

√ Limited security revision of the contents and indicators' adaptation of the 2013 Sustainability Report according to the G4 version of the GRI guidelines for Sustainability Reports, related to the organizational profile and material indicators arisen from the materiality process developed by the Company following the GRI-G4 criteria related to economic, social and environmental dimensions.

## Standards and Assurance Process

We have carried out our task according the guidelines of the International Standard on Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000) issued by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC).

Our review has consisted in an enquiring process to different units and management areas of LATAM, which have been involved in the developing process of the report, as well as in the application of analytic procedures and checking tests, which are described in the following items:

- > Meeting with the Director of Corporate Relationships, Mr. Bruno Ardito.
- > Meeting with the Corporate Social Responsibility Chief, Miss María Loreto Silva.
- > Meeting with the entire team which has led the materiality process.
- > Meetings with external consultant Company in charge of the elaboration of the 2013 Sustainability Report, in order to know the principles, systems and management approaches applied during the report elaboration.
- > Analysis of the adaptation of the 2013 Sustainability Report's contents to the GRI-G4 guideline recommendations and the review of the indicators included in the report in order to verify that they are aligned with the established protocols in GRI-G4. We also check whether the character of not applicable or not material indicators is justified.
- > Verification, through checking tests of quantitative and qualitative information according to the GRI-G4 indicators included in the 2013 report, and its adequate gathering from the data provided by LATAM information sources.

## Deloitte.

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**Conclusions**

> The assurance process was based in the indicators established in the materiality process carried out by LATAM. Once those indicators were identified, prioritized and validated they were included in the report. The reported and verified indicators appear in the following table:

**GRI G4  
Basic General Indicators**

[G4-1] [G4-2] [G4-3] [G4-4] [G4-5] [G4-6] [G4-7]  
[G4-8] [G4-9] [G4-10] [G4-11] [G4-12] [G4-13] [G4-14]  
[G4-15] [G4-16] [G4-17] [G4-18] [G4-19] [G4-20] [G4-21]  
[G4-22] [G4-23] [G4-24] [G4-25] [G4-26] [G4-27] [G4-28]  
[G4-29] [G4-30] [G4-31] [G4-32] [G4-33] [G4-34] [G4-56]

**Basic Specific Indicators**

[G4-EC1] [G4-EC2] [G4-EC4] [G4-EC6] [G4-EC7]  
[G4-EC8] [G4-EC9] [G4-EN1] [G4-EN3] [G4-EN6]  
[G4-EN8] [G4-EN15] [G4-EN16] [G4-EN17] [G4-EN18]  
[G4-EN19] [G4-EN20] [G4-EN21] [G4-EN23] [G4-EN27]  
[G4-EN30] [G4-LA1] [G4-LA2] [G4-LA6] [G4-LA7]  
[G4-LA9] [G4-LA10] [G4-LA11] [G4-SO1] [G4-SO2]  
[G4-SO9] [G4-SO10] [G4-HR7] [G4-PR1] [G4-PR2] [G4-PR5]

> On the basis of GRI-G4 procedures, nothing has come to our attention which causes us to conclude that the selected data for the year ended 31 December 2013 have not been prepared in all material respects in accordance with the GRI-G4 Reporting guidelines.

**Improving Opportunities Report**

On the basis of GRI-G4 procedures, nothing has come to our attention which causes us to conclude that the selected data for the year ended 31 December 2013 have not been prepared in all material respects in accordance with the GRI-G4 Reporting guidelines.

**LATAM Direction and  
Deloitte Responsibilities**

- > The preparation of the 2013 Sustainability Report as well as its content is under LATAM responsibility, which is in charge of the definition, adaptation and maintenance of the management and internal control systems from which the information is obtained.
- > Our responsibility is to emit an independent report based on the applied procedures in our review.
- > This report has been prepared exclusively by LATAM interest, in accordance with the terms established in the Engagement Letter.
- > We have developed our work according to the Independence norms established in the Code of Ethics of the IFAC.
- > The conclusions of the verification made by Deloitte go for the last version of the 2013 LATAM Sustainability Report received on May 22, 2014.

> The scope of a limited security revision is essentially inferior to a reasonable audit or security revision, thus, we do not give any audit opinion about the 2013 LATAM Sustainability Report.



**Fernando Gaziano.**  
Partner

May 23, 2014

# CREDITS

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## Translation

Gotcha Idiomas!

## Família Tipográfica

Meta Serif OT and Vista Sans OT

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