



LAN AIRLINES S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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



PricewaterhouseCoopers

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REPORT OF INDEPENDENT AUDITORS

Santiago, November 11, 2011

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

- 1 We have reviewed the accompanying interim consolidated statement of financial position of Lan Airlines S.A. and its subsidiaries as of September 30, 2011, and the related interim consolidated statements of income by function and comprehensive income for the nine and three-month periods ended September 30, 2011 and 2010, and the changes in equity and cash flows for the nine month periods ended on those dates. Management of Lan Airlines S.A. is responsible for the preparation and fair presentation of these interim consolidated financial statements and related notes in accordance with IAS 34 "Interim Financial Reporting" incorporated in the International Financial Reporting Standards (IFRS). Our responsibility is to issue a report on these consolidated interim financial statements based on our review.
- 2 We conducted our review in accordance with audit standards established in Chile for a review of interim financial statements. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Chile, for which the objective is to express an opinion on the consolidated financial statements. Accordingly, we do not express an audit opinion.
- 3 Based on our review, we have no knowledge of any significant modification that should be made to the interim consolidated financial statements referred to above for them to be in accordance with IAS 34 incorporated in the International Financial Reporting Standards.
- 4 On March 1, 2011, we issued an unqualified opinion on the consolidated financial statements as of December 31, 2010 and 2009 of Lan Airlines S.A. and its subsidiaries, which include the statement of financial position as of December 31, 2010 presented in the accompanying consolidated financial statements, in addition to the corresponding notes.

Renzo Corona Spedaliere
RUT: 6.373.028-9

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LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| ASSETS | Note | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|--|--------|---|--|
| Current Assets | | | |
| Cash and cash equivalents | 6 - 7 | 233,461 | 631,052 |
| Other financial assets | 7 - 11 | 228,527 | 245,451 |
| Other non-financial assets | 12 | 33,275 | 18,820 |
| Trade and other accounts receivable | 7 - 8 | 527,315 | 481,350 |
| Accounts receivable from related entities | 7 - 9 | 1,324 | 50 |
| Inventories | 10 | 66,211 | 53,193 |
| Tax assets | | 115,416 | 97,656 |
| | | <hr/> | <hr/> |
| Total current assets other than non-current assets (or disposal groups) classified as held for sale | | 1,205,529 | 1,527,572 |
| | | <hr/> | <hr/> |
| Non-current assets (or disposal groups) classified as held for sale | 13 | 4,398 | 5,497 |
| | | <hr/> | <hr/> |
| Total current assets | | 1,209,927 | 1,533,069 |
| | | <hr/> | <hr/> |
| Non-current Assets | | | |
| Other financial assets | 7 - 11 | 21,876 | 21,587 |
| Other non-financial assets | 12 | 36,337 | 32,508 |
| Rights receivable | 7 - 8 | 7,533 | 7,883 |
| Equity accounted investments | 15 | 1,118 | 593 |
| Intangible assets other than goodwill | 16 | 59,263 | 45,749 |
| Goodwill | 17 | 164,721 | 157,994 |
| Property, plant and equipment | 18 | 5,513,256 | 4,948,430 |
| Deferred tax assets | 19 | 58,470 | 38,084 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 5,862,574 | 5,252,828 |
| | | <hr/> | <hr/> |
| Total assets | | 7,072,501 | 6,785,897 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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



LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| LIABILITIES AND EQUITY | | As of September 30, | As of December 31, |
|--------------------------------------|-------------|------------------------|-----------------------|
| | <u>Note</u> | <u>2011</u> | <u>2010</u> |
| | | ThUS\$ | ThUS\$ |
| LIABILITIES | | | |
| Current liabilities | | | |
| Other financial liabilities | 7 - 20 | 604,853 | 542,624 |
| Trade and other accounts payable | 7 - 21 | 593,356 | 645,571 |
| Accounts payable to related entities | 7 - 9 | 444 | 184 |
| Other provisions | 22 | 1,116 | 753 |
| Tax liabilities | | 27,067 | 15,736 |
| Other non-financial liabilities | 23 | 878,230 | 939,151 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 2,105,066 | 2,144,019 |
| | | <hr/> | <hr/> |
| Non-current liabilities | | | |
| Other financial liabilities | 7 - 20 | 2,823,334 | 2,562,348 |
| Other accounts payable | 7 - 25 | 416,735 | 425,681 |
| Other provisions | 22 | 34,507 | 32,120 |
| Deferred tax liabilities | 19 | 343,370 | 312,012 |
| Employee benefits | 24 | 12,145 | 9,657 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 3,630,091 | 3,341,818 |
| | | <hr/> | <hr/> |
| Total liabilities | | 5,735,157 | 5,485,837 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| EQUITY | | | |
| Share capital | 26 | 461,975 | 453,444 |
| Retained earnings | 26 | 1,083,584 | 949,214 |
| Other equity interests | 26 | 2,886 | 5,463 |
| Other reserves | 26 | (215,227) | (111,307) |
| | | <hr/> | <hr/> |
| Equity attributable to | | | |
| owners of the parent | | 1,333,218 | 1,296,814 |
| Non-controlling interests | | 4,126 | 3,246 |
| | | <hr/> | <hr/> |
| Total equity | | 1,337,344 | 1,300,060 |
| | | <hr/> | <hr/> |
| Total liabilities and equity | | 7,072,501 | 6,785,897 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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



LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

| | | For the nine months ended | | For the three months ended | |
|---|-------------|---------------------------|--------------------|----------------------------|------------------|
| | | September 30, | | September 30, | |
| | <u>Note</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Revenue | 27 | 4,083,462 | 3,131,924 | 1,455,443 | 1,122,292 |
| Cost of sales | | <u>(3,017,929)</u> | <u>(2,171,413)</u> | <u>(1,044,289)</u> | <u>(766,176)</u> |
| Gross margin | | <u>1,065,533</u> | <u>960,511</u> | <u>411,154</u> | <u>356,116</u> |
| Other income | 30 | 99,473 | 88,926 | 31,077 | 30,038 |
| Distribution costs | | (347,768) | (276,144) | (121,667) | (97,335) |
| Administrative expenses | | (289,117) | (233,339) | (99,741) | (87,192) |
| Other expenses | | (157,872) | (127,832) | (59,619) | (45,012) |
| Other gains/(losses) | | (36,868) | (6,172) | (11,484) | (3,788) |
| Financial income | | 9,687 | 10,390 | 1,063 | 5,284 |
| Financial costs | 28 | (104,610) | (116,545) | (34,398) | (38,045) |
| Equity accounted earnings | 15 | 471 | 153 | 508 | 34 |
| Foreign exchange gains/(losses) | 31 | 6,184 | 6,731 | (1,927) | 9,117 |
| Result of indexation units | | <u>52</u> | <u>22</u> | <u>2</u> | <u>36</u> |
| Income before taxes | | 245,165 | 306,701 | 114,968 | 129,253 |
| Income tax expense | 19 | <u>(40,941)</u> | <u>(50,227)</u> | <u>(17,661)</u> | <u>(20,157)</u> |
| NET INCOME FOR THE PERIOD | | <u>204,224</u> | <u>256,474</u> | <u>97,307</u> | <u>109,096</u> |
| Income attributable to owners of the parent | | 207,697 | 255,143 | 94,513 | 106,214 |
| Income attributable to non-controlling interests | | <u>(3,473)</u> | <u>1,331</u> | <u>2,794</u> | <u>2,882</u> |
| Net income for the period | | <u>204,224</u> | <u>256,474</u> | <u>97,307</u> | <u>109,096</u> |
| EARNINGS PER SHARE | | | | | |
| Basic earnings per share (US\$) | 32 | 0.61218 | 0.75310 | 0.27852 | 0.31351 |
| Diluted earnings per share (US\$) | 32 | 0.61099 | 0.75137 | 0.27802 | 0.31268 |

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



LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | For the nine months ended | | For the three months ended | |
|--|------|---------------------------|-----------------|----------------------------|----------------|
| | | September 30, | | September 30, | |
| | | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| NET INCOME | | 204,224 | 256,474 | 97,307 | 109,096 |
| Components of other comprehensive income, before taxes | | | | | |
| Currency translation differences | | | | | |
| Gains (losses) on currency translation, before tax | 31 | <u>(9,507)</u> | <u>(150)</u> | <u>(610)</u> | <u>2,619</u> |
| Other comprehensive income, before taxes, currency translation differences | | <u>(9,507)</u> | <u>(150)</u> | <u>(610)</u> | <u>2,619</u> |
| Cash flow hedges | | | | | |
| Gains (losses) on cash flow hedges before tax | 20 | <u>(115,913)</u> | <u>(76,973)</u> | <u>(80,948)</u> | <u>2,827</u> |
| Other comprehensive income, before taxes, cash flow hedges | | <u>(115,913)</u> | <u>(76,973)</u> | <u>(80,948)</u> | <u>2,827</u> |
| Other components of other comprehensive income, before taxes | | <u>(125,420)</u> | <u>(77,123)</u> | <u>(81,558)</u> | <u>5,446</u> |
| Income tax relating to components of other comprehensive income | | | | | |
| Income tax related to currency translation differences in other comprehensive income | 19 | 1,615 | 26 | 103 | (445) |
| Income tax related to cash flow hedges in other comprehensive income | 19 | <u>19,705</u> | <u>13,085</u> | <u>13,761</u> | <u>(481)</u> |
| Amount of income taxes related to components of other comprehensive income | | <u>21,320</u> | <u>13,111</u> | <u>13,864</u> | <u>(926)</u> |
| Other comprehensive income | | <u>(104,100)</u> | <u>(64,012)</u> | <u>(67,694)</u> | <u>4,520</u> |
| Total comprehensive income | | <u>100,124</u> | <u>192,462</u> | <u>29,613</u> | <u>113,616</u> |
| Comprehensive income attributable to owners of the parent | | 103,777 | 191,167 | 26,822 | 110,742 |
| Comprehensive income attributable to non-controlling interests | | <u>(3,653)</u> | <u>1,295</u> | <u>2,791</u> | <u>2,874</u> |
| TOTAL COMPREHENSIVE INCOME | | <u>100,124</u> | <u>192,462</u> | <u>29,613</u> | <u>113,616</u> |

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



LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Attributable to owners of the parent | | | | | | | Total equity ThUS\$ |
|---|-------|--------------------------------------|----------------------------------|--|-------------------------------------|-----------------------------|---|-------------------------------------|------------------------|
| | | Other reserves | | | | Equity | | | |
| | | Share capital ThUS\$ | Other equity interests ThUS\$ | Currency translation reserve ThUS\$ | Cash flow hedging reserve ThUS\$ | Retained earnings ThUS\$ | Equity attributable to owners of the parent ThUS\$ | Non-controlling interests ThUS\$ | |
| Opening balance as of January 01, 2011 | | 453,444 | 5,463 | (4,257) | (107,050) | 949,214 | 1,296,814 | 3,246 | 1,300,060 |
| Changes in equity | | | | | | | | | |
| Comprehensive income | | | | | | | | | |
| Gain (losses) | 26 | - | - | - | - | 207,697 | 207,697 | (3,473) | 204,224 |
| Other comprehensive income | | - | - | (7,712) | (96,208) | - | (103,920) | (180) | (104,100) |
| Total comprehensive income | | - | - | (7,712) | (96,208) | 207,697 | 103,777 | (3,653) | 100,124 |
| Transactions with shareholders | | | | | | | | | |
| Equity issuance | 26-36 | 8,531 | - | - | - | - | 8,531 | - | 8,531 |
| Dividends | 26 | - | - | - | - | (72,696) | (72,696) | - | (72,696) |
| Increase (decrease) for transfers and other changes | 26-36 | - | (2,577) | - | - | (631) | (3,208) | 4,533 | 1,325 |
| Total transactions with shareholders | | 8,531 | (2,577) | - | - | (73,327) | (67,373) | 4,533 | (62,840) |
| Closing balance as of September 30, 2011 | | 461,975 | 2,886 | (11,969) | (203,258) | 1,083,584 | 1,333,218 | 4,126 | 1,337,344 |

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



LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the parent | | | | | | | Total equity ThUS\$ |
|---|--------------------------------------|----------------------------------|--|-------------------------------------|-----------------------------|---|-------------------------------------|------------------------|
| | Share capital ThUS\$ | Other equity interests ThUS\$ | Other reserves | | | Equity attributable to owners of the parent ThUS\$ | Non-controlling interests ThUS\$ | |
| | | | Currency translation reserve ThUS\$ | Cash flow hedging reserve ThUS\$ | Retained earnings ThUS\$ | | | |
| Opening balance as of January 01, 2010 | 453,444 | 2,490 | (4,924) | (92,230) | 740,047 | 1,098,827 | 7,099 | 1,105,926 |
| Changes in equity | | | | | | | | |
| Comprehensive income | | | | | | | | |
| Net income | 26 | - | - | - | 255,143 | 255,143 | 1,331 | 256,474 |
| Other comprehensive income | | | (88) | (63,888) | - | (63,976) | (36) | (64,012) |
| Total comprehensive income | | | (88) | (63,888) | 255,143 | 191,167 | 1,295 | 192,462 |
| Transactions with shareholders | | | | | | | | |
| Dividends | 26 | - | - | - | (87,482) | (87,482) | - | (87,482) |
| Increase (decrease) for transfers and other changes | 26-36 | - | 2,264 | - | (129) | 2,135 | (32) | 2,103 |
| Total transactions with shareholders | | | - | - | (87,611) | (85,347) | (32) | (85,379) |
| Closing balance as of September 30, 2010 | 453,444 | 4,754 | (5,012) | (156,118) | 907,579 | 1,204,647 | 8,362 | 1,213,009 |

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



LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT – METHOD

| | For the nine months ended September 30, | |
|--|--|-------------|
| <u>Note</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ |
| Cash flows from operating activities | | |
| Cash collection from operating activities | | |
| Proceeds from sales of goods and services | 4,276,530 | 3,302,635 |
| Other cash receipts from operating activities | 40,375 | 33,816 |
| Payments for operating activities | | |
| Payments to suppliers for goods and services | (3,172,799) | (2,178,869) |
| Payments to and on behalf of employees | (683,142) | (461,157) |
| Other payments for operating activities | (84,133) | (18,000) |
| Interest paid | (4,679) | (387) |
| Interest received | 7,140 | 6,291 |
| Income taxes refunded (paid) | 2,836 | (7,074) |
| Other cash inflows (outflows) | (4,982) | (94,773) |
| Net cash flows from operating activities | 377,146 | 582,482 |
| Cash flows used in investing activities | | |
| Cash flows from disposal of subsidiaries | 47,337 | 1,491 |
| Cash flows used for acquisition of subsidiaries | (3,541) | - |
| Other cash receipts from sales of equity or debt instruments of other entities | 8,159 | 11,134 |
| Amounts raised from sale of property, plant and equipment | 87,888 | 45 |
| Purchases of property, plant and equipment | (868,886) | (633,256) |
| Amounts raised from sale of intangible assets | 6,189 | - |
| Purchases of intangible assets | (19,338) | (11,373) |
| Dividends received | 79 | 111 |
| Interest received | 2,223 | 3,632 |
| Other cash inflows (outflows) | (19,155) | (15,999) |
| Net cash flow used in investing activities | (759,045) | (644,215) |
| Cash flows from (used in) financing activities | | |
| Amounts raised from issuance of shares | 8,532 | - |
| Amounts raised from long-term loans | 591,592 | 472,906 |
| Amounts raised from short-term loans | 284,500 | - |
| Loan Payments | (690,334) | (350,856) |
| Payments of finance lease liabilities | (43,247) | (43,988) |
| Dividends paid | (192,118) | (155,407) |
| Interest paid | (93,301) | (94,444) |
| Other cash inflows (outflows) | 118,730 | 39,785 |
| Net cash flows from (used in) financing activities | (15,646) | (132,004) |
| Net increase (decrease) in cash and cash equivalents before the effect of changes in the exchange rate | (397,545) | (193,737) |
| Effects of variation in the exchange rate on cash and cash equivalents | (46) | 66 |
| Net increase (decrease) in cash and cash equivalents | (397,591) | (193,671) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 6 | 631,052 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 6 | 731,497 |
| | | 537,826 |

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



LAN AIRLINES S.A. AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2011

NOTE 1 - GENERAL INFORMATION

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

On August 13, 2010, LAN Airlines S.A. and TAM S.A. (TAM) announced they have signed a non-binding Memorandum of Understanding (MOU) in which the companies agree to proceed with their intention of carrying out their operations jointly under one parent company, to be named LATAM Airlines Group. The proposed partnership of LAN with TAM would be within the world’s 10 largest airline groups. LATAM will provide transport services for passengers and cargo to more than 115 destinations in 23 countries, operating with a fleet of over 280 aircraft, with over 40,000 employees. Both airlines will continue operating independently with their current operating licenses and brands. Within the group, TAM will continue operating as a Brazilian company with its own structure. The current holding of LAN Airlines S.A. will operate as an independent business unit within the group. On October 20, 2010, LAN Airlines and TAM announced that the operating subsidiaries of TAM had presented the structure of the transaction to the Brazilian Civil Aviation Agency (ANAC), which was approved by this agency on March 01, 2011.

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

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

On September 21, 2011, the Court of Defense of Free Competition (“TDLC”) approved the merger between LAN and TAM, establishing fourteen mitigation measures. On October 3, LAN and TAM filed an appeal to the Supreme Court objecting three of the mitigation measures.

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

Corporate Governance practices of the Company are set in accordance with Securities Market Law 18,045 the Corporations Law 18,046 and its regulations, and the regulations of the SVS and the laws and regulations of the United States of America and the U.S. Securities and Exchange Commission (SEC) with respect to the issuance of ADRs, and the Federal Republic of Brazil and the Comissão de Valores Mobiliários (“CVM) of that country, as it pertains to the issuance of Brazilian Depositary Receipts (“BDRs”).

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

The majority shareholder of the Company is the Cueto Group, which through Costa Verde Aeronáutica S.A. and Inversiones Mineras del Cantábrico S.A. owns 34.01% of the shares issued by the Company, as is the controller of the Company in accordance with the provisions of the letter b) of Article 97 and Article 99 of the Securities Market Law, attended that despite not meeting the majority of votes at shareholder meetings and to elect the majority of the directors of the Company, has a decisive influence in its administration.

As of September 30, 2011, the Company had a total of 1,672 registered shareholders, and 3.69% of the Company’s share capital was in the form of ADRs.

For the period ended September 30, 2011 the Company had an average of 21,046 employees, ending the period with a total of 21,216 people, with 3,725 in administration, 2,843 in maintenance, 6,150 in operations, 3,759 flight personnel, 1,958 cabin crew, and 2,781 in sales.

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

| Tax No. | Company | Country of origin | Functional Currency | As of September 30, 2011 | | | | As of December 31, 2010 | | | |
|--------------|--|-------------------|---------------------|---------------------------|-----------------------------|----------------------------|---------------------------|-----------------------------|----------------------------|--|--|
| | | | | Direct ownership interest | Indirect ownership interest | T total ownership interest | Direct ownership interest | Indirect ownership interest | T total ownership interest | | |
| | | | | % | % | % | % | % | % | | |
| 96.518.860-6 | Lantours Division de Servicios Terrestres S.A. (*) | Chile | US\$ | 99,9900 | 0,0100 | 100,0000 | 99,9900 | 0,0100 | 100,0000 | | |
| 96.763.900-1 | Inmobiliaria Aeronáutica S.A. | Chile | US\$ | 99,0100 | 0,9900 | 100,0000 | 99,0100 | 0,9900 | 100,0000 | | |
| 96.969.680-0 | Lan Pax Group S.A. and Subsidiaries | Chile | US\$ | 99,8361 | 0,1639 | 100,0000 | 99,8361 | 0,1639 | 100,0000 | | |
| Foreign | Lan Perú S.A. | Perú | US\$ | 49,0000 | 21,0000 | 70,0000 | 49,0000 | 21,0000 | 70,0000 | | |
| Foreign | Lan Chile Investments Limited and Subsidiaries | Caymán Island | US\$ | 99,9900 | 0,0100 | 100,0000 | 99,9900 | 0,0100 | 100,0000 | | |
| 93.383.000-4 | Lan Cargo S.A. | Chile | US\$ | 99,8939 | 0,0041 | 99,8980 | 99,8939 | 0,0041 | 99,8980 | | |
| Foreign | Connecta Corporation | U.S.A | US\$ | 0,0000 | 100,0000 | 100,0000 | 0,0000 | 100,0000 | 100,0000 | | |
| Foreign | Prime Airport Services Inc. and Subsidiary | U.S.A | US\$ | 0,0000 | 100,0000 | 100,0000 | 0,0000 | 100,0000 | 100,0000 | | |
| 96.951.280-7 | Transporte Aéreo S.A. | Chile | US\$ | 0,0000 | 100,0000 | 100,0000 | 0,0000 | 100,0000 | 100,0000 | | |
| 96.634.020-7 | Ediciones Ladeco América S.A. | Chile | CLP | 0,0000 | 100,0000 | 100,0000 | 0,0000 | 100,0000 | 100,0000 | | |
| Foreign | Aircraft International Leasing Limited | U.S.A | US\$ | 0,0000 | 100,0000 | 100,0000 | 0,0000 | 100,0000 | 100,0000 | | |
| 96.631.520-2 | Fast Air Almacenes de Carga S.A. | Chile | CLP | 0,0000 | 100,0000 | 100,0000 | 0,0000 | 100,0000 | 100,0000 | | |
| 96.631.410-9 | Ladeco Cargo S.A. | Chile | CLP | 0,0000 | 100,0000 | 100,0000 | 0,0000 | 100,0000 | 100,0000 | | |
| Foreign | Laser Cargo S.R.L. | Argentina | ARS | 0,0000 | 100,0000 | 100,0000 | 0,0000 | 100,0000 | 100,0000 | | |
| Foreign | Lan Cargo Overseas Limited and Subsidiaries | U.S.A | US\$ | 0,0000 | 100,0000 | 100,0000 | 0,0000 | 100,0000 | 100,0000 | | |
| 96.969.690-8 | Lan Cargo Inversiones S.A. and Subsidiary | Chile | CLP | 0,0000 | 100,0000 | 100,0000 | 0,0000 | 100,0000 | 100,0000 | | |
| 96.575.810-0 | Inversiones Lan S.A. and Subsidiaries | Chile | CLP | 99,7100 | 0,0000 | 99,7100 | 99,7100 | 0,0000 | 99,7100 | | |

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

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

All the entities controlled have been included in the consolidation.

Changes in the scope of consolidation from January 01, 2010 and September 30, 2011, are detailed below:

(1) Incorporation or acquisition of companies

- Florida West Technical Services LLC., direct subsidiary of Prime Airport Services S.A., in April 2010, changed name to Lan Cargo Repair Station, LLC.
- Aerovías de Integración Regional, AIRE S.A., indirect subsidiary of Lan Pax Group S.A., in November 2010, acquired through the purchase of companies Akemi Holdings S.A. and Saipan Holdings S.A. (See Note 39)
- AEROASIS S.A., direct subsidiary of Lan Pax Group S.A, acquired in February 2011. (See Note 39)

(2) Disposal of companies

- Blue Express INTL Ltda. and subsidiary, direct subsidiary of Lan Pax Cargo S.A., were sold according to purchase agreement signed on April 6, 2011.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Preparation

The consolidated financial statements of Lan Airlines S.A. are for the period ended September 30, 2011 and have been prepared in accordance with International Financial Reporting Standards (IFRS), and IFRIC interpretations.

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

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to use its judgment in applying the Company's accounting policies. Note 4 shows the areas that imply a greater degree of judgment or complexity or the areas where the assumptions and estimates are significant to the consolidated financial statements. These consolidated interim financial statements have been prepared under IAS 34.

a) At the date of these consolidated financial statements, the following accounting pronouncements were adopted by the Company, with application effective as of January 1, 2011:

| <u>Standards and amendments</u> | Mandatory application: annual periods <u>beginning on or after</u> |
|--|--|
| Amendment to IFRS 7: Financial Instruments: Disclosures | 01/01/2011 |
| Amendment to IAS 34: Interim financial reporting | 01/01/2011 |
| Amendment to IAS 1: Presentation of financial statements | 01/01/2011 |
| IAS 24 revised: Related party disclosures | 01/01/2011 |

| <u>Interpretation</u> | Mandatory application: annual periods <u>beginning on or after</u> |
|--|--|
| Amendment to IFRIC 14: Pre-payments of a minimum funding requirement | 01/01/2011 |
| Amendment to IFRIC 13: Customer loyalty programs | 01/01/2011 |

The adoption of the standards, amendments and interpretations described above have not had a significant impact on the Company's consolidated financial statements.

b) Accounting pronouncements with applications effective as of January 01, 2012 and following:

| <u>Standards and amendments</u> | Mandatory application: annual periods <u>beginning on or after</u> |
|---|--|
| Amendment to IAS 1: Presentation of financial statements | 01/07/2012 |
| IFRS 9: Financial instruments | 01/01/2013 |
| IAS 28 revised: Investments in associates and joint ventures | 01/01/2013 |
| IAS 27 revised: Separate financial statements | 01/01/2013 |
| IFRS 10: Consolidated financial statements | 01/01/2013 |
| IFRS 11: Joint arrangements | 01/01/2013 |
| IFRS 12: Disclosures of interests in other entities | 01/01/2013 |
| IFRS 13: Fair value measurement | 01/01/2013 |
| Amendment to IAS 19: Employee benefits | 01/01/2013 |

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

2.2. Consolidation

(a) Subsidiaries

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

The Company uses the acquisition-cost method or purchase accounting for the purchase of subsidiaries. The cost of acquisition is the fair value of the assets delivered, the equity instruments issued and the liabilities incurred or assumed on the exchange date. The identifiable assets acquired and the liabilities and contingent liabilities assumed in a business combination are initially valued at their fair value on the date of acquisition, regardless of the extent of the non-controlling interests. The excess of the acquisition cost over the fair value of the Company's holding in the net identifiable assets acquired is

shown as goodwill. If the cost is less than the fair value of the net assets of the acquired subsidiary, the difference is recorded directly in the consolidated statement of income (Note 2.6).

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

(b) Transactions with non-controlling interests

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

(c) Investees or associates

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

The participation of Lan Airlines S.A. and Subsidiaries in the losses or gains after the acquisition of its investees or associates is shown in results, and its participation in post acquisition movements in reserves of investees or associates are shown in reserves.

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

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

2.3. Foreign currency transactions

(a) Presentation and functional currencies

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

(b) Transactions and balances

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

(c) Group entities

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

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

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

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

2.4. Property, plant and equipment

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

The amounts of advance payments to aircraft manufacturers are capitalized by the Company under Construction in progress until receipt of the aircraft.

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

Depreciation of property, plant and equipment is calculated using the straight-line method over their estimated technical useful lives; except in the case of certain technical components which are depreciated on the basis of cycles and hours flown.

The residual value and useful life of assets is revised, and adjusted if necessary, once per year.

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

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

2.5. Intangible assets

Computer software

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

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

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

2.6. Goodwill

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

2.7. Borrowing costs

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

2.8. Losses for impairment of non-financial assets

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

2.9. Financial assets

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

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

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

(b) Loans and accounts receivable

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

(c) Financial assets held to maturity

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

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

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

2.10. Derivative financial instruments and hedging activities

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

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

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

The total fair value of the hedging derivatives is booked as an other non-current financial asset or liability if the remaining maturity of the item hedged is over 12 months, and as an other current financial asset or liability if the remaining term of the item hedged is less than 12 months. Derivatives not booked as hedges are classified as other financial assets or liabilities, current in the case that their remaining maturity is less than 12 months and non-current in the case that it is more than 12 months.

(a) Fair value hedges

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

(b) Cash flow hedges

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

In the case of variable interest-rate hedges, the amounts recognized in the statement of other comprehensive income are reclassified to results within financial costs at the same time the associated debts accrue interest.

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

When hedging instruments mature or are sold or when they do not meet the requirements to be accounted for as hedges, any gain or loss accumulated in the statement of other comprehensive income until that moment remains in the statement of other comprehensive income and is reclassified to the consolidated statement of income when the hedged transaction is finally recognized. When it is

expected that the hedged transaction is no longer going to occur, the gain or loss accumulated in the statement of other comprehensive income is taken immediately to the consolidated statement of income as Other gains (losses).

(c) Derivatives not booked as a hedge

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

2.11. Inventories

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

2.12. Trade and other accounts receivable

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

2.13. Cash and cash equivalents

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

2.14. Capital

The common shares are classified as net equity.

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

2.15. Trade and other accounts payable

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

2.16. Interest-bearing loans

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

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

2.17. Deferred taxes

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

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

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

2.18. Employee benefits

(a) Personnel vacations

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

(b) Share-based compensation

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

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

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

(d) Incentives

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

2.19. Provisions

Provisions are recognised when:

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

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

2.20. Revenue recognition

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

(a) Rendering of services

a.1 Passenger and cargo transport

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

a.2 Frequent flyer program

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

a.3 Other revenues

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

(b) Interest income

Interest income is booked using the effective interest rate method.

(c) Dividend income

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

2.21. Leases

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

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

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

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

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

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

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

2.23. Maintenance

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

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

2.24. Environmental costs

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

NOTE 3 - FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

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

(a) Market risk

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

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

(i) Fuel-price risk:

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

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

For the nine months ended September 30, 2011, the Company booked gains of US\$ 39.7 million on fuel hedging. During the same period 2010, the Company recognized losses of US\$ 5.9 million for the same reason.

As of September 30, 2011, the market value of its fuel positions amounted to US\$ 36.7 million (negative). At December 31, 2010, this market value was US\$ 45.8 million (positive). The following tables show the notional value of the purchase positions together with the derivatives contracted for the different periods:

| <u>Positions as of September 30, 2011 (*)</u> | Maturities | | | | |
|--|------------|---------|--------|--------|---------|
| | Q411 | Q112 | Q212 | Q312 | Total |
| Volume (thousands of barrels WTI) | 2,448 | 1,710 | 1,134 | 693 | 5,985 |
| Contracted future price (US\$ per barril)(**) | 94 | 95 | 85 | 86 | 92 |
| Total (ThUS\$) | 230,112 | 162,450 | 96,390 | 59,598 | 550,620 |
| Approximate percentage of hedge (of expected consumption value) | 68% | 47% | 32% | 20% | 32% |

(*)The volume shown in the table considers all the hedging instruments (swaps and options). The contracted future price considers the volume covered with swaps in addition to options that are expected to be exercised.

(**)Weighted average between collars and asset options

| <u>Positions as of December 31, 2010</u> | <u>Maturities</u> | | | | |
|--|-------------------|-------------|-------------|-------------|--------------|
| | <u>Q111</u> | <u>Q211</u> | <u>Q311</u> | <u>Q411</u> | <u>Total</u> |
| Volume (thousands of barrels WTI) | 1,848 | 918 | 687 | 324 | 3,777 |
| Contracted future price (US\$ per barrel)(*) | 82 | 81 | 84 | 90 | 83 |
| Total (ThUS\$) | 151,536 | 74,358 | 57,708 | 29,160 | 313,491 |
| Approximate percentage of hedge (of expected consumption value) | 54% | 27% | 19% | 8% | 26% |

(*)Weighted average between collars and asset options

Sensitivity analysis

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

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

The following table shows the sensitivity analysis of the financial instruments according to reasonable changes in the fuel price and their effect on equity. The term of the projection was defined until the end of the last current fuel hedge contract, being the last business day of the third quarter of 2012. The calculations were made considering a parallel movement of US\$ 5 per barrel in the curve of the WTI and HO crude futures benchmark price at September 30, 2011 and the end of December 2010.

| <u>Benchmark price</u> <u>WTI (US\$ per barrel)</u> | <u>Positions as of September 30, 2011</u> | <u>Positions as of December 31, 2010</u> |
|--|--|--|
| | <u>effect on equity</u> <u>(millions of US\$)</u> | <u>effect on equity</u> <u>(millions of US\$)</u> |
| + 5 | +20.6 | + 16.7 |
| -5 | -20.3 | -15.7 |

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

According to the requirements of IAS 39, during the periods presented, the Company has not recorded amounts for ineffectiveness in the consolidated income statement.

Given the fuel hedge structure during the nine months ended September 30, 2011, which considers a hedge-free portion, a vertical fall by US\$ 5 in the WTI benchmark price (the monthly daily average), would have meant a decrease of approximately US\$ 30.1 million in the cost of total fuel consumption for the same period. For the same period, a vertical rise by US\$ 5 in the WTI benchmark price (the

monthly daily average) would have meant an impact of approximately US\$ 27.1 million of increased fuel costs for the same period.

(ii) Cash flow interest-rate risk:

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

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

In order to reduce the risk of an eventual rise in interest rates, the Company has signed interest-rate swap and call option contracts in order to eliminate more than 84% of its exposure to interest-rate fluctuations. The Company is therefore exposed to a small portion of the fluctuations in the 90 days, 180 days and 360 days London Inter Bank Offer Rate (LIBOR).

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

| Increase (decrease) <u>in libor 3 months</u> | Positions as of September 30, 2011 effect on pre-tax earnings <u>(millions of US\$)</u> | Positions as of December 31, 2010 effect on pre-tax earnings <u>(millions of US\$)</u> |
|---|---|--|
| +100 basis points | -2.40 | -1.18 |
| -100 basis points | +2.40 | +1.18 |

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

| Increase futures curve <u>months</u> | Positions as of September 30, 2011 effect on equity <u>(millions of US\$)</u> | Positions as of December 31, 2010 effect on equity <u>(millions of US\$)</u> |
|--|---|--|
| +100 basis points | 40.62 | 42.39 |
| -100 basis points | (43.16) | (45.35) |

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

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

(iii) Local exchange-rate risk:

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

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

The Company manages its exposure to foreign currency risk through hedging selected balances using forward exchange contracts and cross currency swaps.

(b) Credit risk

Credit risk occurs when the counterparty to a financial agreement or instrument fails to discharge an obligation due or financial instrument, leading to a loss in market value of a financial instrument (only financial assets, not liabilities).

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

(i) Financial activities

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

In order to reduce counterparty risk and to ensure that the risk assumed is known and managed by the Company, investments are diversified among different banking institutions (both local and international). The Company evaluates the credit standing of each counterparty and the levels of investment, based on (i) their credit rating, (ii) the equity size of the counterparty, and (iii) investment limits according to the Company's level of liquidity. According to these three parameters, the Company

chooses the most restrictive parameter of the previous three and based on this, establishes limits for operations with each counterparty.

The Company has no guarantees to mitigate this exposure.

(ii) Operational activities

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

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

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

Credit quality of financial assets

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

(c) Liquidity risk

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

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

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

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



Class of liability for the analysis of liquidity risk ordered by date of maturity as of September 30, 2011

| Class of Liability | Debtor Tax No. | Debtor | Debtor country | Debtor Tax No. | Creditor | Creditor country | Currency | Up to 90 days | | More than 90 days to one year | | More than one to three years | | More than three to five years | | Total | Amortization | Effective rate | Nominal value | Nominal rate |
|---|----------------|------------------------------------|----------------|----------------|---------------------------------------|------------------|----------|---------------|---------|-------------------------------|---------|------------------------------|-----------|-------------------------------|-------|-----------|--------------|----------------|---------------|--------------|
| | | | | | | | | ThUS\$ | years | ThUS\$ | years | ThUS\$ | years | ThUS\$ | years | | | | | |
| Guaranteed obligations | 89.862.200-2 | Lan Airlines S.A. | Chile | 0-E | ING | U.S.A. | US\$ | 4,025 | 12,076 | 32,197 | 32,208 | 64,463 | 64,463 | Quarterly | 5.69% | 115,721 | 5.01% | | | |
| | | | Chile | 0-E | CREDITEAGRU COLE | France | US\$ | 21,160 | 63,781 | 107,463 | 67,281 | 13,363 | 13,363 | Quarterly | 4.13% | 258,969 | 4.13% | | | |
| | | | Chile | 0-E | PEFCO | U.S.A. | US\$ | 15,633 | 46,900 | 125,054 | 109,118 | 137,762 | 137,762 | Quarterly | 5.17% | 365,752 | 4.60% | | | |
| | | | Chile | 0-E | BNP PARIBAS | U.S.A. | US\$ | 19,517 | 58,911 | 158,566 | 160,819 | 272,782 | 272,782 | Quarterly | 4.23% | 571,552 | 3.77% | | | |
| | | | Chile | 0-E | WELLS FARGO | U.S.A. | US\$ | 5,617 | 16,832 | 44,848 | 44,761 | 118,942 | 118,942 | Quarterly | 3.64% | 192,855 | 3.53% | | | |
| | | | Chile | 0-E | CITIBANK | U.S.A. | US\$ | 11,898 | 35,908 | 96,427 | 97,408 | 253,787 | 253,787 | Quarterly | 3.08% | 433,217 | 2.72% | | | |
| | | | Chile | 97.036.000-K | SANTANDER | Spain | US\$ | 5,311 | 16,174 | 43,758 | 44,663 | 148,383 | 148,383 | Quarterly | 0.96% | 244,672 | 0.83% | | | |
| | | | Chile | 0-E | JP MORGAN | U.S.A. | US\$ | 1,562 | 4,715 | 12,762 | 13,046 | 48,012 | 48,012 | Quarterly | 0.95% | 76,099 | 0.80% | | | |
| | | | Chile | 0-E | ING | U.S.A. | US\$ | 7,320 | 22,018 | 44,833 | 41,166 | 12,862 | 12,862 | Quarterly | 3.94% | 116,764 | 3.72% | | | |
| | | | Chile | 0-E | CREDITEAGRU COLE | France | US\$ | 2,270 | 6,883 | 18,633 | 22,071 | 37,095 | 37,095 | Quarterly | 1.28% | 81,424 | 1.28% | | | |
| Financial leases | 89.862.200-2 | Lan Airlines S.A. | Chile | 0-E | CITIBANK | U.S.A. | US\$ | 1,770 | 6,193 | 21,203 | - | - | - | Quarterly | 1.56% | 28,084 | 1.53% | | | |
| | | | Chile | 0-E | S. CHARTERED | U.S.A. | US\$ | 3,995 | 5,356 | 9,356 | - | - | - | Quarterly | 1.26% | 18,418 | 1.26% | | | |
| | | | Chile | 0-E | PEFCO | U.S.A. | US\$ | 4,204 | 12,613 | 33,634 | 33,636 | 18,940 | 18,940 | Quarterly | 5.22% | 89,102 | 4.68% | | | |
| | | | Chile | 97.036.000-K | SANTANDER | Chile | US\$ | 12,533 | 12,704 | - | - | - | - | Semiannual | 1.9% | 25,000 | 1.9% | | | |
| | | | Chile | 97.004.000-5 | BANCO DE CHILE | Chile | US\$ | 49,578 | 614 | 30,596 | - | - | - | Semiannual | 2.01% | 30,000 | 2.01% | | | |
| Bank loans | 89.862.200-2 | Lan Airlines S.A. | Chile | 76.645.030-K | ITAU | Chile | US\$ | - | - | - | - | - | - | 60 days | 0.94% | 49,500 | 0.94% | | | |
| | | | Chile | 97.030.000-7 | ESTADO | Chile | US\$ | 168 | 401 | 45,852 | - | - | - | Semiannual | 1.46% | 44,848 | 1.46% | | | |
| | | | Chile | 97.032.000-8 | BBVA | Chile | US\$ | - | 1,164 | 60,878 | - | - | - | Semiannual | 1.99% | 60,000 | 1.99% | | | |
| | | | Chile | 97.036.000-K | SANTANDER | Chile | US\$ | 1,212 | 2,491 | 246,864 | - | - | - | - | 2.34% | 245,790 | 2.34% | | | |
| Other loans | 89.862.200-2 | Lan Airlines S.A. | Chile | 0-E | BOEING | U.S.A. | US\$ | 952 | 2,208 | 24,810 | - | - | - | - | 1.75% | 240,902 | 1.75% | | | |
| | | | Chile | - | OTHERS | - | US\$ | 7,727 | 29,336 | 74,413 | 41,748 | 8,641 | 161,865 | - | - | 157,594 | - | | | |
| Derivatives | 89.862.200-2 | Lan Airlines S.A. | Chile | - | OTHERS | - | US\$ | 2,015 | 5,900 | 13,969 | 4,389 | - | - | - | - | 25,816 | - | | | |
| | | | Chile | - | OTHERS | - | US\$ | - | - | - | - | - | - | - | - | - | - | - | | |
| Non-hedging Derivatives | 89.862.200-2 | Lan Airlines S.A. | Several | - | sundry | - | US\$ | 373,632 | 23,744 | - | - | - | - | - | - | 397,376 | - | | | |
| | | | Several | - | Others | - | CLP | 8,662 | - | - | - | - | - | - | - | - | 8,662 | - | | |
| Accounts payable other accounts payable | 89.862.200-2 | Lan Airlines S.A. and subsidiaries | Several | - | Others | - | US\$ | 61,454 | - | - | - | - | - | - | - | 61,454 | - | | | |
| | | | Several | - | Others | - | US\$ | - | - | - | - | - | - | - | - | - | - | - | | |
| Other accounts payable, non-current | 89.862.200-2 | Lan Airlines S.A. and subsidiaries | Several | - | sundry | - | US\$ | - | - | 36,000 | - | - | - | - | - | 36,000 | - | | | |
| | | | Several | - | Lufthansa Lan Technical Training S.A. | - | US\$ | 37 | - | - | - | - | - | - | - | - | 37 | - | | |
| Accounts payable related parties | 89.862.200-2 | Lan Airlines S.A. and subsidiaries | Several | 96.921.070-3 | Austral sociedad | - | US\$ | - | - | - | - | - | - | - | - | - | - | | | |
| | | | Several | 78.591.370-1 | Concesionaria S.A. | - | US\$ | 2 | - | - | - | - | - | - | - | - | 2 | - | | |
| Total | 89.862.200-2 | Lan Airlines S.A. and subsidiaries | Several | Forcing | Inversora Aeronautica Argentina | - | US\$ | 203 | - | - | - | - | - | - | - | 203 | - | | | |
| | | | Total | - | - | - | US\$ | 622,659 | 386,922 | 1,499,116 | 712,314 | 1,135,032 | 4,356,043 | - | - | 3,976,015 | - | | | |



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

| Class of liability | Debtor Tax.No. | Debtor | Debtor country | Debtor Tax.No. | Creditor | Creditor country | Currency | Up to 90 days | More than 90 days | More than one to three years | More than three to five years | More than five years | Total | Amortization | Effective rate | Nominal Value | Nominal rate |
|-------------------------------------|----------------|------------------------------------|----------------|----------------|---------------------------------------|------------------|----------|----------------|-------------------|------------------------------|-------------------------------|----------------------|------------------|--------------|----------------|------------------|--------------|
| | | | | | | | | | | | | | | | | | |
| Guaranteed obligations | 89.862.200-2 | Lan Airlines S.A. | Chile | 0-E | ING | U.S.A. | US\$ | 7,425 | 22,305 | 53,471 | 47,128 | 93,325 | 223,654 | Quarterly | 5.19% | 181,029 | 4.69% |
| | | Lan Airlines S.A. | Chile | 0-E | CALYON | France | US\$ | 21,045 | 63,352 | 130,785 | 39,186 | 20,916 | 275,284 | Quarterly | 4.47% | 256,417 | 4.47% |
| | | Lan Airlines S.A. | Chile | 0-E | PEFCO | U.S.A. | US\$ | 19,838 | 59,513 | 158,688 | 149,595 | 209,374 | 597,008 | Quarterly | 5.16% | 497,692 | 4.60% |
| | | Lan Airlines S.A. | Chile | 0-E | BNP PARIBAS | U.S.A. | US\$ | 22,831 | 68,726 | 184,673 | 186,931 | 385,438 | 848,599 | Quarterly | 4.49% | 707,306 | 4.00% |
| | | Lan Airlines S.A. | Chile | 0-E | WELLS FARGO | U.S.A. | US\$ | 5,626 | 16,842 | 44,872 | 44,796 | 135,714 | 247,850 | Quarterly | 3.64% | 204,392 | 3.53% |
| | | Lan Airlines S.A. | Chile | 0-E | CITIBANK | U.S.A. | US\$ | 8,984 | 27,039 | 72,767 | 73,806 | 206,771 | 389,367 | Quarterly | 3.93% | 326,235 | 3.48% |
| | | Lan Airlines S.A. | Chile | 0-E | SANTANDER | Spain | US\$ | 2,919 | 8,859 | 24,242 | 25,206 | 95,708 | 156,934 | Quarterly | 0.95% | 148,741 | 0.83% |
| | | Lan Airlines S.A. | Chile | 0-E | ING | U.S.A. | US\$ | 3,899 | 11,685 | 30,440 | 25,695 | 11,675 | 83,394 | Quarterly | 4.08% | 77,096 | 3.71% |
| | | Lan Airlines S.A. | Chile | 0-E | CALYON | France | US\$ | 2,249 | 6,786 | 18,376 | 22,613 | 43,431 | 93,455 | Quarterly | 1.27% | 87,337 | 1.27% |
| | | Lan Airlines S.A. | Chile | 0-E | CITIBANK | U.S.A. | US\$ | 1,692 | 5,249 | 26,758 | - | - | 33,699 | Quarterly | 1.32% | 32,921 | 1.27% |
| Financial leases | | Lan Airlines S.A. | Chile | 0-E | S.CHARTERED | U.S.A. | US\$ | 3,858 | 11,873 | 14,628 | - | - | 30,359 | Quarterly | 1.28% | 29,864 | 1.25% |
| | | Lan Airlines S.A. | Chile | 0-E | SANTANDER MADRID | Spain | US\$ | - | 26,125 | 12,726 | - | - | 38,851 | Semiannual | 3.64% | 37,500 | 3.55% |
| Bank loans | 89.862.200-2 | Lan Airlines S.A. | Chile | 0-E | SANTANDER MADRID | Spain | US\$ | - | 26,125 | 12,726 | - | - | 38,851 | Semiannual | 3.64% | 37,500 | 3.55% |
| Bank loans | 89.862.200-2 | Lan Airlines S.A. | Chile | 97.023.000-9 | CORP BANCA | Chile | CLP | 13,479 | 13,158 | 12,713 | - | - | 39,350 | Semiannual | 6.53% | 36,858 | 6.44% |
| | | Lan Airlines S.A. | Chile | 76.645.030-K | ITAU | Chile | CLP | - | 21,653 | 10,332 | - | - | 31,985 | Semiannual | 6.67% | 29,967 | 6.60% |
| | | Lan Airlines S.A. | Chile | 97.006.000-6 | BCI | Chile | CLP | - | 38,144 | 18,188 | - | - | 56,332 | Semiannual | 6.71% | 52,723 | 6.63% |
| | | Lan Airlines S.A. | Chile | 97.030.000-7 | ESTADO | Chile | CLP | - | 47,521 | 22,666 | - | - | 70,187 | Semiannual | 6.65% | 65,704 | 6.59% |
| | | Aires S.A. | Colombia | 0-E | HELM | Colombia | COP | 3,944 | - | - | - | - | 3,944 | 30 days | 3.37% | 3,936 | 3.37% |
| | | Lan Airlines S.A. | Chile | 0-E | SANTANDER MADRID | Spain | US\$ | 586 | 1,587 | 72,962 | - | - | 75,135 | - | 3.29% | 72,962 | 3.29% |
| Other loans | | Lan Airlines S.A. | Chile | 0-E | BOEING | U.S.A. | US\$ | 1,862 | 1,207 | 106,665 | - | - | 109,734 | - | 2.04% | 106,209 | 2.04% |
| Derivatives | 89.862.200-2 | Lan Airlines S.A. | Chile | - | OTHERS | - | US\$ | 6,018 | 22,331 | 61,273 | 24,643 | 4,751 | 119,016 | - | - | 115,189 | - |
| Non-hedging Derivatives | 89.862.200-2 | Lan Airlines S.A. | Chile | - | OTHERS | - | US\$ | 1,461 | 4,239 | 9,891 | 5,608 | - | 21,199 | - | - | 20,703 | - |
| Accounts payable | | Lan Airlines S.A. and subsidiaries | Varios | - | Varios | - | US\$ | 277,327 | 26,002 | - | - | - | 303,329 | - | - | 303,329 | - |
| other accounts payable | | Lan Airlines S.A. and subsidiaries | Varios | - | Varios | - | US\$ | 28,058 | - | - | - | - | 28,058 | - | - | 28,058 | - |
| | | Lan Airlines S.A. and subsidiaries | Varios | - | Others | - | Others | 169,307 | - | - | - | - | 169,307 | - | - | 169,307 | - |
| Other accounts payable, non-current | | Lan Airlines S.A. and subsidiaries | Varios | - | Varios | - | US\$ | - | - | 54,000 | - | - | 54,000 | - | - | 54,000 | - |
| Accounts payable related parties | | Lan Airlines S.A. and subsidiaries | Varios | 96.847.880-k | Lufthansa Lan Technical Training S... | - | US\$ | 110 | - | - | - | - | 110 | - | - | 110 | - |
| | | Lan Airlines S.A. and subsidiaries | Varios | 74 | - | - | CLP | 74 | - | - | - | - | 74 | - | - | 74 | - |
| Total | | | | | | | | 602,592 | 504,196 | 1,141,116 | 645,207 | 1,207,103 | 4,100,214 | | | 3,645,659 | |

The Company has fuel and interest rate hedging strategies involving derivatives contracts with different financial institutions. The Company has margin facilities with each financial institution in order to regulate the mutual exposure produced by changes in the market valuation of the derivatives.

At the end of 2010, the Company had provided US\$ 78.5 million in derivative margin guarantees, for cash and stand-by letters of credit. At the end of September 30, 2011, the Company had provided US\$ 125.0 million in guarantees for cash and stand-by letters of credit. The increase was due to maturity and acquisition of fuel contracts and rates, rising fuel prices and falling interest rates.

3.2. Capital risk management

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

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

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

Currently the Company's strategy, which has not changed since 2007, has consisted of maintaining a leverage ratio of between 70% and 80% and an international credit rating of higher than BBB- (the minimum required for being considered investment grade).

The leverage ratios as of September 30, 2011, and December 31, 2010, were as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|--|---|--|
| Total financial loans | 3,539,142 | 3,259,666 |
| Last twelve months Operating lease payment x 8 | 1,251,200 | 788,704 |
| Less: | | |
| Cash and marketable securities | (331,951) | (737,093) |
| Total net adjusted debt | <u>4,458,391</u> | <u>3,311,277</u> |
| Net Equity | 1,333,218 | 1,296,814 |
| Net coverage reserves | 203,258 | 107,050 |
| Adjusted equity | <u>1,536,476</u> | <u>1,403,864</u> |
| Total adjusted debt and equity | <u><u>5,994,867</u></u> | <u><u>4,715,141</u></u> |
| Adjusted leverage | 74.4% | 70.2% |

3.3. Estimates of fair value

At September 30, 2011, the Company maintained financial instruments that should be recorded at fair value. These include:

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

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

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

The following table shows the classification of financial instruments at fair value at September 30, 2011 depending on the level of information used in the assessment:

| | Fair value | Fair value measurements using values | | |
|---|------------------|--------------------------------------|-----------------|------------------|
| | At September 30, | considered as | | |
| | <u>2011</u> | <u>Level I</u> | <u>Level II</u> | <u>Level III</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Assets | | | | |
| Short-term mutual funds | 101,561 | 101,561 | - | - |
| Fair value of interest rate derivatives | 122 | - | 122 | - |
| Fair value of fuel derivatives | - | - | - | - |
| Fair value of foreign currency derivatives | 821 | - | 821 | - |
| Fair value of investment funds | 59,201 | 59,201 | - | - |
| Liabilities | | | | |
| Fair value of interest rate derivatives | 161,863 | - | 161,863 | - |
| Fair value of fuel derivatives | 36,719 | - | 36,719 | - |
| Fair value of foreign currency derivatives | 62 | - | 62 | - |
| Interest rate derivatives not accounted for as hedging instruments | 16,052 | - | 16,052 | - |

Additionally, at September 30, 2011, the Company has financial instruments which are not recorded at fair value. In order to meet the disclosure requirements of fair values the Company has valued these instruments as shown in the table below:

| | <u>As of September 30, 2011</u> | | <u>As of December 31, 2010</u> | |
|---|---------------------------------|--------------|--------------------------------|--------------|
| | <u>Book</u> | <u>Fair</u> | <u>Book</u> | <u>Fair</u> |
| | <u>value</u> | <u>value</u> | <u>value</u> | <u>value</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Cash and cash equivalents | | | | |
| Cash and cash equivalents | 4,283 | 4,283 | 3,857 | 3,857 |
| Bank balance | 23,501 | 23,501 | 24,432 | 24,432 |
| Time Deposits | 54,271 | 54,271 | 406,143 | 406,143 |
| Repurchase agreements | 49,845 | 49,845 | - | - |
| Other financial assets | | | | |
| Domestic and foreign bonds | 39,289 | 41,297 | 47,184 | 50,294 |
| Other financial assets | 150,970 | 150,970 | 80,836 | 80,836 |
| Trade and other accounts receivable and right | | | | |
| receivable, non-current | 534,848 | 534,848 | 489,233 | 489,233 |
| Accounts receivable from related entities | 1,324 | 1,324 | 50 | 50 |
| Other financial liabilities | | | | |
| Trade and other accounts payable, | 3,213,491 | 3,300,317 | 2,945,294 | 2,969,939 |
| current | 467,492 | 467,492 | 500,694 | 500,694 |
| Accounts payable to related entities | 444 | 444 | 184 | 184 |
| Other accounts payable, non-current | 361,651 | 361,651 | 368,372 | 368,372 |

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

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

NOTE 4 - ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

In any case, it is possible that events will require modification of the estimates in the future, in which case the effects would be accounted for prospectively.

NOTE 5 – SEGMENTAL INFORMATION

The Company reports information by segments as established in IFRS 8 “Operating segments”. This standard sets rules for the reporting of information by segments in the financial statements, plus reporting about products and services, geographical areas and principal customers.

An operating segment is defined as a component of an entity on which financial information is held separately and which is evaluated regularly by the senior management in making decisions with respect to the assignment of resources and evaluation of results. The Company believes that it has only one operating segment: air transportation.

| | Air transport segment | | | |
|--|---------------------------|------------------|----------------------------|-----------------|
| | For the nine months ended | | For the three months ended | |
| | September 30, | | September 30, | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Income from ordinary activities and other operating income | 4,182,935 | 3,220,850 | 1,486,520 | 1,152,330 |
| Interest income | 9,687 | 10,390 | 1,063 | 5,284 |
| Interest expense | (104,610) | (116,545) | (34,398) | (38,045) |
| Total net interest expense | <u>(94,923)</u> | <u>(106,155)</u> | <u>(33,335)</u> | <u>(32,761)</u> |
| Depreciation and amortization | (290,816) | (244,894) | (96,694) | (81,625) |
| Segment profit | 207,697 | 255,143 | 94,513 | 106,214 |
| Earnings on investments | 471 | 153 | 508 | 34 |
| Expenses for income tax | (40,941) | (50,227) | (17,661) | (20,157) |
| Assets of segment | 7,072,501 | 6,186,533 | 7,072,501 | 6,186,533 |
| Investments in associates | 1,118 | 1,279 | 1,118 | 1,279 |
| Purchase of non-monetary assets | 888,224 | 510,171 | 184,339 | 173,161 |

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

| | For the nine months ended | | For the three months ended | |
|------------|---------------------------|------------------|----------------------------|------------------|
| | September 30, | | September 30, | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Peru | 393,345 | 401,810 | 158,807 | 143,878 |
| Argentina | 435,477 | 355,443 | 164,893 | 136,836 |
| USA | 835,608 | 614,969 | 292,508 | 211,755 |
| Europe | 378,429 | 320,174 | 139,571 | 110,858 |
| Colombia | 291,153 | 57,660 | 95,109 | 20,902 |
| Chile | 1,050,238 | 878,987 | 369,143 | 306,289 |
| Others* | 798,685 | 591,807 | 266,489 | 221,812 |
| Total (**) | <u>4,182,935</u> | <u>3,220,850</u> | <u>1,486,520</u> | <u>1,152,330</u> |

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

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

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

NOTE 6 – CASH AND CASH EQUIVALENTS

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|-----------------------|---|--|
| Cash | 4,283 | 3,857 |
| Bank balances | 23,501 | 24,432 |
| Time deposits | 54,271 | 406,143 |
| Repurchase agreements | 49,845 | - |
| Others | <u>101,561</u> | <u>196,620</u> |
| Total | <u>233,461</u> | <u>631,052</u> |

Cash and cash equivalents are denominated in the following currencies at September 30, 2011, and December 31, 2010, are as follows:

| <u>Currency</u> | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|------------------|---|--|
| US Dollar | 114,753 | 194,212 |
| Chilean peso (*) | 74,094 | 368,360 |
| Euro | 4,093 | 7,844 |
| Argentine peso | 6,960 | 11,230 |
| Brazilian real | 719 | 4,759 |
| Other currencies | <u>32,842</u> | <u>44,647</u> |
| Total | <u>233,461</u> | <u>631,052</u> |

(*) The Company entered into currency derivative contracts (forward exchange controls) for ThUS \$ 10,069 at September 30, 2011 (ThUS \$ 169,357 at December 31, 2010), for conversion into dollars of investments in Chilean pesos, currency derivative contracts (cross currency swaps) for ThUS \$ 0 at September 30, 2011 (ThUS \$ 30,258 at December 31, 2010), for conversion into dollars of investment in Unidades de Fomento (“UF”) and currency derivative contracts (forward exchange controls) for ThUS\$ 10,069 at September 30, 2011 (ThUS \$ 0 at December 31, 2010), for conversion into dollars of investment in Unidades de Fomento (“UF”).

In Venezuela, effective 2003, the authorities decreed that all remittances abroad should be approved by the Currency Management Commission (CADIVI). Despite having free availability of bolivars in Venezuela, the Company has certain restrictions for freely remitting these funds outside Venezuela. At September 30, 2011 the amount subject to such restrictions in dollar terms is ThUS\$ 16,925 (ThUS\$ 26,738 at December 31, 2010).

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

NOTE 7 - FINANCIAL INSTRUMENTS

7.1. Financial instruments by category

As of September 30, 2011

| <u>Assets</u> | <u>Held to maturity</u> | <u>Loans and accounts receivable</u> | <u>Hedging derivatives</u> | <u>Held to trading</u> | <u>Designated as at fair value through profit and loss on initial recognition</u> | <u>Total</u> |
|--|-------------------------|--------------------------------------|----------------------------|------------------------|---|------------------|
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Cash and cash equivalents | - | 131,900 | - | 101,561 | - | 233,461 |
| Other financial assets (*) | 39,795 | 150,464 | 943 | - | 59,201 | 250,403 |
| Trade and other current accounts receivable | - | 527,315 | - | - | - | 527,315 |
| Current accounts receivable from related parties | - | 1,324 | - | - | - | 1,324 |
| Non-current rights receivable | - | 7,533 | - | - | - | 7,533 |
| Total | 39,795 | 818,536 | 943 | 101,561 | 59,201 | 1,020,036 |

| <u>Liabilities</u> | <u>Other Financial liabilities</u> | <u>Hedging derivatives</u> | <u>Held to trading</u> | <u>Total</u> |
|---|------------------------------------|----------------------------|------------------------|------------------|
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Other financial liabilities | 3,213,491 | 198,644 | 16,052 | 3,428,187 |
| Trade and other current accounts payable | 467,492 | - | - | 467,492 |
| Current accounts payable to related parties | 444 | - | - | 444 |
| Other non-current accounts payable | 361,651 | - | - | 361,651 |
| Total | 4,043,078 | 198,644 | 16,052 | 4,257,774 |

(*)The value submitted in held to maturity corresponds, mainly, to domestic and foreign bonds; and designated as at fair value through profit and loss on initial recognition, to investment funds; and loans and accounts receivable related to guarantees given.

As of December 31, 2010

Assets

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

Liabilities

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

(*) The value submitted in held to maturity corresponds mainly to domestic and foreign bonds; and designated as at fair value through profit and loss on initial recognition, to investment funds; and loans and accounts receivable related to guarantees given.

7.2. Financial instruments by currency

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---|---|--|
| a) Assets | | |
| Cash and cash equivalents | 233,461 | 631,052 |
| US Dollar | 114,753 | 194,212 |
| Chilean Peso | 74,094 | 368,360 |
| Euro | 4,093 | 7,844 |
| Argentine Peso | 6,960 | 11,230 |
| Brazilian Real | 719 | 4,759 |
| Others | 32,842 | 44,647 |
| Other financial Assets | 250,403 | 267,038 |
| US Dollar | 238,139 | 255,808 |
| Brazilian Real | 6,717 | 6,731 |
| Others | 5,547 | 4,499 |
| Trade and other current accounts receivable | 527,315 | 481,350 |
| US Dollar | 343,279 | 354,702 |
| Chilean Peso | 52,239 | 28,606 |
| Euro | 11,513 | 8,429 |
| Argentine Peso | 42,660 | 6,702 |
| Brazilian Real | 42,664 | 31,329 |
| Australian Dollar | 7,740 | 12,456 |
| Others | 27,220 | 39,126 |
| Non-current rights receivable | 7,533 | 7,883 |
| US Dollar | 9 | 9 |
| Chilean Peso | 7,306 | 7,864 |
| Others | 218 | 10 |
| Current accounts receivable from related parties | 1,324 | 50 |
| US Dollar | 29 | 29 |
| Chilean Peso | 1,295 | 21 |
| Total financial assets | 1,020,036 | 1,387,373 |
| US Dollar | 696,209 | 804,760 |
| Chilean Peso | 134,934 | 404,851 |
| Euro | 15,606 | 16,273 |
| Argentine Peso | 49,620 | 17,932 |
| Brazilian Real | 50,100 | 42,819 |
| Australian Dollar | 7,740 | 12,456 |
| Others | 65,827 | 88,282 |

b) Liabilities

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

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

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---|---|--|
| Trade accounts receivable | 449,759 | 435,576 |
| Other accounts receivable and rights receivable | 107,720 | 75,734 |
| Total trade and other accounts receivable | <u>557,479</u> | <u>511,310</u> |
| Less: Allowance for impairment loss | <u>(22,631)</u> | <u>(22,077)</u> |
| Total net trade and other accounts receivable | 534,848 | 489,233 |
| Less: non-current portion – rights receivable | <u>(7,533)</u> | <u>(7,883)</u> |
| Trade and other accounts receivable, current | <u>527,315</u> | <u>481,350</u> |

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

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

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|------------------------|---|--|
| Up to 3 months | 7,513 | 12,506 |
| Between 3 and 6 months | 6,541 | 11,114 |
| Total | <u>14,054</u> | <u>23,620</u> |

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

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---|---|--|
| Judicial and extra-judicial collection | 10,031 | 10,586 |
| Debtors under extra-judicial collection process | 3,559 | 5,259 |
| Total | <u>13,590</u> | <u>15,845</u> |

Currency balances that make up the trade receivables, other non-current accounts receivable and rights receivables at September 30, 2011 and December 31, 2010, are as follows:

| Currency | As of | As of |
|-------------------|--|---------------------------------------|
| | September 30, <u>2011</u> ThUS\$ | December 31, <u>2010</u> ThUS\$ |
| US Dollar | 343,288 | 354,711 |
| Chilean Peso | 59,545 | 36,470 |
| Euro | 11,513 | 8,429 |
| Argentine Peso | 42,660 | 6,702 |
| Brazilian Real | 42,664 | 31,329 |
| Australian Dollar | 7,740 | 12,456 |
| Other | 27,438 | 39,136 |
| Total | <u>534,848</u> | <u>489,233</u> |

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

| <u>Maturity</u> | <u>Impairment</u> |
|---|-------------------|
| Judicial and extra-judicial collection Assets | 100% |
| Over 1 year | 100% |
| Between 6 and 12 months | 50% |

The movement in the allowance for impairment loss of trade accounts and other accounts receivables between January 01, 2010 and September 30, 2011 is as follows:

| | <u>ThUS\$</u> |
|----------------------------------|-----------------|
| As of January 01, 2010 | (23,817) |
| Write-offs | 2,411 |
| Increase in allowance | (3,352) |
| Balance as of September 30, 2010 | <u>(24,758)</u> |
| As of October 01, 2010 | (24,758) |
| Write-offs | 2,628 |
| Decrease in allowance | 53 |
| Balance as of December 31, 2010 | <u>(22,077)</u> |
| As of January 01, 2011 | (22,077) |
| Write-offs | 660 |
| Increase in allowance | (1,214) |
| Balance as of September 30, 2011 | <u>(22,631)</u> |

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

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

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

| | <u>As of September 30, 2011</u> | | | <u>As of December 31, 2010</u> | | |
|---------------------------|---------------------------------|--|--|---------------------------------|--|--|
| | <u>Gross exposure</u> ThUS\$ | <u>Gross Impaired exposure</u> ThUS\$ | <u>Exposure net of risk concentrations</u> ThUS\$ | <u>Gross exposure</u> ThUS\$ | <u>Gross Impaired exposure</u> ThUS\$ | <u>Exposure net of risk concentrations</u> ThUS\$ |
| Trade accounts receivable | 449,759 | (22,631) | 427,128 | 435,576 | (22,077) | 413,499 |
| Other accounts receivable | 107,720 | - | 107,720 | 75,734 | - | 75,734 |

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

NOTE 9 - ACCOUNTS RECEIVABLE FROM/PAYABLE TO RELATED ENTITIES

The accounts receivable from and payable to related entities as of September 30, 2011 and December 31, 2010, respectively, are as follows:

a) Accounts Receivable

| <u>Tax No.</u> | <u>Related party</u> | <u>Relationship</u> | <u>Country of origin</u> | <u>As of September 30, 2011</u> | <u>As of December 31, 2010</u> | <u>Currency</u> | <u>Transaction deadlines</u> | <u>Nature of transaction</u> |
|----------------|-------------------------------------|-------------------------|--------------------------|---------------------------------|--------------------------------|-----------------|------------------------------|------------------------------|
| | | | | ThUS\$ | ThUS\$ | | | |
| 96.810.370-9 | Inversiones Costa Verde Ltda y CPA | Controlling shareholder | Chile | 18 | - | CLP | 30 to 45 Days | Monetary |
| 96.778.310-2 | Concesionaria Chucumata S.A. | Associate | Chile | - | 4 | CLP | 30 to 45 Days | Monetary |
| 96.921.070-3 | Austral Sociedad Concesionaria S.A. | Associate | Chile | - | 2 | CLP | 30 to 45 Days | Monetary |
| 78.591.370-1 | Bethia S.A. y Filiales | Others related parties | Chile | 1,236 | - | CLP | 30 to 45 Days | Monetary |
| 87.752.000-5 | Granja Marina Tornagaleones S.A. | Others related parties | Chile | 41 | 15 | CLP | 30 to 45 Days | Monetary |
| 96.812.280-0 | San Alberto S.A. y Filiales | Others related parties | Chile | 29 | 29 | US\$ | 30 to 45 Days | Monetary |
| | Total current assets | | | <u>1,324</u> | <u>50</u> | | | |

At September 30, 2011 and December 31, 2010, there have been no loan loss provisions.

b) Accounts payable

| <u>Tax No.</u> | <u>Related party</u> | <u>Relationship</u> | <u>Country of origin</u> | <u>As of September 30, 2011</u> | <u>As of December 31, 2010</u> | <u>Currency</u> | <u>Transaction deadlines</u> | <u>Nature of transaction</u> |
|----------------|---------------------------------------|-----------------------|--------------------------|---------------------------------|--------------------------------|-----------------|------------------------------|------------------------------|
| | | | | ThUS\$ | ThUS\$ | | | |
| 96.847.880-K | Lufthansa Lan Technical Training S.A. | Associate | Chile | - | 74 | CLP | 30 to 45 Days | Monetary |
| 96.847.880-K | Lufthansa Lan Technical Training S.A. | Associate | Chile | 37 | 110 | US\$ | 30 to 45 Days | Monetary |
| 96.921.070-3 | Austral Sociedad Concesionaria S.A. | Associate | Chile | 2 | - | CLP | 30 to 45 Days | Monetary |
| 78.591.370-1 | Bethia S.A. y Filiales | Other related parties | Chile | 202 | - | CLP | 30 to 45 Days | Monetary |
| Foreign | Inversora Aeronáutica Argentina | Other related parties | Argentina | 203 | - | US\$ | 30 to 45 Days | Monetary |
| | Total current liabilities | | | 444 | 184 | | | |

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

NOTE 10 – INVENTORIES

The inventories at September 30, 2011 and December 31, 2010 respectively, are detailed below:

| | As of September 30, 2011 <u>ThUS\$</u> | As of December 31, 2010 <u>ThUS\$</u> |
|---------------------|---|--|
| Technical stock | 50,489 | 40,625 |
| Non-technical stock | <u>15,722</u> | <u>12,568</u> |
| | <u>66,211</u> | <u>53,193</u> |

The items included in this heading are spare parts and materials that will be used mainly in consumption in in-flight and maintenance services, which are valued at average cost, net of provision for obsolescence that as of September 30, 2011 amounts to ThUS\$ 3,487 (ThUS\$ 3,705 as of December 31, 2010). The resulting amounts do not exceed the respective net realizable values.

As of September 30, 2011, the Company recorded ThUS\$ 27,496 (ThUS\$ 23,961 as of September 30, 2010) within the income statement, mainly due to in-flight consumption and maintenance, which forms part of cost of sales.

NOTE 11 – OTHER FINANCIAL ASSETS

The composition of other financial assets is as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---------------------------|---|--|
| Current | | |
| a) Other financial assets | 227,584 | 165,712 |
| b) Hedging asset | 943 | 79,739 |
| Total Current | <u>228,527</u> | <u>245,451</u> |
| Non-current | | |
| a) Other financial assets | 21,876 | 21,165 |
| b) Hedging assets | - | 422 |
| Total non-current | <u>21,876</u> | <u>21,587</u> |

a) Other financial assets

Other financial assets as of September 30, 2011 and December 31, 2010, respectively, are as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---------------------------------------|---|--|
| Current | | |
| Investment Funds | 59,201 | 58,857 |
| Domestic and Foreign bonds | 39,289 | 47,184 |
| Guarantees for margins of derivatives | 86,948 | 39,868 |
| Financing guarantees | 19,700 | - |
| Deposits in guarantee (aircraft) | 11,782 | 12,030 |
| Other guarantees given | 10,664 | 7,773 |
| Total current | <u>227,584</u> | <u>165,712</u> |
| Non-current | | |
| Deposits in guarantee (aircraft) | 15,498 | 15,000 |
| Other guarantees given | 5,872 | 5,658 |
| Other investments | 506 | 507 |
| Total non-current | <u>21,876</u> | <u>21,165</u> |
| Total other financial assets | <u>249,460</u> | <u>186,877</u> |

b) Hedging assets

Hedging assets as of September 30, 2011 and December 31, 2010, are as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|--|---|--|
| Current | | |
| Interest accrued since last payment date of currency Swap | - | 3,691 |
| Cash-flow hedge of currency risk | 122 | 30,234 |
| Cash-flow hedge of fuel-price risk | 821 | 45,814 |
| Total current | <u>943</u> | <u>79,739</u> |
| Non-current | | |
| Cash-flow hedge of interest-rate risk | - | 422 |
| Total non-current | <u>-</u> | <u>422</u> |
| Total hedging assets | <u><u>943</u></u> | <u><u>80,161</u></u> |

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

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

NOTE 12 – OTHER NON-FINANCIAL ASSETS

The composition of other non-financial assets is as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---------------------|---|--|
| Current | | |
| a) Advance Payments | 32,123 | 17,648 |
| b) Other assets | 1,152 | 1,172 |
| Total current | <u>33,275</u> | <u>18,820</u> |
| Non-Current | | |
| a) Advance Payments | - | 3,768 |
| b) Other assets | 36,337 | 28,740 |
| Total non-current | <u>36,337</u> | <u>32,508</u> |

a) Advance payments

Advance payments as of September 30, 2011 as of December 31, 2010 are as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---------------------------------------|---|--|
| Current | | |
| Aircraft insurance and other | 14,200 | 6,459 |
| Aircraft leases | 9,626 | 7,343 |
| Handling and ground handling services | 2,941 | - |
| Others | 5,356 | 3,846 |
| Total current | <u>32,123</u> | <u>17,648</u> |
| Non-Current | | |
| Handling and ground handling services | - | 2,971 |
| Others | - | 797 |
| Total non-current | <u>-</u> | <u>3,768</u> |
| Total advance payments | <u>32,123</u> | <u>21,416</u> |

b) Other assets

Other assets as of September 30, 2011, and December 31, 2010 are as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|--------------------------------------|---|--|
| Current | | |
| Others | 1,152 | 1,172 |
| Total current | <u>1,152</u> | <u>1,172</u> |
| Non-current | | |
| Recoverable taxes | 23,343 | 23,343 |
| Deferred expense for aircraft rental | 11,914 | 4,984 |
| Others | 1,080 | 413 |
| Total non-current | <u>36,337</u> | <u>28,740</u> |
| Total other assets | <u><u>37,489</u></u> | <u><u>29,912</u></u> |

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

Non-current assets and disposal groups held for sale as of September 30, 2011, and December 31, 2010 are as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|----------------------------|---|--|
| <u>Assets</u> | | |
| Engines | 2,204 | 2,204 |
| Inventories on consignment | 265 | 748 |
| Aircraft | 1,537 | 1,537 |
| Scrapped aircraft | 365 | 970 |
| Rotables | <u>27</u> | <u>38</u> |
| Total | <u>4,398</u> | <u>5,497</u> |

During the 2011 period, sales were made of inventories held on consignment of the Boeing 737-200 fleet.

During the financial year 2010, sales were made of rotables, inventories held on consignment and three engines, all from the Boeing 737-200 fleet.

Item balances are shown net of provision, which as of September 30, 2011 amounted to ThUS\$ 6,022 (ThUS\$ 5,212 at December 31, 2010).

The Company has no discontinued operations as of September 30, 2011.

NOTE 14 - INVESTMENTS IN SUBSIDIARIES

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

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

As of September 30, 2011

| | <u>Assets</u> | <u>Liabilities</u> |
|-------------|-------------------------|-------------------------|
| | ThUS\$ | ThUS\$ |
| Current | 486,292 | 610,899 |
| Non-current | <u>1,550,117</u> | <u>995,787</u> |
| Total | <u><u>2,036,409</u></u> | <u><u>1,606,686</u></u> |

As of December 31, 2010

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

| | For the nine months ended | | For the three months ended | |
|--------------------------|---------------------------|----------------------|----------------------------|----------------------|
| | September 30, | | September 30, | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Total operating revenues | 1,914,204 | 1,391,066 | 702,010 | 518,767 |
| Total expenses | <u>(1,894,556)</u> | <u>(1,331,964)</u> | <u>(679,881)</u> | <u>(481,616)</u> |
| Total net income | <u><u>19,648</u></u> | <u><u>59,102</u></u> | <u><u>22,129</u></u> | <u><u>37,151</u></u> |

Significant subsidiaries detailed as of September 30, 2011

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

Summary financial information of significant subsidiaries

| <u>Name of significant subsidiary</u> | Statement of financial position as of September 30, 2011 | | | | For the nine months ended September 30, 2011 | | | |
|--|--|-----------------------|---------------------------|--------------------------|--|--------------------------------|----------------|-------------------|
| | Total Assets ThUS\$ | Current Assets ThUS\$ | Non-current Assets ThUS\$ | Total Liabilities ThUS\$ | Current Liabilities ThUS\$ | Non-current Liabilities ThUS\$ | Revenue ThUS\$ | Net Income ThUS\$ |
| Lan Perú S.A. | 146,423 | 133,139 | 13,284 | 139,266 | 138,221 | 1,045 | 670,375 | (2,833) |
| Lan Cargo S.A. | 777,537 | 198,665 | 578,872 | 369,909 | 137,569 | 232,340 | 176,914 | 29,738 |
| Lan Argentina S.A. | 106,156 | 72,519 | 33,637 | 93,798 | 92,584 | 1,214 | 308,300 | (12,902) |
| Transporte Aéreo S.A. | 339,797 | 228,523 | 111,274 | 118,123 | 27,744 | 90,379 | 267,018 | 15,540 |
| Aerolineas Líneas Aéreas Nacionales del Ecuador S.A. | 56,774 | 30,359 | 26,415 | 56,947 | 48,137 | 8,810 | 204,867 | 3,134 |

Significant subsidiaries detailed as of December 31, 2010

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

Summary financial information of significant subsidiaries

| <u>Name of significant subsidiary</u> | Statement of financial position as of December 31, 2010 | | | | | | For the nine months ended September 30, 2010 | |
|--|---|--------------------------|------------------------------|-----------------------------|-------------------------------|-----------------------------------|--|----------------------|
| | Total Assets ThUS\$ | Current Assets ThUS\$ | Non-current Assets ThUS\$ | Total Liabilities ThUS\$ | Current Liabilities ThUS\$ | Non-current Liabilities ThUS\$ | Revenue ThUS\$ | Net Income ThUS\$ |
| | | | | | | | | |
| Lan Perú S.A. | 124,761 | 113,579 | 11,182 | 114,771 | 113,750 | 1,021 | 548,120 | 559 |
| Lan Cargo S.A. | 737,550 | 183,877 | 553,673 | 340,082 | 103,018 | 237,064 | 141,890 | 22,014 |
| Lan Argentina S.A. | 113,168 | 84,751 | 28,417 | 88,286 | 87,420 | 866 | 271,578 | (4,933) |
| Transporte Aéreo S.A. | 329,190 | 215,575 | 113,615 | 123,056 | 28,777 | 94,279 | 208,132 | 20,982 |
| Aerolineas Líneas Aéreas Nacionales del Ecuador S.A. | 48,416 | 24,561 | 23,855 | 51,723 | 38,299 | 13,424 | 174,816 | 2,543 |

NOTE 15 - EQUITY ACCOUNTED INVESTMENTS

The following summarized financial information is the sum of the financial statements of the investees, corresponding to the statements of financial position as of September 30, 2011 and December 31, 2010, and the statements of income for the period ended September 30, 2011, and the period ended September 30, 2010:

As of September 30, 2011

| | <u>Assets</u> ThUS\$ | <u>Liabilities</u> ThUS\$ |
|-------------|-------------------------|------------------------------|
| Current | 2,440 | 1,018 |
| Non-current | 319 | 122 |
| Total | <u>2,759</u> | <u>1,140</u> |

As of December 31, 2010

| | <u>Assets</u> ThUS\$ | <u>Liabilities</u> ThUS\$ |
|-------------|-------------------------|------------------------------|
| Current | 1,865 | 301 |
| Non-current | 382 | 562 |
| Total | <u>2,247</u> | <u>863</u> |

| | For the nine months ended September 30, | | For the three months ended September 30, | |
|--------------------------|--|-----------------------|---|-----------------------|
| | <u>2011</u> ThUS\$ | <u>2010</u> ThUS\$ | <u>2011</u> ThUS\$ | <u>2010</u> ThUS\$ |
| Total operating revenues | 2,147 | 2,131 | 1,439 | 809 |
| Total expenses | <u>(1,793)</u> | <u>(1,631)</u> | <u>(989)</u> | <u>(666)</u> |
| Sum of net income | <u>354</u> | <u>500</u> | <u>450</u> | <u>143</u> |

The Company has shown, as an investment in associates, its holdings in the following companies: Austral Sociedad Concesionaria S.A., Lufthansa Lan Technical Training S.A. and Concesionaria Chucumata S.A. The Company made no investments in associates during the period January to September 2011.

| <u>Company</u> | <u>Country of incorporation</u> | <u>Functional currency</u> | <u>Percentage of ownership</u> | | <u>Cost of investment</u> | |
|--|---------------------------------|----------------------------|--------------------------------|---------------------|---------------------------|---------------------|
| | | | <u>As of</u> | <u>As of</u> | <u>As of</u> | <u>As of</u> |
| | | | <u>September 30,</u> | <u>December 31,</u> | <u>September 30,</u> | <u>December 31,</u> |
| | | | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | | | % | % | ThUS\$ | ThUS\$ |
| Austral Sociedad Concesionaria S.A. | Chile | CLP | 20.00 | 20.00 | 661 | 661 |
| Lufthansa Lan Technical Training S.A. | Chile | CLP | 50.00 | 50.00 | 702 | 702 |
| Concesionaria Chucumata S.A. (*) | Chile | CLP | - | 16.70 | - | 119 |

(*) In the extraordinary session of the Board on September 22, 2011, the Board proceeded the dissolution of the company Concesionaria Chucumata S.A.

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

The movement of investments in associates between January 01, 2010 and September 30, 2011 is as follows:

| | <u>ThUS\$</u> |
|--|---------------|
| Opening balance as of January 01, 2010 | 1,236 |
| Equity accounted earnings | 153 |
| Dividends received | (110) |
| Total changes in investments in associated entities | 43 |
| Closing balance as of September 30, 2010 | <u>1,279</u> |
| Opening balance as of October 01, 2010 | 1,279 |
| Equity accounted earnings | (21) |
| Other reductions, investments in associated entities | (665) |
| Total changes in investments in associated entities | (686) |
| Closing balance as of December 31, 2010 | <u>593</u> |
| Opening balance as of January 01, 2011 | 593 |
| Equity accounted earnings | 604 |
| Dividends received | (79) |
| Total changes in investments in associated entities | 525 |
| Closing balance as of September 30, 2011 | <u>1,118</u> |

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

NOTE 16 - INTANGIBLE ASSETS OTHER THAN GOODWILL

The details of intangible assets are as follows:

| <u>Classes of intangible assets (net)</u> | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---|---|--|
| Computer software | 58,819 | 45,183 |
| Other assets | 444 | 566 |
| Total | <u>59,263</u> | <u>45,749</u> |
| | | |
| <u>Classes of intangible assets (gross)</u> | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
| Computer software | 104,628 | 83,875 |
| Other assets | 808 | 808 |
| Total | <u>105,436</u> | <u>84,683</u> |

The movement in software and other assets between January 01, 2010 and September 30, 2011 is as follows:

| | Software <u>Net</u> ThUS\$ | Other assets <u>Net</u> ThUS\$ | <u>Total</u> ThUS\$ |
|--|----------------------------------|---|------------------------|
| Opening balance as of January 01, 2010 | 34,087 | 727 | 34,814 |
| Additions | 11,760 | - | 11,760 |
| Withdrawals | (779) | - | (779) |
| Amortization | (6,820) | (121) | (6,941) |
| Balance as of September 30, 2010 | 38,248 | 606 | 38,854 |
| Opening balance as of October 01, 2010 | 38,248 | 606 | 38,854 |
| Additions | 9,155 | - | 9,155 |
| Additions by business combination | 154 | - | 154 |
| Amortization | (2,374) | (40) | (2,414) |
| Balance as of December 31, 2010 | 45,183 | 566 | 45,749 |
| Opening balance as of January 01, 2011 | 45,183 | 566 | 45,749 |
| Additions | 20,886 | - | 20,886 |
| Withdrawals | (133) | - | (133) |
| Amortization | (7,117) | (122) | (7,239) |
| Balance as of September 30, 2011 | 58,819 | 444 | 59,263 |

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

The Company shows its intangible assets at cost, except for acquisitions by business combination, which are at fair value; and amortization is made on a straight-line basis over their estimated useful lives.

The amortization of each period is shown in the consolidated statement of income in administrative expenses. The accumulated amortization of computer programs as of September 30, 2011 amounts to ThUS\$ 45,809 (ThUS\$ 38,692 as of December 31, 2010). The accumulated amortization of other identifiable intangible assets as of September 30, 2011 amounts to ThUS\$ 364 (ThUS\$ 242 as of December 31, 2010).

NOTE 17 – GOODWILL

The goodwill represents the excess of cost of acquisition over the fair value of the participation of the Company in the identifiable net assets of the subsidiary at the acquisition date. Goodwill at September 30, 2011 amounted to ThUS\$ 164,721 (ThUS\$ 157,994 at December 31, 2010)

At December 31, 2010, the Company performed an impairment test based on the value in use and no impairment was identified. The testing is done at least once per year.

The value in use of those cash generating units to which goodwill has been assigned has been determined assuming that yields, occupation factors and fleet capacity are maintained at current obtainable levels. The Company projects cash flows for the initial periods based on internal budgets and extrapolates the final value of these periods based on a growth factor consistent with the long-term economic projections in the markets in which the units operate. The determined cash flows are discounted at a rate which takes into account the time value of money and risks related to those cash generating units which have not been taken into account in estimation of the units' future cash flows.

The movement of goodwill from January 01, 2010 to September 30, 2011, is as follows:

| | ThUS\$ |
|---|----------------|
| Opening balance as of January 01, 2010 | 63,793 |
| Decrease due to exchange rate differences | <u>(24)</u> |
| Closing balance as of September 30, 2010 | <u>63,769</u> |
| Opening balance as of October 01, 2010 | 63,769 |
| Additions (1) | 94,224 |
| Increase due to exchange rate differences | <u>1</u> |
| Closing balance as of December 31, 2010 | <u>157,994</u> |
| Opening balance as of January 01, 2011 | 157,994 |
| Additions (2) | 6,736 |
| Amendment initial recognition (3) | (607) |
| Increase due to exchange rate differences | <u>598</u> |
| Closing balance as of September 30, 2011 | <u>164,721</u> |

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

(2) Corresponds to the goodwill generated by the purchase of Aeroasis S.A. (see Note 39).

(3) Correspond to change of initial recognition goodwill generated by the purchase of the company Aerovías de Integración Regional, AIRES S.A.

NOTE 18 - PROPERTY, PLANT AND EQUIPMENT

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

| | Gross Book Value | | Accumulated depreciation | | Net Book Value | |
|--------------------------------------|--|---|--|---|--|---|
| | As of September 30, 2011 ThUS\$ | As of December 31, 2010 ThUS\$ | As of September 30, 2011 ThUS\$ | As of December 31, 2010 ThUS\$ | As of September 30, 2011 ThUS\$ | As of December 31, 2010 ThUS\$ |
| Construction in progress | 1,095,743 | 715,603 | - | - | 1,095,743 | 715,603 |
| Land | 35,633 | 35,538 | - | - | 35,633 | 35,538 |
| Buildings | 103,827 | 101,181 | (22,901) | (21,060) | 80,926 | 80,121 |
| Plant and equipment | 4,798,869 | 4,816,723 | (1,138,720) | (1,153,587) | 3,660,149 | 3,663,136 |
| Information technology equipment | 87,762 | 83,711 | (65,857) | (65,112) | 21,905 | 18,599 |
| Fixed installations and accessories | 57,619 | 52,954 | (28,623) | (25,951) | 28,996 | 27,003 |
| Motor vehicles | 3,605 | 3,269 | (2,049) | (1,979) | 1,556 | 1,290 |
| Leasehold improvements | 94,041 | 87,168 | (57,836) | (43,048) | 36,205 | 44,120 |
| Other property, plants and equipment | 933,045 | 646,236 | (380,902) | (283,216) | 552,143 | 363,020 |
| Total | 7,210,144 | 6,542,383 | (1,696,888) | (1,593,953) | 5,513,256 | 4,948,430 |

The movement in the different categories of property, plant and equipment from January 01, 2010 to September 30, 2011 is shown below:

| a) As of September 30, 2010 | Construction in progress ThUS\$ | Land ThUS\$ | Buildings Net ThUS\$ | Plant and equipment Net ThUS\$ | Information technology equipment Net ThUS\$ | Fixed installations & accessories Net ThUS\$ | Motor vehicles Net ThUS\$ | Leasehold improvements Net ThUS\$ | Other property, plant and equipment Net ThUS\$ | Property, Plant and equipment Net ThUS\$ |
|---|---------------------------------------|----------------|----------------------------|---|---|--|------------------------------------|--|---|--|
| Opening balance as of January 01, 2010 | 264,259 | 35,538 | 81,966 | 3,231,682 | 15,043 | 23,659 | 951 | 50,286 | 493,172 | 4,196,556 |
| Additions | 9,096 | - | 20 | 313,087 | 4,453 | 1,581 | 285 | 1,160 | 3,994 | 333,676 |
| Disposals | - | - | - | (190) | - | - | (7) | - | - | (197) |
| Transfers to (from) non-current assets (or disposal groups) classified as Held for Sale | - | - | - | 2,552 | - | - | - | - | - | 2,552 |
| Retirements | - | - | - | (3,325) | (21) | - | (3) | - | (2,448) | (5,797) |
| Depreciation | - | - | (1,726) | (163,596) | (3,922) | (2,970) | (141) | (12,268) | (29,983) | (214,606) |
| Increase (decrease) due to exchanges differences | (7) | - | - | (804) | (18) | (1) | (4) | - | (27) | (861) |
| Other increases (decreases) | 305,500 | - | (654) | 98,064 | (344) | 4,701 | 6 | 5,745 | (101,216) | 311,802 |
| Changes, total | 314,589 | - | (2,360) | 245,788 | 148 | 3,311 | 136 | (5,363) | (129,680) | 426,569 |
| Closing balance as of September 30, 2010 | 578,848 | 35,538 | 79,606 | 3,477,470 | 15,191 | 26,970 | 1,087 | 44,923 | 363,492 | 4,623,125 |

b) As of December 31, 2010

| | Construction in progress ThUS\$ | Land ThUS\$ | Buildings Net ThUS\$ | Plant and equipment Net ThUS\$ | Information technology equipment Net ThUS\$ | Fixed installations & accessories Net ThUS\$ | Motor vehicles Net ThUS\$ | Leasehold improvements Net ThUS\$ | Other property, plant and equipment Net ThUS\$ | Property, Plant and equipment Net ThUS\$ |
|---|---------------------------------------|----------------|----------------------------|---|---|--|------------------------------------|--|---|--|
| Opening balance as of October 01, 2010 | 578,848 | 35,538 | 79,606 | 3,477,470 | 15,191 | 26,970 | 1,087 | 44,923 | 363,492 | 4,623,125 |
| Additions | 1,133 | - | 95 | 258,335 | 5,063 | 760 | 135 | 1,250 | 2,679 | 269,450 |
| Acquisitions through business combination | - | - | 1,006 | 490 | 137 | 335 | 107 | - | 480 | 2,555 |
| Disposals | - | - | - | - | - | - | - | - | (2) | (2) |
| Retirements | - | - | - | (3,308) | (515) | (2) | (9) | - | (102) | (3,936) |
| Depreciation | - | - | (589) | (72,204) | (1,295) | (1,027) | (31) | (4,529) | (2,332) | (82,007) |
| Increases (decreases) due to exchanges differences | (55) | - | - | (53) | 34 | (12) | 1 | - | - | (85) |
| Other increases (decreases) | 135,677 | - | 3 | 2,406 | (16) | (21) | - | 2,476 | (1,195) | 139,330 |
| Changes, total | 136,755 | - | 515 | 185,666 | 3,408 | 33 | 203 | (803) | (472) | 325,305 |
| Closing balance as of December 31, 2010 | 715,603 | 35,538 | 80,121 | 3,663,136 | 18,599 | 27,003 | 1,290 | 44,120 | 363,020 | 4,948,430 |

c) As of September 30, 2011

| | Construction in progress ThUS\$ | Land ThUS\$ | Buildings Net ThUS\$ | Plant and equipment Net ThUS\$ | Information technology equipment Net ThUS\$ | Fixed installations & accessories Net ThUS\$ | Motor vehicles Net ThUS\$ | Leasehold improvements Net ThUS\$ | Other property, plant and equipment Net ThUS\$ | Property, Plant and equipment Net ThUS\$ |
|---|---------------------------------------|----------------|----------------------------|---|---|--|------------------------------------|--|---|--|
| Opening balance as of January 01, 2011 | 715,603 | 35,538 | 80,121 | 3,663,136 | 18,599 | 27,003 | 1,290 | 44,120 | 363,020 | 4,948,430 |
| Additions | 19,912 | - | 1,288 | 492,964 | 9,340 | 1,678 | 394 | 6,111 | 16,492 | 548,179 |
| Acquisitions through business combination | - | - | - | - | - | - | - | - | 16 | 16 |
| Disposals | - | - | - | (106,505) | - | - | - | - | - | (106,505) |
| Transfers to (from) non-current assets (or disposal groups) classified as Held for Sale | (127) | - | - | (112) | (1,195) | (588) | (1) | - | (115) | (2,138) |
| Retirements | - | - | (4) | (1,564) | (83) | (13) | (12) | - | (285) | (1,961) |
| Depreciation | - | - | (1,844) | (184,489) | (4,758) | (3,195) | (160) | (14,788) | (30,211) | (239,445) |
| Increases (decreases) due to exchanges differences | (491) | - | (95) | (579) | (29) | (223) | 18 | - | (95) | (1,494) |
| Other increases (decreases) | 360,846 | 95 | 1,460 | (202,702) | 31 | 4,334 | 27 | 762 | 203,321 | 368,174 |
| Changes, total | 380,140 | 95 | 805 | (2,987) | 3,306 | 1,993 | 266 | (7,915) | 189,123 | 564,826 |
| Closing balance as of September 30, 2011 | 1,095,743 | 35,633 | 80,926 | 3,660,149 | 21,905 | 28,996 | 1,556 | 36,205 | 552,143 | 5,513,256 |

d) Composition of the fleet

Aircraft included in the Company's property, plant and equipment:

| Aircraft | Model | As of September 30, <u>2011</u> | As of December 31, <u>2010</u> |
|-------------|-----------|---------------------------------------|--------------------------------------|
| Boeing 767 | 300ER | 19 | 18 |
| Boeing 767 | 300F | 8 | 8 |
| Boeing 767 | 200ER (1) | 1 | 1 |
| Airbus A318 | 100 | 10 | 15 |
| Airbus A319 | 100 | 23 | 20 |
| Airbus A320 | 200 | 28 | 24 |
| Airbus A340 | 300 | <u>4</u> | <u>4</u> |
| Total | | <u>93</u> | <u>90</u> |

(1) Leased to Aerovías de México S.A.

Operating leases:

| Aircraft | Model | As of September 30, <u>2011</u> | As of December 31, <u>2010</u> |
|-------------|-----------|---------------------------------------|--------------------------------------|
| Boeing 767 | 300ER | 10 | 10 |
| Boeing 767 | 300F | 4 | 3 |
| Boeing 777 | Freighter | 2 | 2 |
| Airbus A320 | 200 | 9 | 5 |
| Airbus A340 | 300 | 1 | 1 |
| Boeing 737 | 700 | 9 | 9 |
| Bombardier | Dhc8-200 | 10 | 11 |
| Bombardier | Dhc8-400 | <u>4</u> | <u>4</u> |
| Total | | <u>49</u> | <u>45</u> |
| Total fleet | | <u>142</u> | <u>135</u> |

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

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

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

The depreciation charged to income in the period, which is included in the consolidated statement of income, amounts to ThUS\$ 239,445 (ThUS\$ 214,606 for the period ended September 30, 2010). Depreciation charges for the year are recognized in Cost of Sales and Administrative Expenses in the consolidated statement of income.

f) Additional information regarding property, plant and equipment:

i) Property, plant and equipment pledged as guarantee:

In the period ended September 30, 2011 direct guarantees were added for eight aircraft, four of them corresponding to the Airbus A320-200 fleet, three to the Airbus A319-100 fleet and one to Boeing B767-300 fleet. Moreover, in the second quarter of 2011 The Company sold three aircraft Airbus A318-100 fleet and in the third quarter two more of the same aircraft A318-100 fleet. Additionally, during the first quarter 2011, the Company sold its participation in the permanent establishments Cernicalo Leasing LLC and Petrel Leasing LLC. Therefore the Company eliminated direct guarantees associated with five aircraft Airbus A318-100 and three aircraft Boeing 767-300 (two freighter and one passenger aircrafts).

Description of property, plant and equipment pledged as guarantee:

| Creditor of <u>guarantee</u> | Assets <u>committed</u> | <u>Fleet</u> | As of September 30, 2011 | | As of December 31, 2010 | |
|---------------------------------|----------------------------|--------------|------------------------------------|---------------------------------|------------------------------------|---------------------------------|
| | | | <u>Existing Debt</u> ThUS\$ | <u>Book Value</u> ThUS\$ | <u>Existing Debt</u> ThUS\$ | <u>Book Value</u> ThUS\$ |
| Wilmington Trust Company | Aircraft and engines | Boeing 767 | 903,108 | 1,139,157 | 1,043,290 | 1,304,699 |
| | | Boeing 777 | 14,847 | 25,357 | 18,088 | 25,915 |
| BNP Paribas | Aircraft and engines | Airbus A318 | 192,077 | 242,408 | 299,422 | 359,944 |
| | | Airbus A319 | 367,164 | 486,362 | 297,320 | 370,476 |
| | | Airbus A320 | 522,671 | 638,718 | 407,275 | 478,082 |
| Credite Agricole (*) | Aircraft and engines | Airbus A319 | 97,039 | 170,510 | 108,803 | 178,342 |
| | | Airbus A320 | 40,607 | 164,234 | 58,236 | 172,426 |
| | | Airbus A340 | 63,443 | 221,485 | 89,378 | 234,892 |
| Total direct guarantee | | | <u>2,200,956</u> | <u>3,088,231</u> | <u>2,321,812</u> | <u>3,124,776</u> |

(*) Calyon creditor of guarantee renamed Credite Agricole

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

Additionally, there are indirect guarantees related to assets recorded in property, plant and equipment whose total debt at September 30, 2011 amounted to ThUS \$ 333,791 (ThUS \$ 227,218 at December 31, 2010). The book value of assets with indirect guarantees as of September 30, 2011 amounts to ThUS\$ 511,618 (ThUS \$ 328,838 as of December 31, 2010).

ii) Commitments and others

Fully depreciated assets and commitments for future purchases are as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---|---|--|
| Gross book value of fully depreciated property, plant and equipment still in use (1) | 59,649 | 57,612 |
| Commitments for the acquisition of aircraft | 15,000,000 | 12,350,000 |

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

In December 2009, the Company signed a purchase commitment with Airbus for the purchase of 30 aircraft of the A320 family with deliveries between 2011 and 2016. Later, in December 2010 the Company made another commitment to the manufacturer for the purchase of 50 A320 family aircraft with deliveries between 2012 and 2016. Additionally, in June 2011, the Company signed a contract for 20 additional aircraft of the A320 NEO family.

With the above, as of September 30, 2011, and as a result of different aircraft purchase contracts signed with Airbus S.A.S., there remain 96 Airbus aircraft of the A320 family to be delivered between 2011 and 2018. The approximate amount is ThUS\$ 7,500,000, according to the manufacturer's price list.

Otherwise, purchase contracts were signed with The Boeing Company in February and May 2011 for three and five B767-300 aircraft, respectively. As of September 30, 2011 and a result of different aircraft contracts signed with The Boeing Company, 13 B767-300 aircraft remain to be delivered between 2011 and 2013, 2 B77-Freighter aircraft for delivery in 2012 and 26 B787 Dreamliner aircraft with delivery dates from 2012. The approximate amount is ThUS\$ 7,500,000, according to the manufacturer's price list. In addition, the Company has purchase options over 1 B777- Freighter aircraft and 15 B787 Dreamliner aircraft.

The acquisition of the aircraft is part of the strategic plan for long haul fleet. This plan also means the sale of 15 aircraft model Airbus A318 between 2011 and 2013. It is estimated that this sale will have no significant impact on results. During the third quarter of 2011 the Company sold the last 2 aircraft planned to be sold during 2011, thus completing the planned sale of 5 aircraft this year.

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

| | | For the periods ended September 30, | |
|--|--------|--|-------------|
| | | <u>2011</u> | <u>2010</u> |
| Average rate of capitalization of capitalized interest cost | % | 3.62 | 4.13 |
| Costs of capitalized interest | ThUS\$ | 27,109 | 11,827 |

iv) Financial leases

The detail of the main financial leases is as follows:

| Lessor | Aircraft | As of September 30, <u>2011</u> | As of December 31, <u>2010</u> |
|------------------------|-------------|---------------------------------------|--------------------------------------|
| Bluebird Leasing LLC | Boeing 767 | 2 | 2 |
| Eagle Leasing LLC | Boeing 767 | 2 | 2 |
| Seagull Leasing LLC | Boeing 767 | 1 | 1 |
| Cernicalo Leasing LLC | Boeing 767 | 2 | - |
| Petrel Leasing LLC | Boeing 767 | 1 | - |
| Linnet Leasing Limited | Airbus A320 | <u>4</u> | <u>4</u> |
| Total | | <u><u>12</u></u> | <u><u>9</u></u> |

Leasing contracts where the parent Company acts as the lessee of aircrafts set a duration of 12 years and quarterly payments of obligations.

Additionally, the lessee will have the obligations to contract and maintain active the insurance coverage for the aircraft, perform maintenance on the aircraft and update the airworthiness certificates at their own cost.

Fixed assets acquired under financial leases are classified as Other fixed assets in Property, plant and equipment. As of September 30, 2011, the Company had twelve aircraft and one spare engine recorded as financial leases (9 aircraft and 1 spare engine as of December 31, 2010).

In the period ended September 30, 2011, due to the sale of its participation in the permanent establishments Cernicalo Leasing LLC and Petrel Leasing LLC, the Company increased its number of aircraft on lease by three Boeing 767-300 (two freighter and one aircrafts). Therefore, these aircraft were reclassified from the Plant and equipment category to the category Other property plant and equipment.

The book value of assets under financial leases as of September 30, 2011 amounts to ThUS\$ 511,618 (ThUS\$ 328,838 as of December 31, 2010).



The minimum payments under financial leases are as follows:

As of September 30, 2011

| | <u>Gross</u> <u>Value</u> ThUS\$ | <u>Interest</u> ThUS\$ | <u>Present</u> <u>Value</u> ThUS\$ |
|----------------------------|--|---------------------------|--|
| No later than one year | 82,943 | (7,737) | 75,206 |
| Between one and five years | 210,708 | (19,051) | 191,657 |
| Over five years | 68,792 | (2,303) | 66,489 |
| Total | <u>362,443</u> | <u>(29,091)</u> | <u>333,352</u> |

As of December 31, 2010

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

NOTE 19 – INCOME TAXES

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

| Concept | Assets | | Liabilities | |
|--------------------------------------|---------------|---------------|----------------|----------------|
| | As of | As of | As of | As of |
| | September 30, | December 31, | September 30, | December 31, |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Depreciation | (458) | (415) | 322,541 | 290,254 |
| Amortization | 14,202 | 12,286 | 35,578 | 29,606 |
| Provisions | 7,147 | 8,128 | 43,810 | 23,017 |
| Post-employment benefit obligations | 876 | 622 | (925) | (982) |
| Revaluation of financial instruments | - | - | (41,631) | (21,926) |
| Tax losses | 35,163 | 13,229 | - | - |
| Others | 1,540 | 4,234 | (16,003) | (7,957) |
| Total | <u>58,470</u> | <u>38,084</u> | <u>343,370</u> | <u>312,012</u> |

Movements of deferred tax assets and liabilities from January 01, 2010 to September 30, 2011 are as follows:

| | Beginning balance asset (liability) ThUS\$ | Recognized in consolidated income ThUS\$ | Recognized in comprehensive income ThUS\$ | Incorporation by business combinations ThUS\$ | Others ThUS\$ | Ending balance asset (liability) ThUS\$ |
|--|---|---|--|--|------------------|--|
| a) From January 01 to September 30, 2010 | | | | | | |
| Depreciation | (222,188) | (45,731) | - | - | - | (267,919) |
| Amortization | (22,453) | (4,318) | - | - | - | (26,771) |
| Provisions | (2,102) | (28,272) | - | - | - | (30,374) |
| Post-employment benefit obligation | 1,183 | (476) | - | - | - | 707 |
| Revaluation of financial | 18,891 | - | 13,085 | - | - | 31,976 |
| Tax losses | 5,013 | 2,655 | - | - | - | 7,668 |
| Others | (8,311) | 28,037 | 26 | - | 474 | 20,226 |
| Total | (229,967) | (48,105) | 13,111 | - | 474 | (264,487) |
| b) From October 01 to December 31, 2010 | | | | | | |
| Depreciation | (267,919) | (22,750) | - | - | - | (290,669) |
| Amortization | (26,771) | (1,630) | - | 11,081 | - | (17,320) |
| Provisions | (30,374) | 10,304 | - | 5,181 | - | (14,889) |
| Post-employment benefit obligations | 707 | 280 | - | 617 | - | 1,604 |
| Revaluation of financial | 31,976 | - | (10,050) | - | - | 21,926 |
| Tax losses | 7,668 | (3,958) | - | 9,519 | - | 13,229 |
| Others | 20,226 | (11,392) | (146) | 2,545 | 958 | 12,191 |
| Total | (264,487) | (29,146) | (10,196) | 28,943 | 958 | (273,928) |

c) From January 01 to September 30, 2011

| | Beginning balance asset (liability) ThUS\$ | Recognized in consolidated income ThUS\$ | Recognized in comprehensive income ThUS\$ | Incorporation by business combinations ThUS\$ | Reclassification ThUS\$ | Others ThUS\$ | Assets for sale ThUS\$ | Ending balance asset (liability) ThUS\$ |
|-------------------------------------|---|---|--|--|----------------------------|------------------|------------------------------|--|
| Depreciation | (290,669) | (32,325) | - | - | - | - | (5) | (322,999) |
| Amortization | (17,320) | (7,642) | - | 3,586 | - | - | - | (21,376) |
| Provisions | (14,889) | (21,386) | - | - | - | - | (388) | (36,663) |
| Post-employment benefit obligations | 1,604 | 197 | - | - | - | - | - | 1,801 |
| Revaluation of financial | 21,926 | - | 19,705 | - | - | - | - | 41,631 |
| Tax losses | 13,229 | 28,579 | - | - | (6,645) | - | - | 35,163 |
| Others | 12,191 | 5,518 | 1,615 | - | - | (1,714) | (67) | 17,543 |
| Total | (273,928) | (27,059) | 21,320 | 3,586 | (6,645) | (1,714) | (460) | (284,900) |

| | | |
|--|---|--|
| Deferred tax assets not recognized: | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
| Temporary differences | 2,152 | 2,152 |
| Tax losses | <u>1,728</u> | <u>1,662</u> |
| Total Deferred tax assets not recognized | <u><u>3,880</u></u> | <u><u>3,814</u></u> |

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of ThUS\$ 1,728 (ThUS\$ 1,662 at December 31, 2010) in respect of losses amounting to ThUS\$ 6,631 (ThUS\$ 5,992 at December 31, 2010) that can be carried against future taxable income.

Expense (income) for deferred and current income taxes for the years ended at September 30, 2011 and September 30, 2010, respectively, are as follows:

| | For the nine months ended | | For the three months ended | |
|---|--|--|--|--|
| | September 30, <u>2011</u> ThUS\$ | September 30, <u>2010</u> ThUS\$ | September 30, <u>2011</u> ThUS\$ | September 30, <u>2010</u> ThUS\$ |
| Expense for current income tax | | | | |
| Current tax expense | 10,036 | 5,522 | 2,201 | 2,881 |
| Adjustment to previous year's current tax | 3,846 | (2,577) | 1,665 | 361 |
| Other current tax expense (income) | - | (823) | - | (551) |
| Total current tax expense, net | <u><u>13,882</u></u> | <u><u>2,122</u></u> | <u><u>3,866</u></u> | <u><u>2,691</u></u> |
| Expense for deferred income taxes | | | | |
| Deferred expense (income) for taxes related to the creation and reversal of temporary differences | 26,993 | 47,229 | 13,979 | 14,272 |
| Reduction (increase) in value of deferred tax assets | <u>66</u> | <u>876</u> | <u>(184)</u> | <u>3,194</u> |
| Total deferred tax expense, net | <u><u>27,059</u></u> | <u><u>48,105</u></u> | <u><u>13,795</u></u> | <u><u>17,466</u></u> |
| Income tax expense | <u><u>40,941</u></u> | <u><u>50,227</u></u> | <u><u>17,661</u></u> | <u><u>20,157</u></u> |

Composition of income tax expense (income):

| | For the nine months ended | | For the three months ended | |
|------------------------------------|---------------------------|---------------|----------------------------|---------------|
| | September 30, | | September 30, | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Current tax expense, net, foreign | 4,617 | 350 | 3,899 | 76 |
| Current tax expense, net, Chile | <u>9,265</u> | <u>1,772</u> | <u>(33)</u> | <u>2,615</u> |
| Total current tax expense, net | <u>13,882</u> | <u>2,122</u> | <u>3,866</u> | <u>2,691</u> |
| Deferred tax expense, net, foreign | (18,705) | (1,661) | (2,607) | (2,150) |
| Deferred tax expense, net, Chile | <u>45,764</u> | <u>49,766</u> | <u>16,402</u> | <u>19,616</u> |
| Deferred tax expense, net, total | <u>27,059</u> | <u>48,105</u> | <u>13,795</u> | <u>17,466</u> |
| Income tax expense | <u>40,941</u> | <u>50,227</u> | <u>17,661</u> | <u>20,157</u> |

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

| | For the periods ended | |
|--|-----------------------|----------------|
| | September 30, | |
| | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ |
| Tax expense using the legal rate | <u>49,728</u> | <u>51,913</u> |
| Tax effect of legal rate change | (7,938) | - |
| Tax effect of rates in other jurisdictions | 2,150 | (399) |
| Tax effect of non-taxable operating revenues | (8,152) | (3,307) |
| Tax effect of disallowable expenses | 5,112 | 796 |
| Tax effect of current period tax losses not recognized | - | 876 |
| Other increases (decreases) | <u>41</u> | <u>348</u> |
| Total adjustments to tax expense using the legal rate | <u>(8,787)</u> | <u>(1,686)</u> |
| Tax expense using the effective rate | <u>40,941</u> | <u>50,227</u> |

Reconciliation of legal tax rate to effective tax rate:

| | For the periods ended | |
|--|-----------------------|---------------------|
| | September 30, | |
| | <u>2011</u> | <u>2010</u> |
| | % | % |
| Legal tax rate | <u>20.00</u> | <u>17.00</u> |
| Effect of tax rates for legal rate change | (3.19) | - |
| Effect of tax rates in other jurisdictions | 0.86 | (0.13) |
| Effect of tax rate on non-taxable operating revenues | (3.28) | (1.08) |
| Effect of tax rate on disallowable expenses | 2.06 | 0.26 |
| Effect of tax rate on use of not-previously recognized tax losses | - | 0.29 |
| Other increase (decrease) | <u>0.02</u> | <u>0.11</u> |
| Total adjustment to the legal tax rate | <u>(3.53)</u> | <u>(0.55)</u> |
| Total effective tax rate | <u><u>16.47</u></u> | <u><u>16.45</u></u> |

Deferred taxes related to items charged to net equity:

| | For the nine months ended | | For the three months ended | |
|--|---------------------------|----------------------|----------------------------|-----------------------|
| | September 30, | | September 30, | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Aggregate deferred taxation of components | | | | |
| of other comprehensive income | 21,320 | 13,111 | 13,864 | (926) |
| Aggregate deferred taxation related to | | | | |
| items charged to net equity | <u>(324)</u> | <u>(454)</u> | <u>(96)</u> | <u>(207)</u> |
| Total deferred taxes related to items charged to net equity | <u><u>20,996</u></u> | <u><u>12,657</u></u> | <u><u>13,768</u></u> | <u><u>(1,133)</u></u> |

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

| | As of September 30, 2011 | | |
|------------------------|--------------------------|-----------------|--------------|
| | Amount before | Income tax | Amount |
| | <u>Taxes</u> | expense | after |
| | ThUS\$ | <u>(income)</u> | <u>Taxes</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ |
| Cash-flow hedges | 115,913 | (19,705) | 96,208 |
| Translation adjustment | 9,507 | (1,615) | 7,892 |
| | | <u>(21,320)</u> | |

| | As of September 30, 2010 | | |
|------------------------|--------------------------|-----------------|--------------|
| | Amount before | Income tax | Amount |
| | <u>Taxes</u> | expense | after |
| | ThUS\$ | <u>(income)</u> | <u>Taxes</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ |
| Cash-flow hedges | 76,973 | (13,085) | 63,888 |
| Translation adjustment | 150 | (26) | 124 |
| | | <u>(13,111)</u> | |

NOTE 20 – OTHER FINANCIAL LIABILITIES

The composition of other financial liabilities is as follows:

| | As of September 30, <u>2011</u> MUS\$ | As of December 31, <u>2010</u> MUS\$ |
|--------------------------------|--|---|
| Current | | |
| a) Bank loans | 525,993 | 495,261 |
| b) Other financial liabilities | 5,017 | 5,321 |
| c) Hedge liabilities | <u>73,843</u> | <u>42,042</u> |
| Total Current | <u><u>604,853</u></u> | <u><u>542,624</u></u> |
| Non-current | | |
| a) Bank loans | 2,687,498 | 2,450,033 |
| b) Other financial liabilities | 11,035 | 14,427 |
| c) Hedge liabilities | <u>124,801</u> | <u>97,888</u> |
| Total Non-current | <u><u>2,823,334</u></u> | <u><u>2,562,348</u></u> |

a) Interest bearing loans

Obligations with credit institutions and debt instruments:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---|---|--|
| Current | | |
| Bank loans | 165,229 | 151,417 |
| Guaranteed obligations | 282,215 | 283,637 |
| Financial leases | 75,206 | 54,297 |
| Other loans | <u>3,343</u> | <u>5,910</u> |
| Total current | <u><u>525,993</u></u> | <u><u>495,261</u></u> |
| Non-current | | |
| Bank loans | 290,614 | 146,884 |
| Guaranteed obligations | 1,897,836 | 2,023,666 |
| Financial leases | 258,146 | 173,274 |
| Other loans | <u>240,902</u> | <u>106,209</u> |
| Total non-current | <u><u>2,687,498</u></u> | <u><u>2,450,033</u></u> |
| Total obligations with financial institutions | <u><u>3,213,491</u></u> | <u><u>2,945,294</u></u> |

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

Currency balances that make the interest bearing loans at September 30, 2011 and December 31, 2010, are as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|------------------|---|--|
| US Dollar | 3,213,491 | 2,753,788 |
| Chilean Peso (*) | - | 187,101 |
| Other currency | <u>-</u> | <u>4,405</u> |
| Total | <u>3,213,491</u> | <u>2,945,294</u> |

(*) At December 2010, the Company maintained cross currency swaps, securing the payment of ThUS\$ 128.056 of debt in dollars. At September 2011, these contracts were closed because the loans in Chilean pesos were paid and one of them converted to U.S. dollar.

b) Other financial liabilities

The detail of other financial liabilities as of September 30, 2011 and December 31, 2010, respectively, is as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|--|---|--|
| Current | | |
| Interest rate derivative not recognized as a hedge | <u>5,017</u> | <u>5,321</u> |
| Total current | <u>5,017</u> | <u>5,321</u> |
| Non-current | | |
| Interest rate derivative not recognized as a hedge | <u>11,035</u> | <u>14,427</u> |
| Total non-current | <u>11,035</u> | <u>14,427</u> |
| Total other financial liabilities | <u>16,052</u> | <u>19,748</u> |

c) Hedging liabilities

Hedging liabilities as of September 30, 2011 and December 31, 2010 are as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|--|---|--|
| Current | | |
| Interest accrued since last payment date | | |
| swap rates | 4,270 | 3,826 |
| Fair value interest rate derivatives | 32,792 | 24,522 |
| Fair value of fuel derivatives | 36,719 | - |
| Fair value of foreign currency derivatives | <u>62</u> | <u>13,694</u> |
| Total current | <u>73,843</u> | <u>42,042</u> |
| Non-current | | |
| Fair value interest rate derivatives | 124,801 | 90,666 |
| Fair value of foreign currency derivatives | <u>-</u> | <u>7,222</u> |
| Total non-current | <u>124,801</u> | <u>97,888</u> |
| Total hedging liabilities | <u><u>198,644</u></u> | <u><u>139,930</u></u> |

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

Hedging operation

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

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|----------------------------------|---|--|
| Forward starting swaps (FSS) (1) | (6,306) | (54,670) |
| Interest rate options (2) | 122 | 422 |
| Interest rate swaps (3) | (98,801) | (64,344) |
| Cross currency swaps (CCIRS) (4) | - | 26,703 |
| Fuel collars (5) | (7,092) | 17,782 |
| Fuel swap (6) | (29,627) | 28,032 |
| Currency forward (7) | 759 | (13,694) |

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

During the periods presented, the Company only maintains cash flow hedges. In the case of fuel hedges, the cash flows subject to said hedges will impact results between 1 to 12 months from the consolidated statement of financial position date, whereas in the case of interest rate hedging, the hedges will impact results over the life of the related loans, which are valid for 12 years. With respect to interest and currency hedges, the impact on results will occur continuously throughout the life of the contract (3 years), while cash flows will occur quarterly. Finally, the hedges on

investments will impact results continuously throughout the life of the investment (up to 3 months), while the cash flows occur at the maturity of the investment.

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

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

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

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

| | For the nine months ended | | For the three months ended | |
|--|---------------------------|-------------|----------------------------|-------------|
| | September 30, | | September 30, | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Debit (credit) recognized in comprehensive income during the period | (115,913) | (76,973) | (80,948) | 2,827 |
| Debit (credit) transferred from net equity to income during the period | 11,440 | (32,872) | (12,381) | (13,337) |

NOTE 21 - TRADE AND OTHER CURRENT ACCOUNTS PAYABLE

The composition of trade and other current accounts payable is as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|--|---|--|
| Current | | |
| a) Trade and other accounts payable | 467,492 | 500,694 |
| b) Accrued liabilities at the reporting date | <u>125,864</u> | <u>144,877</u> |
| Total trade and other accounts payable | <u>593,356</u> | <u>645,571</u> |

a) Trade and other current accounts payable as of September 30, 2011 and December 31, 2010 are as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|----------------------------|---|--|
| Trade creditors | 355,411 | 389,568 |
| Leasing obligations | 17,003 | 26,474 |
| Other accounts payable (*) | <u>95,078</u> | <u>84,652</u> |
| Total | <u>467,492</u> | <u>500,694</u> |

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

Trade and other current payables by concept:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|--|---|--|
| Aircraft fuel | 114,460 | 104,404 |
| Boarding Fee | 70,865 | 72,864 |
| Landing fees | 45,282 | 43,941 |
| Handling and ground handling | 27,679 | 39,915 |
| Suppliers technical purchases | 27,701 | 29,594 |
| Other personal expenses | 24,865 | 21,275 |
| Professional service and advisory | 18,410 | 22,445 |
| U.S.A Department of Justice (*) | 18,290 | 18,387 |
| Marketing | 17,111 | 21,041 |
| Aircraft and engines leasing | 17,003 | 26,474 |
| Crew | 10,697 | 8,188 |
| In-flight services | 10,008 | 11,761 |
| Aviation insurance | 10,439 | 5,931 |
| Airline companies | 7,342 | - |
| Achievement of objectives | 7,203 | 15,263 |
| Maintenance | 10,154 | 28,658 |
| Others (**) | 29,983 | 30,553 |
| Total trade and other accounts payable | 467,492 | 500,694 |

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

(**) Includes an amount payable of US\$ 5 million as a result of the extrajudicial agreement reached with Chilean Airline PAL regarding PAL's claim, in the Supreme Court, against the consultation process undertaken with the Court of Defense of Free Competition ("TDLC") regarding the merger between LAN and TAM.

b) The liabilities accrued at September 30, 2011 and December 31, 2010, are as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---------------------------------|---|--|
| Aircraft and engine maintenance | 23,953 | 26,133 |
| Accounts payable to personnel | 36,389 | 52,441 |
| Accrued personnel expenses | 51,327 | 40,974 |
| Others accrued liabilities | 14,195 | 25,329 |
| Total accrued liabilities | 125,864 | 144,877 |

NOTE 22 - OTHER PROVISIONS

The detail of other provisions as of September 30, 2011 and December 31, 2010 is as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---|---|--|
| Current | | |
| Provision legal claims (1) | <u>1,116</u> | <u>753</u> |
| Total other provisions, current | <u>1,116</u> | <u>753</u> |
| Non-current | | |
| Provision legal claims (1) | 23,469 | 21,204 |
| Provision for European Commission investigation (2) | <u>11,038</u> | <u>10,916</u> |
| Total other provisions, non-current | <u>34,507</u> | <u>32,120</u> |
| Total other provisions | <u><u>35,623</u></u> | <u><u>32,873</u></u> |

(1) The amount represents a provision for certain demands made against the Company by former employees, regulatory agencies and others. The charge for the provision is shown in the consolidated statement of income in Administrative expenses. It is expected that the current balance as of September 30, 2011 will be applied during the next 12 months.

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

The movement of provisions between January 01, 2010 and September 30, 2011 is as follows:

| | Legal <u>claims</u> ThUS\$ | European Commission <u>Investigation</u> ThUS\$ | <u>Total</u> ThUS\$ |
|--|----------------------------------|--|------------------------|
| Opening balance as of January 01, 2010 | 2,804 | 25,000 | 27,804 |
| Increase in provisions | 316 | - | 316 |
| Provision used | (377) | - | (377) |
| Exchange difference | (227) | - | (227) |
| Balance as of September 30, 2010 | <u><u>2,516</u></u> | <u><u>25,000</u></u> | <u><u>27,516</u></u> |

| | Legal <u>claims</u> ThUS\$ | European Commission <u>Investigation</u> ThUS\$ | <u>Total</u> ThUS\$ |
|--|----------------------------------|--|------------------------|
| Opening balance as of October 01, 2010 | 2,516 | 25,000 | 27,516 |
| Increase in provisions | 2,556 | - | 2,556 |
| Acquisition through business combination | 17,174 | - | 17,174 |
| Provision used | (304) | - | (304) |
| Reversal of unused provision | - | (14,084) | (14,084) |
| Exchange difference | 15 | - | 15 |
| Balance as of December 31, 2010 | <u>21,957</u> | <u>10,916</u> | <u>32,873</u> |

| | Legal <u>claims</u> ThUS\$ | European Commission <u>Investigation</u> ThUS\$ | <u>Total</u> ThUS\$ |
|--|----------------------------------|--|------------------------|
| Opening balance as of January 01, 2011 | 21,957 | 10,916 | 32,873 |
| Increase in provisions | 4,316 | - | 4,316 |
| Provision used | (1,507) | - | (1,507) |
| Reversal of unused provision | (66) | - | (66) |
| Exchange difference | (115) | 122 | 7 |
| Balance as of September 30, 2011 | <u>24,585</u> | <u>11,038</u> | <u>35,623</u> |

European Commission Provision:

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

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

(c) Jointly, Lan Airlines S.A. and Lan Cargo S.A., have been fined in the amount of € 8,220,000 (eight million two hundred twenty thousand Euros) for said infractions, which was provisioned in the financial statements of LAN. This is a minor fine in comparison to the original decision, as there was a significant reduction in fine because LAN cooperated during the investigation.

(d) On January 24, 2011, Lan Airlines S.A. and Lan Cargo S.A. appealed the decision before the Court of Justice of the European Union. At September 30, 2011, the provision reached the amount of ThUS\$ 11,038 (ThUS\$ 10,916 at December 30, 2011)

NOTE 23 – OTHER CURRENT NON-FINANCIAL LIABILITIES

Other current non-financial liabilities as of September 30, 2011 and December 31, 2010 are as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|--|---|--|
| Deferred revenues | 867,705 | 810,524 |
| Dividends payable | 6,491 | 125,435 |
| Other sundry liabilities | <u>4,034</u> | <u>3,192</u> |
| Total other non-financial liabilities, current | <u><u>878,230</u></u> | <u><u>939,151</u></u> |

NOTE 24 - EMPLOYEE BENEFITS

Provisions for employee benefits as of September 30, 2011 and December 31, 2010, respectively, are as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---|---|--|
| Pension payments | 3,598 | 3,164 |
| Termination payments | 284 | 1,161 |
| Other obligations | <u>8,263</u> | <u>5,332</u> |
| Total provisions for employee benefits, non-current | <u><u>12,145</u></u> | <u><u>9,657</u></u> |

(a) The movement in payments for termination indemnities and other obligations between January 01, 2010 and September 30, 2011 is as follows:

| | <u>ThUS\$</u> |
|---|----------------------|
| Opening balance as of January 01, 2010 | 5,555 |
| Increase (decrease) current service provision | 1,531 |
| Benefits paid | <u>(556)</u> |
| Balance as of September 30, 2010 | <u><u>6,530</u></u> |
| Opening balance as of October 01, 2010 | 6,530 |
| Increase (decrease) current service provision | 3,294 |
| Benefits paid | <u>(167)</u> |
| Balance as of December 31, 2010 | <u><u>9,657</u></u> |
| Opening balance as of January 01, 2011 | 9,657 |
| Increase (decrease) current service provision | 3,537 |
| Benefits paid | <u>(1,049)</u> |
| Balance as of September 30, 2011 | <u><u>12,145</u></u> |

(b) The provision for short-term benefits as of September 30, 2011 and December 31, 2010 respectively, is detailed below:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|----------------------------|---|--|
| Profit-sharing and bonuses | <u>36,389</u> | <u>52,441</u> |

The participation in profits and bonuses corresponds to an annual incentives plan for achievement of objectives.

Employment expenses are detailed below:

| | For the nine months ended September 30, | | For the three months ended September 30, | |
|------------------------------|--|-----------------------|---|-----------------------|
| | <u>2011</u> ThUS\$ | <u>2010</u> ThUS\$ | <u>2011</u> ThUS\$ | <u>2010</u> ThUS\$ |
| Salaries and wages | 569,831 | 426,284 | 196,636 | 149,728 |
| Short-term employee benefits | 72,398 | 48,178 | 30,543 | 18,458 |
| Termination benefits | 14,303 | 9,114 | 4,152 | 3,969 |
| Other personnel expenses | <u>104,781</u> | <u>81,439</u> | <u>36,694</u> | <u>31,213</u> |
| Total | <u>761,313</u> | <u>565,015</u> | <u>268,025</u> | <u>203,368</u> |

NOTE 25 – OTHER NON-CURRENT ACCOUNTS PAYABLE

Other non-current accounts payable as of September 30, 2011 and December 31, 2010 are as follows:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|-------------------------------------|---|--|
| Fleet financing (JOL) | 325,651 | 314,372 |
| Other accounts payable (*) | 36,000 | 54,000 |
| Aircraft and engine maintenance | 45,763 | 47,607 |
| Provision for vacations and bonuses | 7,664 | 7,949 |
| Other sundry liabilities | <u>1,657</u> | <u>1,753</u> |
| Total non-current liabilities | <u><u>416,735</u></u> | <u><u>425,681</u></u> |

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

NOTE 26 - EQUITY

a) Capital

The capital of the Company is managed and composed of the following:

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

The capital of the Company at September 30, 2011 amounts to ThUS\$ 461,975, divided into 339,358,209 common stock of a same series (ThUS\$ 453,444 divided into 338,790,909 shares as of December 31, 2010), no par value. There are no special series of shares and no privileges. The form of its stock certificates and their issuance, exchange, disablement, loss, replacement and other circumstances, as well as the transfer of the shares, is governed by the provisions of Corporations Law and its regulations.

b) Subscribed and paid shares

As of September 30, 2011 the total number of authorized common shares is 341 million shares of no par value. At the end of this period, of the total shares subscribed, 339,358,209 shares have been fully paid, leaving 1,641,791 shares reserved for issuance under option contracts. Between January 1 and September 30, 2011, options for 567,300 shares have been exercised.

At December 31, 2010, of the total subscribed shares 338,790,909 were fully paid, with 2,209,091 stock option contracts reserved for issuance.

c) Other equity interests

The movement of other equity interest between January 01, 2010 and September 30, 2011 is as follows:

| | Stock options <u>plans</u> ThUS\$ | Other <u>reserves</u> ThUS\$ | <u>Total</u> ThUS\$ |
|--|--|------------------------------------|------------------------|
| Opening balance as of January 01, 2010 | 2,477 | 13 | 2,490 |
| Stock option plans | 2,669 | - | 2,669 |
| Deferred tax | (454) | - | (454) |
| Legal reserves | - | 49 | 49 |
| Balance as of September 30, 2010 | <u>4,692</u> | <u>62</u> | <u>4,754</u> |
| Opening balance as of October 01, 2010 | 4,692 | 62 | 4,754 |
| Stock option plans | 854 | - | 854 |
| Deferred tax | (145) | - | (145) |
| Balance as of December 31, 2010 | <u>5,401</u> | <u>62</u> | <u>5,463</u> |
| Opening balance as of January 01, 2011 | 5,401 | 62 | 5,463 |
| Stock option plans | 1,902 | - | 1,902 |
| Deferred tax | (324) | - | (324) |
| Transactions with minority interests | - | (4,488) | (4,488) |
| Legal reserves | - | 333 | 333 |
| Balance as of September 30, 2011 | <u>6,979</u> | <u>(4,093)</u> | <u>2,886</u> |

(c.1) Reserves for stock option plans

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

(c.2) Other sundry reserves

The balance of other sundry reserves comprises the following:

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---|---|--|
| Reserve for the adjustment of the value of fixed assets (1) | 2,620 | 2,620 |
| Transactions with minority interests (2) | (4,488) | - |
| Share issuance and placement costs (3) | (2,672) | (2,672) |
| Others | <u>447</u> | <u>114</u> |
| Total | <u>(4,093)</u> | <u>62</u> |

(1) Corresponds to the technical revaluation of fixed assets authorized by the Superintendence of Securities and Insurance in 1979, in Circular No. 1,529. The revaluation was optional and could be taken only once, the reserve is not distributable and can only be capitalized.

(2) Corresponds to the loss generated by the participation of Lan Pax Group S.A., in the capital increase for Aerovías de Integración Regional, AIRES S.A.

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

d) Other reserves

The movement of other reserves between January 01, 2010 and September 30, 2011 is as follows:

| | Currency translation <u>reserve</u> ThUS\$ | Cash flow hedging <u>reserve</u> ThUS\$ | <u>Total</u> ThUS\$ |
|--|---|--|------------------------|
| Opening balance as of January 01, 2010 | (4,924) | (92,230) | (97,154) |
| Derivatives valuation gains | - | (76,973) | (76,973) |
| Deferred tax | 18 | 13,085 | 13,103 |
| Currency translation differences | (106) | - | (106) |
| Balance as of September 30, 2010 | <u>(5,012)</u> | <u>(156,118)</u> | <u>(161,130)</u> |
| Opening balance as of October 01, 2010 | (5,012) | (156,118) | (165,658) |
| Derivatives valuation losses | - | 59,118 | 59,118 |
| Deferred tax | (155) | (10,050) | (10,205) |
| Currency translation differences | 910 | - | 910 |
| Balance as of December 31, 2010 | <u>(4,257)</u> | <u>(107,050)</u> | <u>(111,307)</u> |
| Opening balance as of January 01, 2011 | (4,257) | (107,050) | (111,307) |
| Derivatives valuation gains | - | (115,913) | (115,913) |
| Deferred tax | 1,579 | 19,705 | 21,284 |
| Currency translation differences | (9,291) | - | (9,291) |
| Balance as of September 30, 2011 | <u>(11,969)</u> | <u>(203,258)</u> | <u>(215,227)</u> |

(d.1) Currency translation reserve

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

(d.2) Cash flow hedging reserve

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

e) Retained earnings

The movement of retained earnings between January 01, 2010 and September 30, 2011 is as follows:

| | |
|--|------------------|
| | ThUS\$ |
| Opening balance as of January 01, 2010 | 740,047 |
| Result for the period | 255,143 |
| Other decreases | (129) |
| Dividends | (87,482) |
| Balance as of September 30, 2010 | <u>907,579</u> |
| | ThUS\$ |
| Opening balance as of October 01, 2010 | 907,579 |
| Result for the period | 164,559 |
| Dividends | (122,924) |
| Balance as of December 31, 2010 | <u>949,214</u> |
| | ThUS\$ |
| Opening balance as of January 01, 2011 | 949,214 |
| Result for the period | 207,697 |
| Other decreases | (631) |
| Dividends | (72,696) |
| Balance as of September 30, 2011 | <u>1,083,584</u> |

f) Dividends per share

As of September 30, 2011

| <u>Description</u> | Final dividend <u>2010</u> | Interim dividend <u>2011</u> | Mandatory minimum dividend <u>2011</u> |
|---|----------------------------------|------------------------------------|---|
| Date of dividend | 4/29/2011 | 8/30/2011 | 9/30/2011 |
| Amount of the dividend (ThUS\$) | 10,386 | 56,595 | 5,715 |
| Number of shares among which the dividend is distributed | 339,310,509 | 339,358,209 | 339,358,209 |
| Dividend per share (US\$) | 0.03061 | 0.16677 | 0.01684 |

As of December 31, 2010

| <u>Description</u> | Final dividend <u>2009</u> | Interim dividend <u>2010</u> | Interim dividend <u>2010</u> |
|---|----------------------------------|------------------------------------|------------------------------------|
| Date of dividend | 4/29/2010 | 7/27/2010 | 12/23/2010 |
| Amount of the dividend (ThUS\$) | 10,940 | 74,466 | 125,000 |
| Number of shares among which the dividend is distributed | 338,790,909 | 338,790,909 | 338,790,909 |
| Dividend per share (US\$) | 0.03229 | 0.21980 | 0.36896 |

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

At September 30, 2011 interim dividends were declared for 26.7% of earnings for the period, as well as a provision of 3.3% for mandatory minimum dividends, recorded under other current non-financial liabilities.

NOTE 27 - REVENUE

The detail of revenues is as follows:

| | For the nine months ended | | For the three months ended | |
|------------|---------------------------|------------------|----------------------------|------------------|
| | September 30, | | September 30, | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Passengers | 2,935,390 | 2,221,369 | 1,060,254 | 799,700 |
| Cargo | <u>1,148,072</u> | <u>910,555</u> | <u>395,189</u> | <u>322,592</u> |
| Total | <u>4,083,462</u> | <u>3,131,924</u> | <u>1,455,443</u> | <u>1,122,292</u> |

NOTE 28 - COSTS AND EXPENSES BY NATURE

a) Costs and operating expenses

The main operating costs and administrative expenses are detailed below:

| | For the nine months ended | | For the three months ended | |
|--------------------------------|---------------------------|------------------|----------------------------|----------------|
| | September 30, | | September 30, | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Other rentals and landing fees | 495,793 | 421,900 | 165,911 | 155,468 |
| Aircraft fuel | 1,282,305 | 843,131 | 461,524 | 294,013 |
| Comissions | 153,779 | 124,850 | 55,499 | 45,269 |
| Other operating expenses | 457,128 | 363,958 | 149,454 | 129,367 |
| Aircraft rentals | 129,458 | 71,646 | 42,861 | 24,166 |
| Aircraft maintenance | 139,424 | 91,118 | 50,619 | 31,600 |
| Passenger service | 102,670 | 82,216 | 34,729 | 30,839 |
| Total | <u>2,760,557</u> | <u>1,998,819</u> | <u>960,597</u> | <u>710,722</u> |

b) Depreciation and amortization

Depreciation and amortization are detailed below:

| | For the nine months ended | | For the three months ended | |
|------------------|---------------------------|----------------|----------------------------|---------------|
| | September 30, | | September 30, | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Depreciation (*) | 283,577 | 237,953 | 94,293 | 79,300 |
| Amortization | 7,239 | 6,941 | 2,401 | 2,325 |
| Total | <u>290,816</u> | <u>244,894</u> | <u>96,694</u> | <u>81,625</u> |

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

c) Personnel expenses

The costs for personnel expenses are disclosed in provisions for employee benefits (See Note 24).

d) Financial costs

The detail of financial costs is as follows:

| | For the nine months ended | | For the three months ended | |
|-----------------------------|---------------------------|----------------|----------------------------|---------------|
| | September 30, | | September 30, | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Bank loan interest | 77,114 | 88,579 | 23,928 | 29,479 |
| Financial leases | 7,195 | 4,549 | 2,841 | 1,488 |
| Other financial instruments | 20,301 | 23,417 | 7,629 | 7,078 |
| Total | <u>104,610</u> | <u>116,545</u> | <u>34,398</u> | <u>38,045</u> |

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

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

The gains (losses) on sales of non-current assets not classified as Held for Sale as of September 30, 2011 and 2010 are as follows:

| | For the nine months ended September 30, | | For the three months ended September 30, | |
|-------------------------------|--|----------------|---|--------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Property, plant and equipment | (1,078) | (1,050) | (348) | (350) |
| Total | <u>(1,078)</u> | <u>(1,050)</u> | <u>(348)</u> | <u>(350)</u> |

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

NOTE 30 - OTHER INCOME, BY FUNCTION

Other income by function is as follows:

| | For the nine months ended | | For the three months ended | |
|----------------------------|---------------------------|---------------|----------------------------|---------------|
| | September 30, | | September 30, | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Duty free | 12,252 | 8,325 | 4,245 | 2,731 |
| Aircraft leasing | 9,725 | 7,907 | 2,283 | 2,086 |
| Logistics and courier | 10,958 | 27,031 | - | 8,814 |
| Customs and warehousing | 17,823 | 17,643 | 6,202 | 6,579 |
| Tours | 31,547 | 16,065 | 10,756 | 6,215 |
| Other miscellaneous income | 17,168 | 11,955 | 7,591 | 3,613 |
| Total | <u>99,473</u> | <u>88,926</u> | <u>31,077</u> | <u>30,038</u> |

NOTE 31 – FOREIGN CURRENCY AND EXCHANGE RATE DIFFERENCES

a) Foreign currency

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

| <u>Current assets</u> | As of September 30, 2011 ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|--|--|--|
| Cash and cash equivalents | 118,708 | 436,840 |
| Chilean peso | 74,094 | 368,360 |
| Euro | 4,093 | 7,844 |
| Argentine peso | 6,960 | 11,230 |
| Brazilian real | 719 | 4,759 |
| Other currency | 32,842 | 44,647 |
| Other current financial assets | 7,827 | 6,726 |
| Brazilian real | 4,629 | 4,740 |
| Other currency | 3,198 | 1,986 |
| Other current non-financial assets | 7,610 | 2,692 |
| Chilean peso | 2,563 | 1,247 |
| Argentine peso | 1,961 | 419 |
| Brazilian real | 139 | 96 |
| Other currency | 2,947 | 930 |
| Trade and other current accounts receivable | 184,036 | 126,648 |
| Chilean peso | 52,239 | 28,606 |
| Euro | 11,513 | 8,429 |
| Argentine peso | 42,660 | 6,702 |
| Brazilian real | 42,664 | 31,329 |
| Australian dollar | 7,740 | 12,456 |
| Other currency | 27,220 | 39,126 |
| Current accounts receivable from related entities | 1,295 | 21 |
| Chilean peso | 1,295 | 21 |

| <u>Current assets</u> | As of September 30, 2011 <hr/> ThUS\$ | As of December 31, 2010 <hr/> ThUS\$ |
|-----------------------------|--|---|
| Current tax assets | 65,865 | 62,455 |
| Chilean peso | 13,782 | 16,805 |
| Argentine peso | 21,656 | 14,477 |
| Brazilian real | 7,495 | 6,735 |
| Mexican peso | 16,626 | 17,477 |
| Other currency | 6,306 | 6,961 |
| Total current assets | 385,341 | 635,382 |
| Chilean peso | 143,973 | 415,039 |
| Euro | 15,606 | 16,273 |
| Argentine peso | 73,237 | 32,828 |
| Brazilian real | 55,646 | 47,659 |
| Mexican peso | 16,626 | 17,477 |
| Australian dollar | 7,740 | 12,456 |
| Other currency | 72,513 | 93,650 |

| <u>Non-current assets</u> | As of September 30, 2011 ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|--|--|--|
| Other non-current financial assets | 4,855 | 4,504 |
| Brazilian real | 2,088 | 1,991 |
| Other currency | 2,349 | 2,513 |
| Other non-current non-financial assets | 40 | 1,681 |
| Argentine peso | - | 1,681 |
| Other currency | 37 | 0 |
| Non-current rights receivable | 7,524 | 7,874 |
| Chilean peso | 7,306 | 7,864 |
| Other currency | 218 | 10 |
| Investment recorded using the method of participation | 1,118 | 593 |
| Chilean peso | 1,118 | 593 |
| Deferred tax assets | 51,663 | 28,493 |
| Other currency | 51,663 | 28,943 |
| Total non-current assets | 64,779 | 43,595 |
| Chilean peso | 8,424 | 8,457 |
| Argentine peso | - | 1,681 |
| Brazilian real | 2,088 | 1,991 |
| Other currency | 54,267 | 31,466 |

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

| <u>Current liabilities</u> | <u>Up to 90 days</u> | | <u>91 days to 1 year</u> | |
|---|--------------------------------|--------------------------------------|--------------------------------|--------------------------------------|
| | As of September 30, 2011 | As of December 31, <u>2010</u> | As of September 30, 2011 | As of December 31, <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Other current financial liabilities | 36,143 | 46,043 | - | 112,672 |
| Chilean peso | 36,143 | 41,638 | - | 112,672 |
| Other currency | - | 4,405 | - | - |
| Trade and other current accounts payable | 253,508 | 240,419 | 29,511 | 14,012 |
| Chilean peso | 54,768 | 52,779 | 9,722 | 9,559 |
| Euro | 10,041 | 9,438 | 102 | 14 |
| Argentine peso | 25,687 | 43,214 | 2,704 | 3,725 |
| Brazilian real | 33,602 | 22,633 | 2,148 | - |
| Other currency | 129,410 | 112,355 | 14,835 | 714 |
| Current accounts payable from related entities | 204 | 74 | - | - |
| Chilean peso | 204 | 74 | - | - |
| Current tax liabilities | 8,250 | 9,700 | 2,245 | 2,621 |
| Chilean peso | 3,942 | 3,007 | 209 | 1,064 |
| Argentine peso | 896 | 240 | 909 | 1,202 |
| Brazilian real | 1,485 | 1,994 | - | - |
| Other currency | 1,927 | 4,459 | 1,127 | 355 |
| Other current non-financial liabilities | 26,065 | 27,729 | 3,936 | 1,071 |
| Brazilian real | 1,539 | - | 663 | 1,041 |
| Other currency | 24,526 | 27,729 | 3,273 | 30 |
| Total current liabilities | 324,170 | 323,891 | 35,692 | 130,376 |
| Chilean peso | 95,057 | 97,424 | 9,931 | 123,295 |
| Euro | 10,041 | 9,438 | 102 | 14 |
| Argentine peso | 26,583 | 43,454 | 3,613 | 4,927 |
| Brazilian real | 36,626 | 24,627 | 2,811 | 1,041 |
| Other currency | 155,863 | 148,948 | 19,235 | 1,099 |

| | More than 1 to 3 years | | More than 3 to 5 years | | More than 5 years | |
|---|---------------------------------|--------------------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
| | As of | As of | As of | As of | As of | As of |
| | September 30, 2011 ThUS\$ | December 31, 2010 ThUS\$ | September 30, 2011 ThUS\$ | December 31, 2010 ThUS\$ | September 30, 2011 ThUS\$ | December 31, 2010 ThUS\$ |
| <u>Non-current liabilities</u> | | | | | | |
| Other non-current financial liabilities | | | | | | |
| Chilean peso | - | 61,477 | - | - | - | - |
| | | | | | | |
| Other non-current accounts payable | 7,328 | 7,696 | 71 | 71 | 7 | 5 |
| Chilean peso | 6,297 | 6,721 | 77 | 71 | 9 | 5 |
| Other currency | 1,031 | 975 | - | - | - | - |
| | | | | | | |
| Other long-term provisions | 12,719 | - | - | 1,554 | - | - |
| Brazilian real | 1,681 | - | - | 1,401 | - | - |
| Other currency | 11,038 | - | - | 153 | - | - |
| | | | | | | |
| Non-current provisions for employee benefits | 4,257 | 3,153 | 935 | - | 863 | 698 |
| Argentine peso | - | - | 935 | - | - | 698 |
| Other currency | 4,257 | 3,153 | - | - | - | - |
| | | | | | | |
| Total non-current liabilities | 24,304 | 72,326 | 1,012 | 1,625 | 9 | 703 |
| Chilean peso | 6,297 | 68,198 | 77 | 71 | 9 | 5 |
| Argentine peso | - | - | 935 | - | - | 698 |
| Brazilian real | 1,681 | - | - | 1,401 | - | - |
| Other currency | 16,326 | 4,128 | - | 153 | - | - |

| <u>General summary of foreign currency:</u> | As of September 30, 2011 ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---|--|--|
| Total assets | 450,120 | 678,977 |
| Chilean peso | 152,397 | 423,496 |
| Euro | 15,606 | 16,273 |
| Argentine peso | 73,237 | 34,509 |
| Brazilian real | 57,734 | 49,650 |
| Mexican peso | 16,626 | 17,477 |
| Australian dollar | 7,740 | 12,456 |
| Other currency | 126,780 | 125,116 |
| Total liabilities | 385,187 | 528,921 |
| Chilean peso | 111,371 | 288,993 |
| Euro | 10,143 | 9,452 |
| Argentine peso | 31,131 | 49,079 |
| Brazilian real | 41,118 | 27,069 |
| Other currency | 191,424 | 154,328 |
| Net position | 64,933 | 150,056 |
| Chilean peso | 41,026 | 134,503 |
| Euro | 5,463 | 6,821 |
| Argentine peso | 42,106 | (14,570) |
| Brazilian real | 16,616 | 22,581 |
| Mexican peso | 16,626 | 17,477 |
| Australian dollar | 7,740 | 12,456 |
| Other currency | (64,644) | (29,212) |

b) Exchange differences

Exchange rate differences recognized in income, other than those relating to financial instruments at fair value through profit and loss, accumulated at September 30, 2011 and 2010 generated a gain of ThUS\$ 6,184 and ThUS\$ 6,731, respectively. In the third quarter of 2011 and 2010 a charge of ThUS\$ 1,927 and a gain of ThUS\$ 9,117 were represented, respectively.

Exchange rate differences shown in equity as translation reserves for the nine months ended September 30, 2011 and 2010 represented a charge of ThUS\$ 9,507 and ThUS\$ 150, respectively. In the third quarter of 2011 and 2010 a charge of ThUS\$ 610 and a gain of ThUS\$ 2,619 were represented, respectively.

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

| | As of September 30, <u>2011</u> | As of December 31, <u>2010</u> |
|--------------------|---------------------------------------|--------------------------------------|
| Chilean peso | 521.76 | 468.01 |
| Argentine peso | 4.20 | 3.97 |
| Brazilian real | 1.88 | 1.66 |
| Peruvian Sol | 2.77 | 2.81 |
| Australian dollar | 1.03 | 0.99 |
| Strong Bolivar | 4.30 | 4.30 |
| Boliviano | 6.87 | 6.94 |
| Uruguayan peso | 19.75 | 19.80 |
| Mexican peso | 13.88 | 12.38 |
| Colombian peso | 1,930.50 | 1,905.10 |
| New Zealand dollar | 1.31 | 1.30 |
| Euro | 0.74 | 0.75 |

NOTE 32 - EARNINGS PER SHARE

| | For the nine months ended September 30, | | For the three months ended September 30, | |
|--|--|--------------------|---|--------------------|
| Basic earnings | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Earnings attributable to controlling company's equity holders (ThUS\$) | 207,697 | 255,143 | 94,513 | 106,214 |
| Weighted average number of shares, basic | 339,272,376 | 338,790,909 | 339,342,209 | 338,790,909 |
| Basic earnings per share (US\$) | 0.61218 | 0.75310 | 0.27852 | 0.31351 |
| | | | | |
| | For the nine months ended September 30, | | For the three months ended September 30, | |
| Diluted earnings | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Earnings attributable to controlling company's equity holders (ThUS\$) | 207,697 | 255,143 | 94,513 | 106,214 |
| Weighted average number of shares, basic | 339,272,376 | 338,790,909 | 339,342,209 | 338,790,909 |
| Adjustment diluted weighted average shares Stock options | <u>664,964</u> | <u>780,688</u> | <u>606,621</u> | <u>900,772</u> |
| Weighted average number of shares, diluted | <u>339,937,340</u> | <u>339,571,597</u> | <u>339,948,830</u> | <u>339,691,681</u> |
| Diluted earnings per share (US\$) | 0.61099 | 0.75137 | 0.27802 | 0.31268 |



NOTE 33 - CONTINGENCIES

a) Lawsuits

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

| <u>Company</u> | <u>Court</u> | <u>Case No.</u> | <u>Origin</u> | <u>Stage and level of proceeding</u> | <u>Amounts involved ThUS\$</u> |
|---|--|-----------------|--|--|--|
| Atlantic Aviation Investments LLC (AAI) | Supreme Court of the State of New York County of New York | 07-6022920 | Atlantic Aviation Investments LLC., an indirect subsidiary of Lan Airlines S.A. constituted under the laws of the state of Delaware, sued Varig Logistica S.A. ("Variglog") for the non-payment of four loans under loan agreements governed by the law of New York. These agreements provide for the acceleration of the loans in the event of sale of the original debtor, VRG Linhas Aéreas S.A. | Stage of execution in Switzerland of judgment condemning Variglog to repay the principal, interest and costs in favor of AAI. An embargo is held over the bank account of Variglog in Switzerland by AAI. Variglog is in the process of judicial recovery in Brazil and requested on Switzerland to recognize the judgment that declared the state of judicial recovery. | 17,100 plus interest and costs |
| Atlantic Aviation Investments LLC | Supreme Court of the State of New York, County of New York | 602286-09 | Atlantic Aviation Investments LLC. sued Matlin Patterson Global Advisers LLC, Matlin Patterson Global Opportunities Partners II LP, Matlin Patterson Global Opportunities Partners (Cayman) II LP and Volo Logistics LLC (a) as representative for Variglog, for failure to pay the four loans indicated in the previous note; and (b) for a default on their obligations of guarantors and other obligations under the Memorandum of Understanding signed by the parties on September 29, 2006. | The court dismissed in part and upheld in part the motion to dismiss counterclaims brought by defendants in the case. Both parties appealed this decision. AAI filed a request for summary Judgment (short trial) that the court ruled favorably. The defendants appealed from this decision that was granted suspensive effect. | 17,100 plus interest costs and damages |



| <u>Company</u> | <u>Court</u> | <u>Case No.</u> | <u>Origin</u> | <u>Stage and level of proceeding</u> | <u>Amounts involved</u> ThUS\$ |
|---|--|-----------------|---|--|-----------------------------------|
| Aerolane, Líneas Aéreas Nacionales del Ecuador S.A. | Tax Court of Guayaquil | 6319-4064-05 | Against the regional director of the Guayaquil Internal Revenue Service for overpayment of VAT. | Favorable sentence at first instance, appeal pending against them. | 4,210 |
| Lan Airlines S.A. | Tax Tribunal of Quito | 23493-A | Against the regional director of the Quito Internal Revenue Service for overpayment of VAT. | Requested sentence. | 3,958 |
| Lan Perú S.A. | Administrative Tribunal of Perú | 2011 | Lan Peru is suing L.A.P. for wrong amounts charged by the use of hoses at the airport in Lima. These amounts are intended to supplement what has already been obtained in a ruling that ordered Ositran LAP wrong amounts charged back. | First instances. | 740 |
| Aerotransportes Mas de Carga S.A. de C.V. | Federal Court of Fiscal and Administrative Justice | 24611/08 | Judgement of invalidity against the tax authority's refusal to restore a balance in favor of VAT. | At the stage of offer of proof. | 1,000 |

| <u>Company</u> | <u>Court</u> | <u>Case No.</u> | <u>Origin</u> | <u>Stage and level of proceeding</u> | <u>Amounts involved</u> ThUS\$ |
|---|--|-----------------|--|---|---|
| Aerolane, Líneas Aéreas Nacionales del Ecuador S.A. | District Tax Court No. 2 (Guayaquil) | 09504-2010-0114 | Against the regional director of the Guayaquil Internal Revenue Service to determine tax credit decreased for the year 2006. | Test | 4,565 |
| Aerolane, Líneas Aéreas Nacionales del Ecuador S.A. | District Tax Court No. 2 (Guayaquil) | 09503-2010-0172 | Against the regional director of the Guayaquil Internal Revenue Service for non-payment of advance income tax, 2010. | Calling for evidence | 696 |
| Aerolane, Líneas Aéreas Nacionales del Ecuador S.A. | District Tax Court No. 2 (Guayaquil) | 6886-4499-06 | Against the regional director of the Guayaquil Internal Revenue Service for rectification of tax return for 2003. | Sentence pending. | Undetermined |
| Aerovías de Integración Regional AIRE S.A. | Section One, Subsection A, the Administrative Tribunal of Cundinamarca | | AEROVÍAS DE INTEGRACION REGIONAL S.A AIRE S.A. seeks that Act 043 Session of October 20, 2008 of Grupo Evaluador de Proyectos Aerocomerciales GEPA be declared invalid. This relates to the decision of the Director of the UAEAC and Enrique Olaya Herrera airport in Medellin to order the suspension of operations of the company to and from that airport. | On June 17, 2010 a decree was issued by which evidence was presented, the status of which was notified on June 22 of that year. On March 8, 2011 the preliminary stages were completed. On July 6, 2011 per state order, Aerocivil was ordered to pay the fees of the expert witness. An appeal was registered against this judgement on July 22. | US\$ 2,032,624. The estimated amount of damages that were caused to AIRE S.A as a result of the suspension of operations at the Enrique Olaya Herrera airport |



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

| <u>Company</u> | <u>Court</u> | <u>Cause No.</u> | <u>Origin</u> | <u>Stage and level of proceeding</u> | <u>Amounts involved</u> ThUS\$ |
|------------------------------------|---|------------------|--|---|-----------------------------------|
| Aerolinhas Brasileiras S.A. | Secretary of Finance of State of Rio de Janeiro | 2003 | The administrative authority of Rio de Janeiro, Brazil, notified breach action or fine for alleged non-payment of ICMS (VAT) on import of Boeing-767 aircraft registered No. PR-ABB. | Pending resolution of the review group to annul the fine. | 3,000 |
| Lan Cargo S.A. | Civil Court of Asunción, Paraguay | 78-362 | Request of indemnification for damages brought by the prior general agent in Paraguay. | Pending appeal of the decision to reject one of the exceptions to lack of overt action, made by lawyers for the defendant. | 437 |
| Lan Airlines S.A. y Lan Cargo S.A. | European commission | - | Investigation of possible breaches of free competition of cargo airlines, especially the fuel surcharge. | On 14 April 2008, the Company answered the European Commission's notification. The appeal was presented on January 24, 2011. | 11,038 |

On December 26, 2007, the Director General for Competition of the European Commission notified Lan Cargo S.A. and Lan Airlines S.A. of the instruction of a process against twenty-five cargo airlines, including Lan Cargo S.A., for alleged breaches of free competition in the European air cargo market, especially the intended fixing of a surcharge for fuel and cargo. Dated November 09, 2010 the Direction General for Competition of the European Commission notified Lan Cargo S.A. and Lan Airlines S.A. the imposition of fines in the amount of ThUS\$ 11,038. This fine is being appealed by Lan Cargo SA and Lan Airlines S.A. We can not predict the outcome of the appeal process.



| <u>Company</u> | <u>Court</u> | <u>Case No.</u> | <u>Origin</u> | <u>Stage and level of proceeding</u> | <u>Amounts involved ThUS\$</u> |
|--------------------------------------|---|-----------------|--|--|--------------------------------|
| Lan Airlines S.A. and Lan Cargo S.A. | Competition Bureau - Canada | - | Investigation for possible infractions of competition from airlines cargo flights, especially fuel surcharges. | Investigation pending. | Undetermined |
| Lan Cargo S.A. and Lan Airlines S.A. | Canada- Superior Court of Quebec, Supreme Court of British Columbia, Superior Court of Ontario | - | For class actions, as a result of the investigation for possible breaches of competition from airlines cargo flights, especially fuel surcharges. They have filed three lawsuits in Canada (Quebec, British Columbia and Ontario). | Case is in the process of discovery and class certification tests. | Undetermined |
| Lan Cargo S.A. and Lan Airlines S.A. | In the High Court of Justice Chancery Division (England) and Directie Juridische Zaken Afdeling Ceveil Recht (Netherlands). | - | Lawsuit filed against European Airlines by users of freight services in private prosecutions as a consequence of the investigation into alleged breaches of free competition of cargo airlines, especially fuel surcharges. Lan Airlines S.A. and Lan Cargo S.A. have been third-party defendants in such prosecutions in England and the Netherlands. | Case is in the process of discovery tests. | Undetermined |
| Lan Logistics, Corp. | Federal Court, Florida, U.S.A. | - | In mid June 2008 a demand was presented for purchase option right for sale of LanBox. | Failed against Lanlogistics, Corp. for \$ 5 million plus interest, which is appealing to the court of appeals. | Undetermined |

| <u>Company</u> | <u>Court</u> | <u>Case No.</u> | <u>Origin</u> | <u>Stage and level of proceeding</u> | <u>Amounts involved</u> ThUS\$ |
|-----------------------------|---|-----------------|---|--|-----------------------------------|
| Aerolinhas Brasileiras S.A. | Conselho Administrativo de Defesa Econômica, Brasil | - | Investigation of alleged breaches of free competition of cargo airlines, especially fuel surcharges. | Investigation pending. CADE and Federal Attorney not yet issued final decisions. | Undetermined |
| Lan Airlines S.A. "Brazil" | Instituto de Defesa do Consumidor de São Paulo | - | The Department of Consumer Protection and Defense ("PROCON") has applied a fine to Lan Airlines S.A. in the amount of R\$ 1,688,240 equivalent to approximately ThUS\$ 896. This penalty relates to the cancellation of flights to Chile as a product of the 2010 earthquake, holding that Lan Airlines S.A. did not act in accordance with the rules applicable to the facilities and offered no compensation to passengers who could not travel as a result of this extraordinary circumstance. | Fine imposed by the consumer entity Sao Paulo. | 896 |
| Lan Perú S.A. | Administrative Tribunal of Peru | 2011 | LAP (Lima Airport concession) is questioning before an administrative tribunal's decision to the administrative authority Ositran, which in due course LAP stated that it had to give certain amounts uncollected by Lan Peru for the use of hoses in the Lima Airport. | First instance. | 2,109 |
| Lan Cargo S.A. | Tribunal of Arbitration, Frankfurt/ Germany | | Aerohandling Airport Assistance GmbH (Handling company in Frankfurt/ Airport) is claiming additional payment for Lan Cargo S.A. services offered over the years 2007 to 2010. | Single instance. | 820 |

Considering the stage of process for each of the cases mentioned above and/or the improbable event of obtaining an adverse sentence, as of September 30, 2011 the Company has estimated that is not necessary to make a provision for any case, with the exception of the significant matter relating to the European Commission which was reported to the SVS. A provision of US\$ 11 million has been recorded for the decision issued by the European Commission on November 9, 2010. On May 6 2011, the Directors of Lan Cargo S.A. and Aerolinhas Brasileiras S.A. approved a judicial agreement with the defenders of the civil class action case that was in process before the United States District Court for the Eastern District of New York. From the agreement, Lan Cargo S.A. and Aerolinhas Brasileiras S.A. committed to pay the amount of US\$ 59.7 million and US\$ 6.3 million, respectively, payments that were already made as of September 30, 2011. This agreement terminates the companies' obligations with regards to all plaintiffs who will not choose to file a suit in an individual capacity against the companies. The terms of the judgment have not yet been set for the plaintiffs who are considering opting for a separate suit.

NOTE 34 - COMMITMENTS

(a) Loan covenants

With respect to various loans signed by the Company for the financing of Boeing 767 aircraft, which carry the guarantee of the United States Export-Import Bank, limits have been set on some of the parent company's financial indicators on a consolidated basis. Moreover, and related to these same contracts, restrictions are also in place on the Company's management in terms of its ownership and disposal of assets.

Additionally, with respect to various loans signed by its subsidiary Lan Cargo S.A. for the financing of Boeing 767 aircraft, which carry the guarantee of the United States Export-Import Bank, restrictions have been established to the Company's management and its subsidiary Lan Cargo S.A. in terms of shareholder composition and disposal of assets.

Regarding the various contracts of the Company for the financing of Airbus A320 aircraft, which are guaranteed by the European Export Credit Agencies, limits have been established on some of the Company's financial indicators. Moreover, and related to these same contracts, restrictions are also in place on the Company's management in terms of its ownership and disposal of assets.

In connection with the financing of spare engines for its fleet Boeing 767 and 777, which are guaranteed by the Export - Import Bank of the United States, restrictions have been placed on the shareholding of its guarantors and their legal successor in case of merger.

In relation to credit agreements entered into by the Company, for the present period local banks have set limits to some financial indicators of the parent company on a consolidated basis.

At September 30, 2011, the Company is in compliance with these covenants.

(b) Commitments under operating leases as lessee

Details of the main operating leases are as follows:

| <u>Lessor</u> | <u>Aircraft</u> | As of September 30, <u>2011</u> | As of December 31, <u>2010</u> |
|--|----------------------|---------------------------------------|--------------------------------------|
| Delaware Trust Company, National Association (CRAFT) | Bombardier Dhc8-200 | 9 | 9 |
| International Lease Finance Corp. (ILFC) | Boeing 767 | 1 | 8 |
| KN Operating Limited (NAC) | Bombardier Dhc8-400 | 4 | 4 |
| Orix Aviation Systems Limited | Airbus A320 | 2 | 2 |
| Pembroke B737-7006 Leasing Limited | Boeing 737 | 2 | 2 |
| International Lease Finance Corp. (ILFC) | Boeing 737 | 2 | 2 |
| Sunflower Aircraft Leasing Limited - AerCap | Airbus A320 | 2 | 2 |
| Celestial Aviation Trading 35 Ltd. (GECAS) | Boeing 767 | 1 | 1 |
| MSN 167 Leasing Limited | Airbus A340 | 1 | 1 |
| Celestial Aviation Trading 16 Ltd. GECAS (WFBN) | Boeing 767 | 1 | 1 |
| CIT Aerospace International | Boeing 767 | 1 | 1 |
| Celestial Aviation Trading 39 Ltd. GECAS (WFBN) | Boeing 777 | 1 | 1 |
| Celestial Aviation Trading 23 Ltd. GECAS (WFBN) | Boeing 777 | 1 | 1 |
| Celestial Aviation Trading 47 Ltd. GECAS (WFBN) | Boeing 767 | 1 | 1 |
| Celestial Aviation Trading 51 Ltd. GECAS (WFBN) | Boeing 767 | 1 | 1 |
| Celestial Aviation Trading 48 Ltd. GECAS (WFBN) | Boeing 767 | 1 | - |
| AerCap (WFBN) | Airbus A320 | - | 1 |
| BOC Aviation Pte. Ltd. | Airbus A320 | 1 | - |
| MSN 32415, LLC - AWAS | Boeing 737 | 1 | 1 |
| JB 30244, Inc. - AWAS | Boeing 737 | 1 | 1 |
| NorthStar AvLease Ltd. | Bombardier Dhc8-200 | 1 | 1 |
| JB 30249, Inc. - AWAS | Boeing 737 | 1 | 1 |
| TIC Trust (AVMAX) | Bombardier Dhc 8-200 | - | 1 |
| ACS Aircraft Finance Bermuda Ltd. - Aircastle (WFBN) | Boeing 737 | 1 | 1 |
| MCAP Europe Limited - Mitsubishi (WTC) | Boeing 737 | 1 | 1 |
| Avolon Aerospace AOE 6 Limited | Airbus A320 | 1 | - |
| AWAS 4839 Trust | Airbus A320 | 1 | - |
| Avolon Aerospace AOE 19 Limited | Airbus A320 | 1 | - |
| Avolon Aerospace AOE 20 Limited | Airbus A320 | 1 | - |
| Aircraft 76B-27613 Inc. (ILFC) | Boeing 767 | 1 | - |
| Aircraft 76B-26327 Inc. (ILFC) | Boeing 767 | 1 | - |
| Aircraft 76B-27597 Inc. (ILFC) | Boeing 767 | 1 | - |
| Aircraft 76B-26261 Inc. (ILFC) | Boeing 767 | 1 | - |
| Aircraft 76B-28206 Inc. (ILFC) | Boeing 767 | 1 | - |
| Aircraft 76B-26329 Inc. (ILFC) | Boeing 767 | 1 | - |
| Aircraft 76B-27615 Inc. (ILFC) | Boeing 767 | 1 | - |
| Total | | <u>49</u> | <u>45</u> |

The rentals are shown in results for the period as they are incurred.

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

| | As of September 30, <u>2011</u> ThUS\$ | As of December 31, <u>2010</u> ThUS\$ |
|---|---|--|
| Up to a year | 171,672 | 151,781 |
| More than one year and up to five years | 467,339 | 440,632 |
| More than five years | 110,154 | 107,593 |
| Total | <u>749,165</u> | <u>700,006</u> |

The minimum lease payments charged to income are the following:

| | For the periods ended September 30, | |
|--------------------------------------|--|-----------------------|
| | <u>2011</u> ThUS\$ | <u>2010</u> ThUS\$ |
| Minimum operating lease payments (*) | 125,065 | 67,598 |
| Total | <u>125,065</u> | <u>67,598</u> |

In September 2010, the Company added one Airbus A320-200 aircraft for a period of eight months, the latter finally returned in May 2011. Additionally, in November and December 2010, the Company added two Boeing 767-300F aircraft, with terms of contract for seven and six years respectively.

In January 2011 the Company added to the fleet three aircraft, a Boeing 767-300F with a contract term of five years, one Airbus A320-200 for periods of seven years and one Airbus A319-100 for a period of four months which was returned in May 2011. In July 2011 the Company added two Airbus A320-200 aircrafts for a period of eight years, while in August and September 2011, the Company received an Airbus A320-200 aircraft for a period of eight years. Moreover, in September 2011 an Bombardier Dash 8-200 aircraft was returned due to termination of the lease term.

(*) At September 30, 2011, includes an amount of ThUS\$ 34,111 as a result of the incorporation of AIRES S.A. as a subsidiary from December 2010.

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

(c) Other commitments

At September 30, 2011 the Company has existing letters of credit, guarantee ballots and guarantee insurance policies as follows:

| <u>Creditor</u> | <u>Guaranteee</u> | <u>Debtor</u> | <u>Type</u> | <u>Value</u> <u>ThUS\$</u> | <u>Release</u> <u>date</u> |
|--|-------------------|---------------------------------------|----------------------------------|-------------------------------|-------------------------------|
| Deutsche Bank A.G. | | Lan Airlines S.A. | Two letters of credit | 20,000 | 31/01/2012 |
| The Royal Bank of Scotland plc | | Lan Airlines S.A. | Two letters of credit | 18,000 | 08/01/2012 |
| European Commission | | Lan Airlines S.A. | One letters of credit | 11,343 | 18/02/2012 |
| Dirección General de Aviación Civil de Chile | | Lan Airlines S.A. | Fifty-six guarantee ballots | 6,245 | 31/10/2011 |
| Washington International Insurance | | Lan Airlines S.A. | Seven letter of credit | 3,040 | 10/12/2011 |
| Dirección Seccional de Aduanas de Bogota | | Línea Aérea Carguera de Colombia S.A. | Two guarantee insurance policies | 2,702 | 07/04/2014 |
| Metropolitan Dade County | | Lan Airlines S.A. | Five letters of credit | 1,675 | 31/05/2012 |

NOTE 35 – TRANSACTIONS WITH RELATED PARTIES

a) Transactions with related parties for the period ended September 30, 2011

| <u>Tax No.</u> | <u>Related parties</u> | <u>Relationship</u> | <u>Country of origin</u> | <u>Other information on related party</u> | <u>Transaction</u> | <u>Currency</u> | <u>Amount of transactions</u> ThUS\$ |
|----------------|---------------------------------------|-------------------------|--------------------------|---|--|--|---|
| 96.810.370-9 | Inversiones Costa Verde Ltda. y CPA | Controlling shareholder | Chile | Investments | Property rental granted Passenger services provided | CLP CLP | 52 12 |
| 96.847.880-K | Lufthansa Lan Technical Training S.A. | Associate | Chile | Training center | Building rental granted Assignment of debt granted Other prepayments received Training received Other prepayments received Training received | CLP CLP CLP CLP US\$ US\$ | 12 12 (268) (104) (82) (227) |
| 78.591.370-1 | Bethia S.A. y Filiales (1) | Other related parties | Chile | Investments | Cession of rights Property rental granted Professional advice granted Transport services provided Other prepayments received Sale of subsidiary | CLP CLP CLP CLP CLP US\$ | 4,461 187 108 470 (212) 53,386 |
| 87.752.000-5 | Granja Marina Tornagaleones S.A. | Other related parties | Chile | Fish farming | Passenger services provided | CLP | 150 |
| Foreign | Inversora Aeronáutica Argentina | Other related parties | Argentina | Investments | Building rental received | US\$ | (310) |

(1) On April 06, 2011 Lan Cargo S.A. e Inversiones Lan S.A., subsidiaries of Lan Airlines S.A. as sellers, and Servicios de Transporte Limitada and Inversiones Betmin SpA, subsidiaries of Bethia S.A. company, as purchasers, entered into a contract of sale compared to 100% the social capital of societies Blue Express Intl Ltda. and Blue Express S.A. The sale value of Blue Express Intl. Ltda and subsidiary was for ThUS \$ 53,386.

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

| <u>Tax No.</u> | <u>Related parties</u> | <u>Relationship</u> | <u>Country of origin</u> | <u>Other information on related party</u> | <u>Transaction</u> | <u>Currency</u> | <u>Amount of transactions</u> ThUS\$ |
|----------------|---------------------------------------|-------------------------|--------------------------|---|--|-----------------------------------|---|
| 96.810.370-9 | Inversiones Costa Verde Ltda. y CPA | Controlling shareholder | Chile | Investments | Property rental granted Passenger services provided | CLP CLP | 39 7 |
| 96.847.880-K | Lufthansa Lan Technical Training S.A. | Associate | Chile | Training center | Building rental granted Assignment of debt granted Other prepayments received Other prepayments received Training received | CLP CLP CLP US\$ US\$ | 13 13 (328) (25) (208) |
| 96.921.070-3 | Austral Sociedad Concesionaria S.A. | Associate | Chile | Concesionario | Aviation rates received Basic consumptions received Aeronautical concession received Dividend distribution | CLP CLP CLP CLP | (35) (8) (153) 73 |
| 87.752.000-5 | Granja Marina Tornagaleones S.A. | Other related parties | Chile | Fish farming | Passenger services provided | CLP | 39 |
| 96.669.520-K | Red de Televisión Chilevisión S.A. | Other related parties | Chile | Television | Passenger services provided Publicity services received | CLP CLP | 65 (100) |
| 96.894.180-1 | Bancard Inversiones Ltda. | Other related parties | Chile | Professional advice | Professional advice received | CLP | (7) |
| Foreign | Inversora Aeronáutica Argentina | Other related parties | Argentina | Investments | Building rental received Other services provided | US\$ US\$ | (237) 13 |

c) Compensation of key management

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

| | For the nine months ended | | For the three months ended | |
|--|---------------------------|---------------|----------------------------|--------------|
| | September 30, | | September 30, | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Remuneration | 7,061 | 5,456 | 2,532 | 1,980 |
| Management fees | 141 | 104 | 47 | 44 |
| Corrections of value and non-monetary benefits | 587 | 258 | 393 | 90 |
| Short-term benefits | 4,861 | 4,134 | 7 | 715 |
| Share-based payments | 1,901 | 2,669 | 564 | 1,217 |
| Total | <u>14,551</u> | <u>12,621</u> | <u>3,543</u> | <u>4,046</u> |

NOTE 36 - SHARE-BASED PAYMENTS

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

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

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

| <u>Percentage</u> | <u>Period</u> |
|-------------------|---|
| 30% | From October 29, 2010 until December 31, 2011 |
| 70% | From October 30, 2011 until December 31, 2011 |

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

All options expire on December 31, 2011.

| | <u>Number of share options</u> |
|---|--------------------------------|
| Stock options under a share-based payment agreement balance as of January 1, 2011 | 2,209,091 |
| Stock options granted | - |
| Stock options annulled | - |
| Stock options exercised | (567,300) |
| Stock options under a share-based payment agreement balance as of September 30, 2011 | <u>1,641,791</u> |

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

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

NOTE 37 - THE ENVIRONMENT

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

NOTE 38 – SUBSEQUENT EVENTS

The consolidated financial statements of Lan Airlines S.A. and Subsidiaries as of September 30, 2011 have been approved in extraordinary session of the Board *****, 2011, which was attended by the following directors:

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

Chilean Airline PAL abandons its rejection of the merger between LAN and TAM

As a result of analyzing the complaint lodged by LAN with the Supreme Court and confirming that the objections of LAN only partially affect the mitigation measures, PAL believes that the merger is in compliance with Chilean Law No211 and adequately maintains free competition.

LAN agreed to reimburse PAL for the costs incurred by PAL during the consultation process and its Supreme Court complaint and PAL agreed to retract all the objections lodged by it against the merger in both Chile and Brazil.

The approval of the CADE in Brazil is the next regulatory step in the forming of the LATAM group.

Except as mentioned above, subsequent to September 30, 2011 until the date of issuance of these financial statements, the Company has no knowledge of any other subsequent events that may significantly affect the balances or their interpretation.

NOTE 39 – BUSINESS COMBINATIONS

a) Aerovías de Integración Regional, AIRES S.A.

On November 26, 2010 Lan Pax Group S.A., a subsidiary of Lan Airlines S.A., acquired 98.942% of the Colombian company Aerovías de Integración Regional, AIRES S.A.

This acquisition was made through the purchase of 100% of the shares of the Panamanian corporations AKEMI Holdings S.A. and SAIPAN Holding S.A., which owned the aforementioned percentage of AIRES S.A. The purchase price was ThUS\$ 12,000.

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

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

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

Summary statement of financial position at acquisition date:

| | ThUS\$ | | ThUS\$ |
|--------------------|---------------|-------------------------|---------------|
| Current assets | 27,315 | Current liabilities | 125,193 |
| Non-current assets | 31,652 | Non-current liabilities | 20,327 |
| | | Equity | (86,553) |
| Total assets | <u>58,967</u> | Total liabilities | <u>58,967</u> |

Controlling interest (82,224)

Goodwill determination

| | ThUS\$ |
|----------------------|---------------|
| Controlling interest | 82,224 |
| Purchase price | 12,000 |
| Goodwill | <u>94,224</u> |

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

b) AEROASIS S.A.

Dated February 15, 2011, Lan Pax Group S.A. subsidiary of Lan Airlines S.A. acquired 100% of Colombian society AEROASIS S.A. The purchase price was ThUS\$ 3,541.

AEROASIS S.A. is a corporation incorporated under the laws of the Republic of Colombia through Public Deed No. 1206 dated May 02, 2006.

The business combination is recognized in the statement of financial position of Lan Airlines S.A. and Subsidiaries as goodwill of ThUS\$ 6,736.

Summary statement of financial position at acquisition date:

| | ThUS\$ | | ThUS\$ |
|----------------------|--------------|----------------------------|--------------|
| Current assets | 1,802 | Current liabilities | 8,007 |
| Non-current assets | 3,010 | Non-current liabilities | - |
| | | Equity | (3,195) |
| Total assets | <u>4,812</u> | Total liabilities & equity | <u>4,812</u> |
| Controlling interest | (3,195) | | |

Goodwill determination:

| | ThUS\$ |
|----------------------|--------------|
| Controlling interest | 3,195 |
| Purchase price | <u>3,541</u> |
| Goodwill | <u>6,736</u> |

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