



LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES  
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

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CLP	-	CHILEAN PESO
ARS	-	ARGENTINE PESO
US\$	-	UNITED STATES DOLLAR
THUS\$	-	THOUSANDS OF UNITED STATES DOLLARS
COP	-	COLOMBIAN PESO
BRL/R\$	-	BRAZILIAN REAL
THR\$	-	THOUSANDS OF BRAZILIAN REAL
MXN	-	MEXICAN PESO
VEF	-	STRONG BOLIVAR

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LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES  
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

	Note	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
Current assets			
Cash and cash equivalents	6 - 7	773,889	1,142,004
Other financial assets	7 - 11	514,937	559,919
Other non-financial assets	12	290,178	221,188
Trade and other accounts receivable	7 - 8	1,187,476	1,214,050
Accounts receivable from related entities	7 - 9	1,535	2,582
Inventories	10	247,625	236,666
Tax assets	18	<u>103,176</u>	<u>77,987</u>
Total current assets other than non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners		<u>3,118,816</u>	<u>3,454,396</u>
Non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners	13	<u>28,475</u>	<u>291,103</u>
Total current assets		<u>3,147,291</u>	<u>3,745,499</u>
Non-current assets			
Other financial assets	7 - 11	86,582	88,090
Other non-financial assets	12	206,587	220,807
Accounts receivable	7 - 8	5,638	6,891
Intangible assets other than goodwill	15	1,430,913	1,617,247
Goodwill	16	2,310,528	2,672,550
Property, plant and equipment	17	9,887,245	10,065,335
Tax assets	18	16,332	17,532
Deferred tax assets	18	<u>301,014</u>	<u>364,021</u>
Total non-current assets		<u>14,244,839</u>	<u>15,052,473</u>
Total assets		<u><u>17,392,130</u></u>	<u><u>18,797,972</u></u>

The accompanying Notes 1 to 37 form an integral part of these interim consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES AND EQUITY

LIABILITIES	<u>Note</u>	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
Current liabilities			
Other financial liabilities	7 - 19	1.390.660	1.300.949
Trade and other accounts payables	7 - 20	1.534.476	1.695.202
Accounts payable to related entities	7 - 9	379	760
Other provisions	21	3.316	2.783
Tax liabilities	18	5.245	3.511
Other non-financial liabilities	22	<u>2.689.570</u>	<u>2.823.963</u>
		<u>5.623.646</u>	<u>5.827.168</u>
Liabilities included in disposal groups classified as held for sale	13	<u>8.822</u>	<u>15.546</u>
Total current liabilities		<u>5.632.468</u>	<u>5.842.714</u>
Non-current liabilities			
Other financial liabilities	7 - 19	6.116.921	6.605.508
Accounts payable	7 - 24	535.383	498.832
Other provisions	21	330.110	374.593
Deferred tax liabilities	18	887.523	949.697
Employee benefits	23	113.599	101.087
Other non-financial liabilities	22	<u>120.523</u>	<u>158.305</u>
Total non-current liabilities		<u>8.104.059</u>	<u>8.688.022</u>
Total liabilities		<u>13.736.527</u>	<u>14.530.736</u>
EQUITY			
Share capital	25	3.146.265	3.146.265
Retained earnings	25	445.903	475.117
Treasury Shares	25	(178)	(178)
Other reserves		<u>(15.593)</u>	<u>554.885</u>
Parent's ownership interest		3.576.397	4.176.089
Non-controlling interest	14	<u>79.206</u>	<u>91.147</u>
Total equity		<u>3.655.603</u>	<u>4.267.236</u>
Total liabilities and equity		<u>17.392.130</u>	<u>18.797.972</u>

The accompanying Notes 1 to 37 form an integral part of these interim consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

	Note	For the 6 months ended June 30,		For the 3 months ended June 30,	
		2018 ThUS\$	2017 ThUS\$	2018 ThUS\$	2017 ThUS\$
<u>Unaudited</u>					
Revenue	26	4,870,093	4,504,729	2,256,258	2,144,822
Cost of sales		(3,939,523)	(3,600,645)	(1,919,940)	(1,742,880)
Gross margin		930,570	904,084	336,318	401,942
Other income	28	217,797	246,454	101,096	128,912
Distribution costs		(325,022)	(339,459)	(154,387)	(165,994)
Administrative expenses		(379,043)	(412,831)	(180,028)	(207,918)
Other expenses		(209,286)	(198,210)	(96,519)	(109,095)
Other gains/(losses)		27,675	(1,130)	31,131	(14,706)
Income from operation activities		262,691	198,908	37,611	33,141
Financial income		24,927	42,224	12,740	19,300
Financial costs	27	(177,469)	(198,333)	(91,252)	(102,545)
Foreign exchange gains/(losses)	29	(78,072)	(10,529)	(78,883)	(45,902)
Result of indexation units		3,089	47	655	35
Income (loss) before taxes		35,166	32,317	(119,129)	(95,971)
Income (loss) tax expense / benefit	18	(39,271)	(81,507)	7,452	(28,019)
<b>NET INCOME (LOSS) FOR THE PERIOD</b>		<b>(4,105)</b>	<b>(49,190)</b>	<b>(111,677)</b>	<b>(123,990)</b>
Income (loss) attributable to owners of the parent		(19,665)	(72,481)	(113,554)	(138,038)
Income (loss) attributable to non-controlling interest	14	15,560	23,291	1,877	14,048
Net income (loss) for the year		(4,105)	(49,190)	(111,677)	(123,990)
<b>EARNINGS PER SHARE</b>					
Basic earnings (losses) per share (US\$)	30	(0.03243)	(0.11953)	(0.18726)	0.22763
Diluted earnings (losses) per share (US\$)	30	(0.03243)	(0.11953)	(0.18726)	0.22763

The accompanying Notes 1 to 37 form an integral part of these interim consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the 6 months ended		For the 3 months ended	
		June 30,		June 30,	
		2018	2017	2018	2017
		ThUS\$	ThUS\$		
Unaudited					
NET INCOME (LOSS)		(4,105)	(49,190)	(111,677)	(123,990)
Components of other comprehensive income that will not be reclassified to income before taxes					
Other comprehensive income, before taxes, gains (losses) by new measurements on defined benefit plans	25	(1,973)	4,027	125	1,426
Total other comprehensive income that will not be reclassified to income before taxes		(1,973)	4,027	125	1,426
Components of other comprehensive income that will be reclassified to income before taxes					
Currency translation differences					
Gains (losses) on currency translation, before tax	29	(610,051)	(36,015)	(581,392)	(145,137)
Other comprehensive income, before taxes, currency translation differences		(610,051)	(36,015)	(581,392)	(145,137)
Cash flow hedges					
Gains (losses) on cash flow hedges before taxes	19	32,509	(7,329)	15,390	(2,450)
Other comprehensive income (losses), before taxes, cash flow hedges		32,509	(7,329)	15,390	(2,450)
Total other comprehensive income that will be reclassified to income before taxes		(577,542)	(43,344)	(566,002)	(147,587)
Other components of other comprehensive income (loss), before taxes		(579,515)	(39,317)	(565,877)	(146,161)
Income tax relating to other comprehensive income that will not be reclassified to income					
Income tax relating to new measurements on defined benefit plans	18	505	(874)	(20)	166
Accumulate income tax relating to other comprehensive income that will not be reclassified to income		505	(874)	(20)	166
Income tax relating to other comprehensive income that will be reclassified to income					
Income tax related to cash flow hedges in other comprehensive income		192	2,005	719	2,725
Income taxes related to components of other comprehensive incomethat will be reclassified to income		192	2,005	719	2,725
Total Other comprehensive income		(578,818)	(38,186)	(565,178)	(143,270)
Total comprehensive income (loss)		(582,923)	(87,376)	(676,855)	(267,260)
Comprehensive income (loss) attributable to owners of the parent		(588,488)	(108,585)	(669,979)	(274,918)
Comprehensive income (loss) attributable to non-controlling interests		5,565	21,209	(6,876)	7,658
TOTAL COMPREHENSIVE INCOME (LOSS)		(582,923)	(87,376)	(676,855)	(267,260)

The accompanying Notes 1 to 37 form an integral part of these interim consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent												
	Change in other reserves											Total equity	
	Note	Share capital	Treasury shares	Currency translation reserve	Cash flow hedging reserve	Actuarial gains or losses on defined benefit plans reserve	Shares based payments reserve	Other sundry reserve	Total other reserve	Retained earnings	Parent's ownership interest		Non- controlling interest
ThUS\$													
Equity as of January 1, 2018		3,146,265	(178)	(2,131,590)	18,140	(10,926)	39,481	2,639,780	554,885	475,117	4,176,089	91,147	4,267,236
Total increase (decrease) in equity													
Comprehensive income													
Gain (losses)	25	-	-	-	-	-	-	-	-	(19,665)	(19,665)	15,560	(4,105)
Other comprehensive income		-	-	(600,689)	33,277	(1,411)	-	-	(568,823)	-	(568,823)	(9,995)	(578,818)
Total comprehensive income		-	-	(600,689)	33,277	(1,411)	-	-	(568,823)	(19,665)	(588,488)	5,565	(582,923)
Transactions with shareholders													
Dividends	25	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) through transfers and other changes, equity	25-34	-	-	-	-	-	(1,420)	(235)	(1,655)	(9,549)	(11,204)	(17,506)	(28,710)
Total transactions with shareholders		-	-	-	-	-	(1,420)	(235)	(1,655)	(9,549)	(11,204)	(17,506)	(28,710)
Closing balance as of June 30, 2018 (Unaudited)		<u>3,146,265</u>	<u>(178)</u>	<u>(2,732,279)</u>	<u>51,417</u>	<u>(12,337)</u>	<u>38,061</u>	<u>2,639,545</u>	<u>(15,593)</u>	<u>445,903</u>	<u>3,576,397</u>	<u>79,206</u>	<u>3,655,603</u>

The accompanying Notes 1 to 37 form an integral part of these interim consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent												
	Change in other reserves											Total equity	
	Note	Share capital	Treasury shares	Currency translation reserve	Cash flow hedging reserve	Actuarial gains or losses on defined benefit plans reserve	Shares based payments reserve	Other sundry reserve	Total other reserve	Retained earnings	Parent's ownership interest		Non-controlling interest
ThUS\$													
Equity as of January 1, 2017		3,149,564	(178)	(2,086,555)	1,506	(12,900)	38,538	2,640,281	580,870	366,404	4,096,660	88,644	4,185,304
Total increase (decrease) in equity													
Comprehensive income													
Gain (losses)	25	-	-	-	-	-	-	-	-	(72,481)	(72,481)	23,291	(49,190)
Other comprehensive income		-	-	(33,990)	(5,264)	3,150	-	(36,104)	-	(36,104)	(36,104)	(2,082)	(38,186)
Total comprehensive income		-	-	(33,990)	(5,264)	3,150	-	(36,104)	(72,481)	(108,585)	21,209	(87,376)	
Transactions with shareholders													
Dividends	25	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) through transfers and other changes, equity	25-34	(3,299)	-	-	-	-	739	(274)	465	-	(2,834)	(20,521)	(23,355)
Total transactions with shareholders		(3,299)	-	-	-	-	739	(274)	465	-	(2,834)	(20,521)	(23,355)
Closing balance as of June 30, 2017 (Unaudited)		3,146,265	(178)	(2,120,545)	(3,758)	(9,750)	39,277	2,640,007	545,231	293,923	3,985,241	89,332	4,074,573

The accompanying Notes 1 to 37 form an integral part of these interim consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT – METHOD

		For the periods ended June 30,	
	Note	2018	2017
		ThUS\$	ThUS\$
		(Unaudited)	
Cash flows from operating activities			
Cash collection from operating activities			
Proceeds from sales of goods and services		4.923.137	5.025.079
Other cash receipts from operating activities		48.217	29.562
Payments for operating activities			
Payments to suppliers for goods and services		(3.343.545)	(3.398.364)
Payments to and on behalf of employees		(983.543)	(960.316)
Other payments for operating activities		(127.326)	(112.785)
Income taxes refunded (paid)		(40.145)	(71.703)
Other cash inflows (outflows)	35	(15.745)	(41.968)
Net cash flows from operating activities		461.050	469.505
Cash flows used in investing activities			
Cash flows used in the purchase of non-controlling interest		40.248	6.124
Other cash receipts from sales of equity or debt instruments of other entities		1.937.709	1.403.463
Other payments to acquire equity or debt instruments of other entities		(1.931.759)	(1.372.576)
Amounts raised from sale of property, plant and equipment		215.904	19.706
Purchases of property, plant and equipment		(277.352)	(189.483)
Purchases of intangible assets		(44.830)	(38.004)
Interest received		5.836	10.338
Other cash inflows (outflows)	35	5.757	(1.583)
Net cash flow from (used in) investing activities		(48.487)	(162.015)
Cash flows from (used in) financing activities	35		
Amounts raised from long-term loans		382.663	908.748
Amounts raised from short-term loans		205.000	100.000
Loans repayments		(588.714)	(785.901)
Payments of finance lease liabilities		(371.982)	(160.546)
Dividends paid		(63.359)	(43.394)
Interest paid		(181.451)	(181.865)
Other cash inflows (outflows)		(6.890)	71.722
Net cash flows from (used in) financing activities		(624.733)	(91.236)
Net increase (decrease) in cash and cash equivalents before effect of exchange rate change		(212.170)	216.254
Effects of variation in the exchange rate on cash and cash equivalents		(155.945)	(15.028)
Net increase (decrease) in cash and cash equivalents		(368.115)	201.226
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6	1.142.004	949.327
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6	773.889	1.150.553

The accompanying Notes 1 to 37 form an integral part of these interim consolidated financial statements.

## LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2018 (UNAUDITED)

#### NOTE 1 - GENERAL INFORMATION

LATAM Airlines Group S.A. (the "Company") is a public limited company registered with the Commission for the Financial Market (1) under No. 306, whose shares are listed in Chile on the Stock Exchange of Brokers - Stock Exchange (Valparaiso), the Electronic Stock Exchange of Chile - Stock Exchange and the Santiago Stock Exchange - Stock Exchange, besides being listed in the United States of America on the New York Stock Exchange ("NYSE"), in the form of American Depositary Receipts ("ADRs").

Its main business is the air transport of passengers and cargo, both in the domestic markets of Chile, Peru, Argentina, Colombia, Ecuador and Brazil, as well as in a series of regional and international routes in America, Europe and Oceania. These businesses are developed directly or by its subsidiaries in different countries. In addition, the Company has subsidiaries that operate in the cargo business in Mexico, Brazil and Colombia.

The Company is located in Chile, in the city of Santiago, on Avenida Americo Vesputio Sur No. 901, Renca commune.

The Corporate Governance practices of the Company are governed by the provisions of the Securities Market Law, the Law on Public Limited Companies and its Regulations, and by the regulations of the Financial Market Commission (1) and the laws and regulations of the United States of America and the Securities and Exchange Commission ("SEC") of that country, in what corresponds to the issuance of ADRs (2).

As of June 30, 2018 the statutory capital of the Company is represented by 606,874,525 shares, all ordinary, without par value, which is divided into: (a) 606,407,693 subscribed and paid shares; and (b) 466,832 shares pending subscription and payment, which correspond to the balance of shares pending placement of the last capital increase approved at the extraordinary shareholders meeting of August 18, 2016.

The Board of Directors of the Company is composed of nine regular members who are elected every two years by the Ordinary Shareholders' Meeting. The Board of Directors meets in monthly ordinary sessions and in extraordinary sessions, whenever social needs so require. Of the nine members of the Board, three of them are part of its Directors Committee, which fulfills both the role envisaged in the Law on Public Limited Companies, and the functions of the Audit Committee required by the Sarbanes-Oxley Act of the United States. of North America and the respective regulations of the SEC.

(1) On February 23, 2017, Law No. 21,000 was published in the Official Gazette, creating the new Commission for the Financial Market (CMF), a collegiate and technical body that replaced the Superintendency of Securities and Insurance (SVS).

The controller of the Company is the Cueto Group, which through the companies Costa Verde Aeronáutica S.A., Costa Verde Aeronáutica SpA, Costa Verde Aeronáutica Tres SpA, Inversiones Nueva Costa Verde Aeronáutica Ltda., Inversiones Priesca Dos y Cía. Ltda., Inversiones Caravia Dos y Cía. Ltda., Inversiones El Fano Dos y Cía. Ltda., Inversiones La Espasa Dos S.A. and Investments La Espasa Dos y Cía. Ltda., Owns 27.91% of the shares issued by the Company, so it is the controller of the Company in accordance with the provisions of letter b) of Article 97 and Article 99 of the Market Law. of Values, taken care of that it influences decisively in the administration of this one.

As of June 30, 2018, the Company had a total of 1,465 shareholders in its registry. At that date, approximately 2.27% of the Company's property was in the form of ADRs.

For the period ended June 30, 2018, the company had an average of 42,454 employees, ending this period with a total number of 41,904 people, distributed in 6,597 Administration employees, 4,760 in Maintenance, 13,884 in Operations, 9,310 Cabin Crew , 4,131 Command Managers and 3,222 in Sales.

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

a) Participation rate

Tax No.	Company	Country of origin	Functional Currency	As of June 30, 2018			As of December 31, 2017		
				Direct	Indirect	Total	Direct	Indirect	Total
				%	%	%	%	%	%
				Unaudited					
96.518.860-6	Latam Travel Chile S.A. and Subsidiary	Chile	US\$	99.9900	0.0100	100.0000	99.9900	0.0100	100.0000
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.	Peru	US\$	49.0000	21.0000	70.0000	49.0000	21.0000	70.0000
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
96.631.520-2	Fast Air Almacenes de Carga 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	Bahamas	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	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.575.810-0	Inversiones Lan S.A. and Subsidiaries	Chile	US\$	99.7100	0.2900	100.0000	99.7100	0.2900	100.0000
96.847.880-K	Technical Training LATAM S.A.	Chile	CLP	99.8300	0.1700	100.0000	99.8300	0.1700	100.0000
Foreign	Latam Finance Limited	Cayman Insland	US\$	100.0000	0.0000	100.0000	100.0000	0.0000	100.0000
Foreign	Peuco Finance Limited	Cayman Insland	US\$	100.0000	0.0000	100.0000	100.0000	0.0000	100.0000
Foreign	Profesional Airline Services INC.	U.S.A.	US\$	100.0000	0.0000	100.0000	100.0000	0.0000	100.0000
Foreign	Jarletul S.A.	Uruguay	US\$	99.0000	1.0000	100.0000	0.0000	0.0000	0.0000
Foreign	TAM S.A. and Subsidiaries (*)	Brazil	BRL	63.0901	36.9099	100.0000	63.0901	36.9099	100.0000

(\*) As of June 30, 2018, the indirect participation percentage over TAM S.A. and Subsidiaries comes from Holdco I S.A., a company over which LATAM Airlines Group S.A. it has a 99.9983% share on economic rights and 49% of political rights as a result of the provisional measure No. 714 of the Brazilian government implemented during 2016 that allows foreign capital to have up to 49% ownership. In this way, since April 2016, LATAM Airlines Group S.A. owns 901 shares with the right to vote of Holdco I S.A., which is equivalent to 49% of the total shares with voting rights of said company and TEP Chile S.A. owns 938 shares with the right to vote of Holdco I S.A., which is equivalent to 51% of the total shares with voting rights of said company.

## b) Financial Information

Tax No.	Company	Statement of financial position						Net Income	
		As of June 30, 2018			As of December 31, 2017			For the periods ended	
		Assets	Liabilities	Equity	Assets	Liabilities	Equity	June 30,	
								2018	2017
		ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	Gain/(loss)	
Unaudited						Unaudited			
96.518.860-6	Latam Travel Chile S.A. and Subsidiary	7,873	1,852	6,021	6,771	2,197	4,574	1,451	894
96.969.680-0	Lan Pax Group S.A. and Subsidiaries (*)	651,681	1,348,336	(689,320)	499,345	1,101,548	(596,406)	(86,928)	(39,416)
Foreign	Lan Perú S.A.	455,621	454,965	656	315,607	303,204	12,403	(6,169)	(828)
93.383.000-4	Lan Cargo S.A.	510,967	286,082	224,885	584,169	371,934	212,235	13,392	(26,986)
Foreign	Connecta Corporation	36,670	4,764	31,906	38,735	17,248	21,487	10,419	4,298
Foreign	Prime Airport Services Inc. and Subsidiary (*)	14,670	16,365	(1,695)	12,671	15,722	(3,051)	1,367	253
96.951.280-7	Transporte Aéreo S.A.	329,067	110,837	218,230	324,498	104,357	220,141	(1,836)	20,798
96.631.520-2	Fast Air Almacenes de Carga S.A.	13,694	6,014	7,680	12,931	4,863	8,068	63	(80)
Foreign	Laser Cargo S.R.L.	11	17	(6)	18	27	(9)	-	1
Foreign	Lan Cargo Overseas Limited and Subsidiaries (*)	58,429	36,038	15,917	66,039	42,271	18,808	(784)	2,016
96.969.690-8	Lan Cargo Inversiones S.A. and Subsidiary (*)	154,776	164,085	(8,568)	144,884	156,005	(10,112)	1,543	2,544
96.575.810-0	Inversiones Lan S.A. and Subsidiaries (*)	1,427	48	1,379	11,681	5,201	6,377	(4,728)	1,329
96.847.880-K	Technical Training LATAM S.A.	1,812	336	1,476	1,967	367	1,600	(32)	(457)
Foreign	Latam Finance Limited	678,691	732,359	(53,668)	678,289	708,306	(30,017)	(23,651)	(9,058)
Foreign	Peuco Finance Limited	608,191	608,191	-	608,191	608,191	-	-	-
Foreign	Profesional Airline Services INC.	1,951	2,086	(135)	3,703	3,438	265	(401)	-
Foreign	TAM S.A. and Subsidiaries (*)	4,398,272	3,121,607	1,204,672	4,490,714	3,555,423	856,829	(48,163)	(56,902)

(\*) The Equity reported corresponds to Equity attributable to owners of the parent, it does not include Non-controlling interest.

Additionally, we have proceeded to consolidate the following special purpose entities: 1. Chercán Leasing Limited created to finance the pre-delivery payments on aircraft; 2. Guanay Finance Limited created to issue a bond collateralized with future credit card receivables; 3. Private investment funds. These companies have been consolidated as required by IFRS 10.

All controlled entities have been included in the consolidation.

The changes that occurred in the consolidation perimeter between January 1, 2017 and June 30, 2018, are detailed below:

(1) Incorporation or acquisition of companies

- Prismah Fidelidade Ltda. was constituted on June 29, 2012, whose ownership corresponds 99.99% to Multiplus S.A. direct subsidiary of TAM S.A. The operation of this company began in December 2017.
- On November 2015, the company Peuco Finance Limited was created, whose ownership corresponds 100% to LATAM Airlines Group S.A. The operation of this company began in December 2017.

- During the month of December 2017, a capital increase in TAM S.A was reported to the Finance Committee for up to US \$ 900 million.

The contributions were made on December 11, 2017 for US \$ 210 million, January 24, 2018 for US \$ 449 million and February 5, 2018 for US \$ 200 million, without issuance of new shares.

These capital increases were made and integrated 100% by the shareholder LATAM Airlines Group S.A.

The foregoing, in accordance with the TAM's shareholder Holdco I S.A., who renounces to any right arising from this increase.

- On January 22, 2018, Lan Pax Group S.A., purchased 17,717 shares of Laser Cargo SRL. to Andes Airport Service S.A., remaining with 3.77922% and Lan Cargo S.A. with a 96.22078% share.
- On March 13, 2018, the company Jarletul S.A., was create. The company ownership is 99% of LATAM Airlines Group S.A. and a 1% is from Inversiones Lan S.A.. The company main activity is a Travel Agency.
- As of June 30, 2018, Inversiones LAN S.A., subsidiary of LATAM Airlines Group S.A., acquired 4,951 shares of Aerovías de Integración Regional Aires S.A. a non-controlling shareholder, equivalent to 0.09498%, consequently, the indirect participation of LATAM Airlines Group S.A. increases to 99.19414%

## (2) Dissolution of companies

- On November 20, 2017 LATAM Airlines Group S.A. acquires 100% of the shares of Inmobiliaria Aeronáutica S.A. consequently, a merger and subsequent dissolution of said company is carried out.

## (3) Disappropriation of companies.

- On May 5, 2017 Lan Pax Group S.A. and Inversiones Lan S.A., both subsidiaries of LATAM Airlines Group S.A., sold Talma Servicios Aeroportuarios S.A. and Inversiones Talma S.A.C. 100% of the capital stock of Rampas Andes Airport Services S.A.

The sale value of Rampas Andes Airport Services S.A. it was of ThUS \$ 8,624.

- On May 7, 2018 LATAM Airlines Group S.A. and its subsidiaries Inversiones LAN S.A. and LAN Pax Group S.A., sold, assigned and transferred to the Spanish companies Acciona Airport Services, S.A. and Acciona Aeropuertos, S.L., 100% of its shares in the subsidiary Andes Airport Services S.A.

The sale value of Andes Airport Services S.A. it was ThUS \$ 39,108

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## 2.1. Basis of Preparation

The consolidated financial statements of LATAM Airlines Group S.A. for the period ended June 30, 2018, have been prepared in accordance with IAS 34 Interim Financial Reporting, which is included in the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (“IASB”) incorporated therein and with the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRIC).

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

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

In order to facilitate comparison, some minor reclassifications have been made to the consolidated financial statements for the previous year.

The interim consolidated financial statements has been prepared accordance with the accounting policy used by the Group for the consolidated financial statements 2017, except for standards and interpretations adopted as from January 1, 2018.

## (a) Accounting pronouncements with implementation effective from January 1, 2018:

	Date of issue	Mandatory application: exercises started at from
(i) Rules and amendments		
IFRS 9: Financial instruments.	December 2009	01/01/2018
Amendment to IFRS 9: Financial instruments.	November 2013	01/01/2018
IFRS 15: Revenue from ordinary activities from contracts with customers.	May 2014	01/01/2018
Amendment to IFRS 15: Revenue from ordinary activities from contracts with customers.	April 2016	01/01/2018
Amendment to IFRS 2: Share-based payments	June 2016	01/01/2018
Amendment to IFRS 4: Insurance contract	September 2016	01/01/2018

	Date of issue	Mandatory application: exercises started at from
(ii) Improvements		
Improvements to the International Financial Reporting Standards (cycle 2014-2016) IFRS 1: Adoption for the first time of international financial reporting standards and IAS 28 Investments in associates and joint ventures.	December 2016	01/01/2018
(iii) Interpretations		
IFRIC 22: Transactions in foreign currency and anticipated consideration	December 2016	01/01/2018

The Company has recognized the changes identified as a result of the adoption of IFRS 9 and 15, recognizing the cumulative effect of the initial application of these standards as an adjustment to the opening balance of retained earnings as of January 1, 2018, therefore, the Financial statements as of December 31, 2017 have not been modified.

The impacts of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from ordinary contracts with customers are as follows:

#### Consolidated statement of financial position (extract)

	Note	As of 31 december 2017 ThUS\$	Effect adoption		As of 1 january 2018 ThUS\$
			<u>IFRS 9</u> THUS\$ Unaudited	<u>IFRS 15</u> ThUS\$ Unaudited	Unaudited
Current assets					
Other non-financial assets, current	7 - 11	221,188	-	54,361 (4)	275,549
Trade debtors and other accounts receivable, current	7 - 8	1,214,050	(11,105) (1)	-	1,202,945
Non-current assets					
Deferred tax assets		364,021	89 (2)	6,005 (7)	370,115
Current liabilities					
Accounts payable commercial and other					
Debts to pay	7 - 20	1,695,202	-	(22,192) (5)	1,673,010
Other non-financial liabilities, current	22	2,823,963	-	77,640 (6)	2,901,603
Non-current liabilities					
Deferred tax liability	18	949,697	(1,021) (2)	4,472 (5)	953,148
Equity					
Accumulated earnings	25	475,118	(9,995) (3)	446 (8)	465,569

#### - Effects of adopting IFRS 9

(1) Expected credit losses: The Company modified the calculation of the impairment provision to comply with the expected credit loss model, established in IFRS 9 Financial Instruments, which

replaces the current loss impairment model incurred. To calculate percentage of credit losses, a risk matrix was used, grouping the portfolio, according to similar characteristics of risk and maturity. This change resulted in the recognition of an increase in the provision for impairment losses of US \$ (11.1) million.

This standard also includes requirements related to the classification and measurement of financial assets and liabilities and an expected credit loss model that replaces the current loss impairment model incurred.

As of January 1, 2018, the calculation of the impairment losses provision are as follows:

	Portfolio maturity					Total ThUS\$
	Up to date ThUS\$	Up to 90 days ThUS\$	Up to 91 to 180 days ThUS\$	Up to 181 to 365 days ThUS\$	More than 365 days ThUS\$	
Expected loss rate	1%	3%	54%	36%	98%	8%
Gross book value	1,040,671	34,153	12,855	18,577	69,540	1,175,796
Impairment provision	(6,046)	(10,660)	(6,977)	(6,628)	(68,122)	(98,433)

(2) Deferred tax adjustments originated by the application of IFRS 9.

(3) Net effect on accumulated results of the adjustments indicated above.

In addition to the impacts on the consolidated statement of financial position, the application of IFRS 9: Financial Instruments requires the classification of financial instruments according to the business model, to determine the form of measurement of financial instruments, after their initial recognition.

The Company analyzed the business models and classified its financial assets and liabilities according to the following:

Assets	Classification IAS 39			Classification IFRS 9			Total
	Loans and receivables	Hedge and derivatives	Held for trading	Initial as fair value through profit and loss	Cost amortized	At fair value with changes in results	
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	
Balance as of December 31, 2017	2.446.864	62.867	1.915	501.890	-	-	3.013.536
Cash and cash equivalents	(1.112.346)	-	-	(29.658)	1.112.346	29.658	-
Other financial assets, current	(23.918)	-	(1.421)	(472.232)	23.918	473.653	-
Trade debtors and other accounts receivable, current	(1.214.050)	-	-	-	1.214.050	-	-
Accounts receivable from entities related, current	(2.582)	-	-	-	2.582	-	-
Other financial assets, non-current	(87.077)	-	(494)	-	87.077	494	-
Accounts receivable, non-current	(6.891)	-	-	-	6.891	-	-
Balance as of January 1, 2018	-	62.867	-	-	2.446.864	503.805	3.013.536

Liabilities	Classification IAS 39		Classification IFRS 9	
	Others financial liabilities	Held hedge derivatives	Cost amortized	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Balance as of December 31, 2017	10,086,434	14,817	-	10,101,251
Other current financial liabilities	(1,288,749)	-	1,288,749	-
Trade accounts payable and other accounts payable, current	(1,695,202)	-	1,695,202	-
Accounts payable to related entities, current	(760)	-	760	-
Other financial liabilities, not current	(6,602,891)	-	6,602,891	-
Accounts payable, not current	(498,832)	-	498,832	-
Accounts payable to entities related, not current	-	-	-	-
Balance as of January 1, 2018	-	14,817	10,086,434	10,101,251

#### - Effects of adopting IFRS 15

(4) Contract costs: The Company has capitalized the costs, related to the revenues from air transport of passengers, corresponding to: the commissions charged by the credit card administrators for US\$ 22,0 million and the air ticket booking services through the system general distribution (GDS) for US\$ 15,6 million. Additionally, there is a reclassification of commissions from travel agencies for US\$ 16,8 million, which previously were presented, according IAS 18, net of the liability to fly.

(5) Contract liabilities: The Company has adjusted certain concepts that were recorded as obligations with suppliers and customers, which must now be treated as contract liabilities;

therefore they must be deferred until the presentation of the service. These concepts are mainly related to the ground transportation service for US \$ 15.6 million and traveler's checks for US \$ 6.6 million.

(6) Performance Obligations: The Company analyzed the moment in which the performance obligations identified in the contracts with customers must be recognized in the consolidated result. During this analysis, some concepts were identified which must be deferred until the moment of service provision, mainly related to land transportation services, charges for modifications to the initial contract in the sale of tickets and redeem of some products associated with loyalty programs for US\$ 60,8 million. Additionally, there is the reclassification detailed in numeral (4) for US\$ 16,8 million.

(7) Deferred tax adjustments originated by the application of IFRS 15.

(8) Net effect on accumulated results of the adjustments indicated above.

Additionally, the Company concluded that, in the rendering of certain services, it acted as agent in the provision of said services, therefore some reclassifications were made in the consolidated income statement to reflect the corresponding commission.

The effects of the changes recognized in the application of IFRS 15 in the first quarter of the year 2018 in the consolidated income statement are presented below.

For the period ended June 30, 2018						
Reconciliation Revenue						
Note	Results under IFRS 15	Adjustments for reconciliation			Results under IAS 18	
		Contract costs (4)	Deferred revenues recognition (5), (6)	Reclassifications		
		ThUS\$	ThUS\$	ThUS\$		
Unaudited						
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	
Revenue	26	4,870,093	-	25,620	714	4,896,427
Cost of sales		(3,939,523)	-	(20,937)	-	(3,960,460)
Gross margin		930,570	-	4,683	714	935,967
Other income	28	217,797	-	-	34,247	252,044
Distribution costs		(325,022)	441	-	(7,117)	(331,698)
Administrative expenses		(379,043)	5,391	-	(27,844)	(401,496)
Other expenses		(209,286)	-	-	-	(209,286)
Other gains/(losses)		27,675	-	-	-	27,675
Income from operation activities		262,691	5,832	4,683	-	273,206
Financial income		24,927	-	-	-	24,927
Financial costs	27	(177,469)	-	-	-	(177,469)
Foreign exchange gains/(losses)	29	(78,072)	-	-	-	(78,072)
Result of indexation units		3,089	-	-	-	3,089
Income (loss) before taxes		35,166	5,832	4,683	-	45,681
Income (loss) tax expense / benefit	18	(39,271)	(1,663)	(2,665)	-	(43,599)
NET INCOME (LOSS) FOR THE		(4,105)	4,169	2,018	-	2,082
Income (loss) attributable to owners of the parent		(19,665)	4,169	2,018	-	(13,478)
Income (loss) attributable to non-controlling interest	14	15,560	-	-	-	15,560
Net income (loss) for the year		(4,105)	4,169	2,018	-	2,082

For the period ended June 30, 2018						
Reconciliation Revenue						
Adjustments for reconciliation						
Note	Results under IFRS 15	Contract costs (4)	Deferred revenues recognition (5), (6)	Reclassifications	Results under IAS 18	
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	
Unaudited						
Revenue	26	2,256,258	-	(4,653)	(4,116)	2,247,489
Cost of sales		(1,919,940)	-	(10,205)	-	(1,930,145)
Gross margin		336,318	-	(14,858)	(4,116)	317,344
Other income	28	101,096	-	-	15,473	116,569
Distribution costs		(154,387)	(523)	-	(2,419)	(157,329)
Administrative expenses		(180,028)	2,010	-	(8,938)	(186,956)
Other expenses		(96,519)	-	-	-	(96,519)
Other gains/(losses)		31,131	-	-	-	31,131
Income from operation activities		37,611	1,487	(14,858)	-	24,240
Financial income		12,740	-	-	-	12,740
Financial costs	27	(91,252)	-	-	-	(91,252)
Foreign exchange gains/(losses)	29	(78,883)	-	-	-	(78,883)
Result of indexation units		655	-	-	-	655
Income (loss) before taxes		(119,129)	1,487	(14,858)	-	(132,500)
Income (loss) tax expense / benefit	18	7,452	(423)	3,342	-	10,371
NET INCOME (LOSS) FOR THE PERIOD		(111,677)	1,064	(11,516)	-	(122,129)
Income (loss) attributable to owners of the parent		(113,554)	1,064	(11,516)	-	(124,006)
Income (loss) attributable to non-controlling interest	14	1,877	-	-	-	1,877
Net income (loss) for the year		(111,677)	1,064	(11,516)	-	(122,129)

(b) Accounting pronouncements not yet in force for financial years beginning on January 1, 2018 and which has not been effected early adoption

	Date of issue	Mandatory application: exercises started at from
IFRS 16: Leases	January 2016	January 1, 2019
Amendment to IFRS 9: Financial Instruments	October 2017	January 1, 2019
Amendment to IAS 28: Investments in associates and joint ventures	October 2017	January 1, 2019
IFRS 17: Insurance contracts	May 2017	January 1, 2021
Amendment to IFRS 10: Consolidated financial statements and IAS 28 Investments in associates and joint ventures.	September 2014	To be determined
Amendment to IAS 19: Benefits to employees	February 2018	January 1, 2019

## ii) Improvements

Improvements to International Financial Reporting Standards (cycle 2015-2017) IFRS 3: Business combination; IAS 12: Income tax; IFRS 11: Joint agreements and IAS 23 Costs for loans.	December 2017	January 1, 2019
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## (i) Interpretations

IFRIC 23: Uncertain tax positions	June 2017	January 1, 2019
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The Company's management believes that the adoption of the standards, amendments and interpretations described above will not have a significant impact on the consolidated financial statements of the Company in the exercise of its first application, except for IFRS 16.

IFRS 16 Leases incorporates significant changes in the accounting of tenants by requiring a similar treatment to financial leases for all those leases that are currently classified as operational with a term greater than 12 months. This means, in general terms, that an asset representative of the right to use the assets subject to operational leasing contracts and a liability equivalent to the present value of the payments associated with the contract must be recognized. As for the effects on the result, the monthly lease payments will be replaced by the depreciation of the asset and the recognition of a financial expense.

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

LATAM Airlines Group S.A. and subsidiaries is analyzing this rule to determine the effects it may have on its financial statements, covenants and other financial indicators.

## 2.2. Basis of Consolidation

## (a) Subsidiaries

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

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

To account for and identify the financial information revealed when carrying out a business combination, such as the acquisition of an entity by the Company, is apply the acquisition method provided for in IFRS 3: Business combination.

(b) Transactions with non-controlling interests

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

(c) Sales of subsidiaries

When a subsidiary is sold and a percentage of participation is not retained, the Company derecognizes assets and liabilities of the subsidiary, the non-controlling and other components of equity related to the subsidiary. Any gain or loss resulting from the loss of control is recognized in the consolidated income statement in Other gains (losses).

If LATAM Airlines Group S.A. and Subsidiaries retain an ownership of participation in the sold subsidiary, and does not represent control, this is recognized at fair value on the date that control is lost, the amounts previously recognized in Other comprehensive income are accounted as if the Company had disposed directly from the assets and related liabilities, which can cause these amounts are reclassified to profit or loss. The percentage retained valued at fair value is subsequently accounted using the equity method.

(d) Investees or associates

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

### 2.3. Foreign currency transactions

(a) Presentation and functional currencies

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

(b) Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates on the transaction dates. Foreign currency gains and losses resulting from the liquidation of these transactions and from the translation at the closing exchange rates of the monetary assets and liabilities denominated in foreign currency are shown in the consolidated statement of income by function except when deferred in Other comprehensive income as qualifying cash flow hedges.

## (c) Group entities

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

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

The exchange rates used correspond to those fixed in the country where the subsidiary is located, whose functional currency is different to the U.S. dollar.

Adjustments to the Goodwill and fair value arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate or period informed.

## 2.4. Property, plant and equipment

The land of LATAM Airlines Group S.A. and Subsidiaries, are recognized at cost less any accumulated impairment loss. The rest of the Properties, plants and equipment are recorded, both in their initial recognition and in their subsequent measurement, at their historical cost less the corresponding depreciation and any loss due to deterioration.

The amounts of advances paid to the aircraft manufacturers are activated by the Company under Construction in progress until they are received.

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

The depreciation of the properties, plants and equipment is calculated using the linear method over their estimated technical useful lives; except in the case of certain technical components which are depreciated on the basis of cycles and hours flown.

The residual value and the useful life of the assets are reviewed and adjusted, if necessary, once a year.

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

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

## 2.5. Intangible assets other than goodwill

### (a) Airport slots and Loyalty program

Airport slots and the Coalition and Loyalty program are intangible assets of indefinite useful life and are subject to impairment tests annually as an integral part of each CGU, in accordance with the premises that are applicable, included as follows:

Airport slots – Air transport CGU

Loyalty program – Coalition and loyalty program Multiplus CGU

(See Note 16)

The airport slots correspond to an administrative authorization to carry out operations of arrival and departure of aircraft at a specific airport, within a specified period.

The Loyalty program corresponds to the system of accumulation and redemption of points that has developed Multiplus S.A., subsidiary of TAM S.A.

The Brands, airport Slots and Loyalty program were recognized in fair values determined in accordance with IFRS 3, as a consequence of the business combination with TAM and Subsidiaries.

### (b) Computer software

Licenses for computer software acquired are capitalized on the basis of the costs incurred in acquiring them and preparing them for using the specific software. These costs are amortized over their estimated useful lives, for which the Company has been defined useful lives between 3 and 10 years.

Expenses related to the development or maintenance of computer software which do not qualify for capitalization, are shown as an expense when incurred. The personnel costs and others costs directly related to the production of unique and identifiable computer software controlled by the Company, are shown as intangible Assets others than Goodwill when they have met all the criteria for capitalization.

### (c) Brands

The Brands were acquired in the business combination with TAM S.A. And Subsidiaries and recognized at fair value under IFRS. During the year 2016, the estimated useful life of the brands change from an indefinite useful life to a five-year period, the period in which the value of the brands will be amortized (See Note 15).

## 2.6. Goodwill

Goodwill represents the excess of acquisition cost over the fair value of the Company's participation in the net identifiable assets of the subsidiary or associate on the acquisition date. Goodwill related to acquisition of subsidiaries is not amortized but tested for impairment annually or each time that there is evidence of impairment. Gains and losses on the sale of an entity include the book amount of the goodwill related to the entity sold.

## 2.7. Borrowing costs

Interest costs incurred for the construction of any qualified asset are capitalized over the time necessary for completing and preparing the asset for its intended use. Other interest costs are recognized in the consolidated income statement when they are accrued.

## 2.8. Losses for impairment of non-financial assets

Intangible assets that have an indefinite useful life, and developing IT projects, are not subject to amortization and are subject to annual testing for impairment. Assets subject to amortization are subjected to impairment tests whenever any event or change in circumstances indicates that the book value of the assets may not be recoverable. An impairment loss is recorded when the book value is greater than the recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In evaluating the impairment, the assets are grouped at the lowest level for which cash flows are separately identifiable (CGUs). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed if there are indicators of reverse losses at each reporting date.

## 2.9. Financial assets

As of January 1, 2018, the Company classifies its financial assets in the following categories: at fair value (either through other comprehensive income, or through gains or losses), and at amortized cost. The classification depends on the business model of the entity to manage the financial assets and the contractual terms of the cash flows.

The group reclassifies debt investments when and only when it changes its business model to manage those assets.

In the initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset classified at amortized cost, the transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets accounted for at fair value through profit or loss are recorded as expenses in the income statement.

### (a) Debt instruments

The subsequent measurement of debt instruments depends on the group's business model to manage the asset and cash flow characteristics of the asset. The Company has two measurement categories in which the group classifies its debt instruments:

**Amortized cost:** the assets held for the collection of contractual cash flows where those cash flows represent only payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in income when the asset is derecognized or impaired. Interest income from these financial assets is included in financial income using the effective interest rate method.

**Fair value through profit or loss:** assets that do not meet the criteria of amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and is presented net in the income statement within other gains / (losses) in the period in which it arises.

## (b) Equity instruments

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gains / (losses) in the statement of income as appropriate.

The Company evaluates in advance the expected credit losses associated with its debt instruments recorded at amortized cost. The applied impairment methodology depends on whether there has been a significant increase in credit risk.

## 2.10. Derivative financial instruments and hedging activities

Derivatives are recognized, in accordance with IAS 39, initially at fair value on the date on which the derivative contract was made and are subsequently valued at their fair value. The method to recognize the resulting loss or gain depends on whether the derivative has been designated as a hedging instrument and, if so, the nature of the item being hedged. The Company designates certain derivatives as:

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

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

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

## (a) Fair value hedges

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

## (b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is shown in the statement of other comprehensive income. The loss or gain relating to the ineffective portion is recognized immediately in the consolidated statement of income under other gains (losses). Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

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

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

For foreign currency hedges, the amounts recognized in the statement of other comprehensive income are reclassified to income as deferred revenue resulting from the use of points, are recognized as Income.

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

(c) Derivatives not booked as a hedge

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

## 2.11. Inventories

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

## 2.12. Trade and other accounts receivable

Commercial accounts receivable are initially recognized at their fair value and subsequently at their amortized cost in accordance with the effective rate method, less the provision for impairment according to the model of the expected credit losses. The company applies the simplified approach permitted by IFRS 9, which requires that expected lifetime losses be recognized upon initial recognition of accounts receivable.

The existence of significant financial difficulties on the part of the debtor, the probability that the debtor goes bankrupt or financial reorganization are considered indicators of a significant increase in credit risk.

The carrying amount of the asset is reduced as the provision account is used and the loss is recognized in the consolidated income statement under "Cost of sales". When an account receivable is written off, it is regularized against the provision account for the account receivable.

### 2.13. Cash and cash equivalents

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

### 2.14. Capital

The common shares are classified as net equity.

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

### 2.15. Trade and other accounts payables

Trade payables and other accounts payable are initially recognized at fair value and subsequently at amortized cost.

### 2.16. Interest-bearing loans

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

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

### 2.17. Current and deferred taxes

The expense by current tax is comprised of income and deferred taxes.

The charge for current tax is calculated based on tax laws in force on the date of statement of financial position, in the countries in which the subsidiaries and associates operate and generate taxable income.

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

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

The tax (current and deferred) is recognized in income by function, unless it relates to an item recognized in other comprehensive income, directly in equity or from business combination. In that

case the tax is also recognized in other comprehensive income, directly in income by function or goodwill, respectively.

## 2.18. Employee benefits

### (a) Personnel vacations

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

### (b) Share-based compensation

The compensation plans implemented based on the shares of the Company are recognized in the consolidated financial statements in accordance with IFRS 2: Share-based payments, for plans based on the granting of options, the effect of fair value is recorded in equity with a charge to remuneration in a linear manner between the date of grant of said options and the date on which they become irrevocable, for the plans considered as cash settled award the fair value, updated as of the closing date of each reporting period, is recorded as a liability with charge to remuneration.

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

Provisions are made for these obligations by applying the method of the projected unit credit method, and taking into account estimates of future permanence, mortality rates and future wage increases determined on the basis of actuarial calculations. The discount rates are determined by reference to market interest-rate curves. Actuarial gains or losses are shown in other comprehensive income.

### (d) Incentives

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

## 2.19. Provisions

Provisions are recognized when:

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

## 2.20. Revenue from contracts with customers

### (a) Transportation of passengers and cargo

The Company recognizes the sale for the transportation service as a deferred revenue which one is recognized as income either when the transportation service is rendered or when the ticket expired. In the case of air transport services sold by the Company and that will be rendered by other airlines,

the liability is reduced when they are remitted to those airlines. The Company periodically reviews whether it is necessary to adjust the Deferred Revenue, mainly related to returns, changes, among others.

Compensations granted to clients for changes in the levels of services or billing of additional services such as additional baggage, change of seat, among others, are considered modifications of the initial contract, therefore, they are deferred until the corresponding service is provided.

(b) Expiration of air tickets

The Company estimates monthly the probability of expiration of air tickets, with refund clauses, based on the history of use of the same. Air tickets without refund clause are expired on the date of the flight in case the passenger does not show up.

(c) Costs associated with the contract

The costs related to the sale of air tickets are activated and deferred until the corresponding service is provided. These assets are included under Other non-financial assets in the Consolidated Classified Statement of Financial Position.

(d) Frequent passenger program

The Company maintains the following loyalty programs: LATAM Pass, LATAM Fidelidade and Multiplus, whose objective is loyalty through the delivery of miles or points.

Members of these programs accumulate miles when flying with LATAM Airlines Group or any other member airline of the oneworld® program, as well as using the services of the associated entities.

When the miles and points are exchanged for products and services other than the services provided by the Company, the income is immediately recognized when the exchange is made through air tickets of an airline of LATAM Airlines Group S.A. and subsidiaries, the income is deferred until the provision of transportation service or expiration for non-use.

In addition, the Company has contracts with certain non-airline companies for the sale of miles or points. These contracts include some performance obligations in addition to the sale of the mile or point, such as marketing, advertising and other benefits. The income associated with these concepts is recognized in the result of the exercise to the extent that the miles are accredited.

The calculation of the deferred income by loyalty programs at the end of the period corresponds to the valuation of the miles and points awarded to the holders of the loyalty programs, pending use, weighted by the probability of their exchange.

The miles and points that the Company estimates will not be exchanged, the proportionally associated value is recognized during the period in which it is expected that the remaining miles and points will be exchanged. The Company uses statistical models to estimate the exchange probability, which is based on historical patterns and projections made by independent experts.

## (e) Dividend income

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

## 2.21. Leases

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

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

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

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

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

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

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

## 2.23. Maintenance

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

In case of own aircraft or under financial leases, these maintenance cost are capitalized as Property, plant and equipment, while in the case of aircraft under operating leases, a liability is accrued based on the use of the main components is recognized, since a contractual obligation with the lessor to return the aircraft on agreed terms of maintenance levels exists. These are recognized as Cost of sales.

Additionally, some leases establish the obligation of the lessee to make deposits to the lessor as a guarantee of compliance with the maintenance and return conditions. These deposits, often called maintenance reserves, accumulate until a major maintenance is performed, once made, the recovery is requested to the lessor. At the end of the contract period, there is comparison between the

reserves that have been paid and required return conditions, and compensation between the parties are made if applicable.

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

#### 2.24. Environmental costs

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

### NOTE 3 - FINANCIAL RISK MANAGEMENT

#### 3.1. Financial risk factors

The Company is exposed to different financial risks: (a) market risk, (b) credit risk, and (c) liquidity risk. The program overall risk management of the Company aims to minimize the adverse effects of financial risks affecting the company.

##### (a) Market risk

Due to the nature of its operations, the Company is exposed to market factors such as: (i) fuel-price risk, (ii) exchange -rate risk, and (iii) interest -rate risk.

The Company has developed policies and procedures for managing market risk, which aim to identify, quantify, monitor and mitigate the adverse effects of changes in market factors mentioned above.

For this, the Administration monitors the evolution of price levels, exchange rates and interest rates, and quantifies their risk exposures (Value at Risk), and develops and implements hedging strategies.

##### (i) Fuel-price risk:

###### Exposition:

For the execution of its operations the Company purchases a fuel called Jet Fuel grade 54 USGC, which is subject to the fluctuations of international fuel prices.

###### Mitigation:

To cover the risk exposure fuel, the Company operates with derivative instruments (swaps and options) whose underlying assets may be different from Jet Fuel, being possible use West Texas Intermediate (“WTI”) crude, Brent (“BRENT”) crude and distillate Heating Oil (“HO”), which have a high correlation with Jet Fuel and greater liquidity.

### Fuel Hedging Results:

During the period ended June 30, 2018, the Company recognized gains of US \$ 16.9 million for fuel net premium coverage. During the same period of 2017, the Company recognized losses of US \$ 8.1 million for the same concept.

As of June 30, 2018, the market value of fuel positions amounted to US \$ 26.6 million (positive). At the end of December 2017, this market value was US \$ 10.7 million (positive).

The following tables show the level of hedge for different periods:

Positions as of June 30, 2018 (Unaudited) (*)	Maturities				
	Q318	Q418	Q119	Q219	Total
Percentage of coverage over the expected volume of consumption	44%	38%	20%	17%	37%

(\*) The volume shown in the table considers all the hedging instruments (swaps and options).

Positions as of December 31, 2017 (*)	Maturities			
	Q118	Q218	Q318	Total
Percentage of coverage over the expected volume of consumption	19%	12%	5%	12%

(\*) The volume shown in the table considers all the hedging instruments (swaps and options).

### Sensitivity analysis

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

The current hedge positions they are booked as cash flow hedge contracts, so a variation in the fuel price has an impact on the Company's net equity.

The following table shows the sensitivity analysis of the financial instruments according to reasonable changes in the fuel price and their effect on equity. The term of the projection was defined until the end of the last current fuel hedge contract, being the last business day of the third quarter of 2018.

The calculations were made considering a parallel movement of US\$ 5 per barrel in the curve of the BRENT and JET crude futures benchmark price at the end of December 2017 and the end of December, 2016.

Benchmark price (US\$ per barrel)	Positions as of June 30, 2018	Positions as of December 31, 2017
	effect on equity (millions of US\$)	effect on equity (millions of US\$)
	Unaudited	
+5	+7.1	+1.8
-5	- 9.5	-3.3

Given the structure of fuel coverage during 2018, considers a hedge-free portion, a vertical drop of 5 dollars in the JET reference price (considered as the monthly average), would have meant an approximate impact US \$ 65.5 million of lower fuel costs. For the same period, a vertical rise of \$ 5 in the JET reference price (considered as the monthly average) would have meant an impact of approximately US \$ 72.2 million of higher fuel costs.

(ii) Foreign exchange rate risk:

Exposition:

The functional and presentation currency of the Financial Statements of the Parent Company is the US dollar, so that the risk of the Transactional and Conversion exchange rate arises mainly from the Company's business, strategic and accounting operating activities that are expressed in a monetary unit other than the functional currency.

The subsidiaries of LATAM are also exposed to foreign exchange risk whose impact affects the Company's Consolidated Income.

The largest operational exposure to LATAM's exchange risk comes from the concentration of businesses in Brazil, which are mostly denominated in Brazilian Real (BRL), and are actively managed by the company.

At a lower concentration, the Company is also exposed to the fluctuation of other currencies, such as: euro, pound sterling, Australian dollar, Colombian peso, Chilean peso, Argentine peso, Paraguayan guarani, Mexican peso, Peruvian nuevo sol and New Zealand dollar.

Mitigation:

The Company mitigates currency risk exposures by contracting derivative instruments or through natural hedges or execution of internal operations.

FX Hedging Results:

With the objective of reducing exposure to the exchange rate risk in the operational cash flows of 2018, and securing the operating margin, LATAM makes hedges using FX derivatives.

As of June 30, 2018, the market value of FX derivative positions amounted to US \$ 10.7 million (positive). At the end of December 2017, this market value was US \$ 4.4 million (positive).

During the period ended June 30, 2018, the Company recognized gains of US \$ 7.0 million for FX net premium coverage. During the same period of 2017, the company recognized losses of US \$ 2.8 million for this concept.

As of June 30, 2018, the Company has contracted FX derivatives for US \$ 165 million for BRL. By the end of December 2017, the company had contracted FX derivatives for US \$ 180 million for BRL.

Sensitivity analysis:

A depreciation of the R \$ / US \$ exchange rate, negatively affects the Company's operating cash flows, however, also positively affects the value of the positions of derivatives contracted.

FX derivatives are recorded as cash flow hedge contracts; therefore, a variation in the exchange rate has an impact on the market value of the derivatives, the changes of which affect the Company's net equity.

The following table shows the awareness of FX derivative instruments according to reasonable changes in the exchange rate and its effect on equity. The projection term was defined until the end of the last contract of coverage in force, being the last business day of the second quarter of the year 2018:

Appreciation (depreciation)* of R\$	Effect at June 30, 2018 Millions of US\$	Effect at December 31, 2017 Millions of US\$
	Unaudited	
-10%	-6.0	-10.7
+10%	+2.7	+9.7

(\*)Both currencies (BRL and GBP) only apply period to the closing of 2016.

During 2017, the Company contracted derivative currency swaps to hedge debt issued the same year for a notional UF 8.7 million. As of June 30, 2018, the market value of derivative positions of currency swaps amounted to US\$ 39.6 million (positive).

In the case of TAM S.A, whose functional currency is the Brazilian real, a large part of its liabilities are expressed in US dollars. Therefore, when converting financial assets and liabilities, from dollars to reais, they have an impact on the result of TAM S.A., which is consolidated in the Company's Income Statement.

With the objective of reducing the impact on the Company's results caused by appreciations or depreciations of R\$/US \$, the Company has executed internal operations to reduce the net exposure in US\$ for TAM S.A.

The following table shows the variation of financial performance to appreciate or depreciate 10% exchange rate R\$/US\$:

Appreciation (depreciation)* of R\$/US\$	Effect at June 30, 2018 Millions of US\$	Effect at June 30, 2017 Millions of US\$
	Unaudited	Unaudited
-10%	+37.2	+142.4
+10%	-37.2	-142.4

(\*) Appreciation (depreciation) of US\$ regard to the covered currencies.

#### Effects of exchange rate derivatives in the Financial Statements

The profit or losses caused by changes in the fair value of hedging instruments are segregated between intrinsic value and temporary value. The intrinsic value is the actual percentage of cash flow covered, initially shown in equity and later transferred to income, while the hedge transaction is recorded in income. The temporary value corresponds to the ineffective portion of cash flow hedge which is recognized in the financial results of the Company (Note 19).

Due to the functional currency of TAM S.A. and Subsidiaries is the Brazilian real, the Company presents the effects of the exchange rate fluctuations in Other comprehensive income by converting the Statement of financial position and Income statement of TAM S.A. and Subsidiaries from their functional currency to the U.S. dollar, which is the presentation currency of the consolidated financial statement of LATAM Airlines Group S.A. and Subsidiaries. The Goodwill generated in the Business combination is recognized as an asset of TAM S.A. and Subsidiaries in Brazilian real whose conversion to U.S. dollar also produces effects in other comprehensive income.

The following table shows the change in Other comprehensive income recognized in Total equity in the case of appreciate or depreciate 10% the exchange rate R\$/US\$:

Appreciation (depreciation) of R\$/US\$	Effect at June 30, 2018 Millions of US\$	Effect at December 31, 2017 Millions of US\$
	Unaudited	
-10%	+383.07	+386.62
+10%	-313.41	-316.33

(iii) Interest -rate risk:

Exposition:

The Company is exposed to fluctuations in interest rates affecting the markets future cash flows of the assets, and current and future financial liabilities.

The Company is exposed in one portion to the variations of London Inter-Bank Offer Rate ("LIBOR") and other interest rates of less relevance are Brazilian Interbank Deposit Certificate ("ILC").

Mitigation:

In order to reduce the risk of an eventual rise in interest rates, the Company has signed interest-rate swap and call option contracts. Currently a 63% (63% at December 31, 2017) of the debt is fixed to fluctuations in interest rate.

Rate Hedging Results:

As of June 30, 2018, the market value of the derivative positions of interest rates amounted to US \$ 3.6 million (negative). At the end of December 2017, this market value was US \$ 6.6 million (negative).

Sensitivity analysis:

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

Increase (decrease) futures curve in libor 3 months	Positions as of June 30, 2018 effect on profit or loss before tax (millions of US\$)	Positions as of June 30, 2017 effect on profit or loss before tax (millions of US\$)
	Unaudited	Unaudited
+100 basis points	-29.17	-33.17
-100 basis points	+29.17	+33.17

Much of the current rate derivatives are registered for as hedges of cash flow, therefore, a variation in the exchange rate has an impact on the market value of derivatives, whose changes impact on the Company's net equity.

The calculations were made increasing (decreasing) vertically 100 basis points of the three-month Libor futures curve, being both reasonably possible scenarios according to historical market conditions.

Increase (decrease) futures curve in libor 3 months	Positions as of June 30, 2018 effect on equity (millions of US\$)	Positions as of December 31, 2017 effect on equity (millions of US\$)
	Unaudited	
+100 basis points	+1.26	+1.9
-100 basis points	-1.29	-1.9

The assumptions of sensitivity calculation must assume that forward curves of interest rates do not necessarily reflect the real value of the compensation flows. Moreover, the structure of interest rates is dynamic over time.

During the periods presented, the Company has no registered amounts by ineffectiveness in consolidated statement of income for this kind of hedging.

(b) Credit risk

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

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

To reduce the credit risk associated with operational activities, the Company has established credit limits to abridge the exposure of their debtors which are monitored permanently (mainly in case of operational activities in Brazil with travel agents).

As a way to mitigate credit risk related to financial activities, the Company requires that the counterparty to the financial activities remain at least investment grade by major Risk Assessment Agencies. Additionally the Company has established maximum limits for investments which are monitored regularly.

## (i) Financial activities

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

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

The Company has no guarantees to mitigate this exposure.

## (ii) Operational activities

The Company has four large sales "clusters": travel agencies, cargo agents, airlines and credit-card administrators. The first three are governed by International Air Transport Association, international ("IATA") organization comprising most of the airlines that represent over 90% of scheduled commercial traffic and one of its main objectives is to regulate the financial transactions between airlines and travel agents and cargo. When an agency or airline does not pay their debt, they are excluded from operating with IATA's member airlines. In the case of credit-card administrators, they are fully guaranteed by 100% by the issuing institutions.

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

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

Credit quality of financial assets

The external credit evaluation system used by the Company is provided by IATA. Internal systems are also used for particular evaluations or specific markets based on trade reports available on the local market. The internal classification system is complementary to the external one, i.e. for agencies or airlines not members of IATA, the internal demands are greater.

To reduce the credit risk associated with operational activities, the Company has established credit limits to abridge the exposure of their debtors which are monitored permanently (mainly in case of operational activities of TAM Linhas Aéreas S.A. with travel agents). The bad-debt rate in the principal countries where the Company has a presence is insignificant.

(c) Liquidity risk

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

Because of the cyclical nature of the business, the operation, and its investment and financing needs related to the acquisition of new aircraft and renewal of its fleet, plus the financing needs, the Company requires liquid funds, defined as cash and cash equivalents plus other short term financial assets, to meet its payment obligations.

The liquid funds, the future cash generation and the capacity to obtain additional funding, through bond issuance and banking loans, will allow the Company to obtain sufficient alternatives to face its investment and financing future commitments.

At June 30, 2018 is US\$ 1,191 million (US\$ 1,614 million at December 31, 2017), invested in short term instruments through financial high credit rating levels entities.

In addition to the balance of liquid funds, the Company has access to short-term credit lines. As of June 30, 2018, LATAM has credit lines for working capital that are not committed to several banks and additionally has an unused committed line of US \$ 600 million (US \$ 450 million as of December 31, 2017) subject to availability of collateral.

Class of liability for the analysis of liquidity risk ordered by date of maturity as of June 30, 2018 (Unaudited)

Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2 Chile.

Tax No.	Creditor	Creditor country	Currency	Up to	More than	More than	More than	More than	Total	Nominal value	Amortization	Effective rate %	Nominal rate %
				90 days	90 days to one year	one to three years	three to five years	five years					
Loans to exporters													
97.032.000-8	BBVA	Chile	ThUS\$	75,996	-	-	-	-	75,996	75,000	At Expiration	2.64	2.64
97.032.000-8	BBVA	Chile	UF	-	53,903	-	-	-	53,903	53,399	At Expiration	2.66	1.86
97.036.000-K	SANTANDER	Chile	ThUS\$	115,680	-	-	-	-	115,680	115,000	At Expiration	3.07	3.07
97.030.000-7	ESTADO	Chile	ThUS\$	40,302	-	-	-	-	40,302	40,000	At Expiration	3.09	3.09
97.003.000-K	BANCO DO BRASIL	Chile	ThUS\$	151,452	-	-	-	-	151,452	150,000	At Expiration	3.25	3.25
97.951.000-4	HSBC	Chile	ThUS\$	12,075	-	-	-	-	12,075	12,000	At Expiration	2.43	2.43
Bank loans													
97.023.000-9	CORPBANCA	Chile	UF	6,185	18,249	29,447	-	-	53,881	51,683	Quarterly	3.35	3.35
0-E	BLADEX	U.S.A	ThUS\$	-	16,199	7,740	-	-	23,939	22,500	Semiannual	6.33	6.33
97.036.000-K	SANTANDER	Chile	ThUS\$	1,558	865	177,238	-	-	179,661	177,238	Quarterly	5.14	5.14
Obligations with the public													
0-E	BANK OF NEW YORK	U.S.A	ThUS\$	-	84,375	632,500	96,250	748,125	1,561,250	1,200,000	At Expiration	7.44	7.03
97.030.000-7	ESTADO	Chile	UF	-	19,962	39,924	211,868	229,297	501,051	362,943	At Expiration	5.50	5.50
Guaranteed obligations													
0-E	CREDIT AGRICOLE	France	ThUS\$	2,419	6,302	14,325	7,391	-	30,437	28,169	Quarterly	4.24	3.80
0-E	BNP PARIBAS	U.S.A	ThUS\$	15,382	62,817	153,682	147,025	283,191	662,097	547,912	Quarterly	4.13	4.12
0-E	WILMINGTON TRUST COMPANY	U.S.A	ThUS\$	31,681	95,129	251,660	275,424	584,073	1,237,967	993,935	Quarterly	4.48	4.48
0-E	CITIBANK	U.S.A	ThUS\$	12,693	38,050	101,493	88,114	80,084	320,434	290,676	Quarterly	3.71	2.83
0-E	US BANK	U.S.A	ThUS\$	18,453	55,227	146,380	145,019	122,112	487,191	442,432	Quarterly	4.00	2.82
0-E	NATIXIS	France	ThUS\$	13,678	41,128	109,334	95,988	146,049	406,177	344,636	Quarterly	4.17	4.17
0-E	PK AirFinance	U.S.A	ThUS\$	2,437	7,478	21,325	12,576	-	43,816	42,136	Monthly	3.77	3.77
0-E	INVESTEC	England	ThUS\$	1,999	11,402	26,621	26,275	4,568	70,865	58,758	Semiannual	6.74	6.74
Other guaranteed obligations													
0-E	CREDIT AGRICOLE	France	ThUS\$	-	7,973	277,310	-	-	285,283	254,076	At Expiration	4.03	4.03
0-E	DVB BANK SE	Germany	ThUS\$	8,961	26,447	67,263	36,293	-	138,964	128,186	Quarterly	3.92	3.92
Financial leases													
0-E	ING	U.S.A	ThUS\$	4,025	12,076	20,184	-	-	36,285	34,057	Quarterly	5.70	5.01
0-E	CREDIT AGRICOLE	France	ThUS\$	6,166	18,603	31,510	-	-	56,279	54,279	Quarterly	3.07	2.62
0-E	CITIBANK	U.S.A	ThUS\$	14,775	44,230	95,066	55,457	3,569	213,097	198,197	Quarterly	4.16	3.56
0-E	PEFCO	U.S.A	ThUS\$	9,598	21,148	11,660	-	-	42,406	40,701	Quarterly	5.55	4.93
0-E	BNP PARIBAS	U.S.A	ThUS\$	14,135	22,715	37,867	-	-	74,717	71,637	Quarterly	3.94	3.55
0-E	WELLS FARGO	U.S.A	ThUS\$	37,130	111,309	289,948	250,252	158,427	847,066	795,675	Quarterly	2.69	2.02
97.036.000-K	SANTANDER	Chile	ThUS\$	6,291	18,796	49,628	38,987	-	113,702	106,073	Quarterly	3.47	2.93
0-E	RRPF ENGINE	England	ThUS\$	1,147	3,424	8,999	8,797	7,022	29,389	24,646	Monthly	4.01	4.01
0-E	APPLE BANK	U.S.A	ThUS\$	1,701	5,085	13,476	13,350	4,076	37,688	34,400	Quarterly	3.76	3.16
0-E	BTMU	U.S.A	ThUS\$	3,444	10,308	27,293	26,996	7,472	75,513	68,991	Quarterly	3.73	3.13
0-E	DEUTSCHE BANK	U.S.A	ThUS\$	4,266	12,722	33,612	33,088	24,448	108,136	90,921	Quarterly	5.29	5.29
0-E	NATIXIS	France	ThUS\$	5,331	14,551	17,757	3,574	-	41,213	38,899	Quarterly	3.81	3.65
0-E	KFW IPEX-BANK	Germany	ThUS\$	2,270	6,863	13,288	562	-	22,983	22,069	Quarterly	3.92	3.92
0-E	AIRBUS FINANCIAL	U.S.A	ThUS\$	2,067	6,175	11,922	-	-	20,164	19,201	Monthly	3.68	3.68
Other loans													
0-E	CITIBANK (*)	U.S.A	ThUS\$	25,360	78,184	155,431	-	-	258,975	242,119	Quarterly	6.00	6.00
Derivatives of coverage													
-	Others	-	ThUS\$	1,982	797	-	-	-	2,779	2,789	-	-	-
Total				650,639	932,492	2,873,883	1,573,286	2,402,513	8,432,813	7,235,333			

(\*) Bonus securitized with the future flows of credit card sales in the United States and Canada.

Class of liability for the analysis of liquidity risk ordered by date of maturity as of June 30, 2018 (Unaudited)

Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Up to	More than	More than	More than	More than	Total	Nominal	Amortization	Effective	Nominal	
				90 days	90 days to one year	one to three years	three to five years	five years		value		rate	rate	
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			%	%
Bank loans														
0-E	NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ	Holland	ThUS\$	177	499	1,332	388	-	2,396	2,121	Monthly	6.01	6.01	
Financial leases														
0-E	NATIXIS	France	ThUS\$	4,221	7,923	48,650	45,772	-	106,566	100,331	Quarterly / Semiannual	6.27	6.27	
0-E	WACAPOU LEASING S.A.	Luxembourg	ThUS\$	833	2,427	6,528	1,639	-	11,427	10,650	Quarterly	4.34	4.34	
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	ThUS\$	11,661	32,265	183,294	-	-	227,220	226,656	Quarterly	5.51	5.45	
Total				16,892	43,114	239,804	47,799	-	347,609	339,758				

Class of liability for the analysis of liquidity risk ordered by date of maturity as of June 30, 2018 (Unaudited)  
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Up to	More than	More than	More than	More than	Total	Nominal value	Amortization	Effective rate %	Nominal rate %
				90 days	90 days to one year	one to three years	three to five years	five years					
Trade and other accounts payables													
-	OTHERS	OTHERS	ThUS\$	421,122	18,631	-	-	-	439,753	439,753	-	-	-
			CLP	170,753	2,975	-	-	-	173,728	173,728	-	-	-
			BRL	226,674	2,142	-	-	-	228,816	228,816	-	-	-
			Other currencies	394,896	16,237	-	-	-	411,133	411,133	-	-	-
Accounts payable to related parties currents													
78.997.060-2	Viajes Falabella Ltda.	Chile	CLP	161	-	-	-	-	161	161	-	-	-
0-E	Inversora Aeronáutica Argentina	Argentina	ThUS\$	206	-	-	-	-	206	206	-	-	-
0-E	Consultoría Administrativa Profesional S.A. de C.V.	Mexico	MXN	11	-	-	-	-	11	11	-	-	-
78.591.370-1	Bethia S.A. y Filiales	Chile	CLP	1	-	-	-	-	1	1	-	-	-
Total				1,213,824	39,985	-	-	-	1,253,809	1,253,809			
Total consolidated				1,881,355	1,015,591	3,113,687	1,621,085	2,402,513	10,034,231	8,828,900			

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2017  
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2 Chile.

Tax No.	Creditor	Creditor country	Currency	Up to	More than	More than	More than	More than	Total	Nominal value	Amortization	Effective	Nominal
				90 days	90 days to one year	one to three years	three to five years	five years				ThUS\$	rate %
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			
<b>Loans to exporters</b>													
97.032.000-8	BBVA	Chile	ThUS\$	75,863	-	-	-	-	75,863	75,000	At Expiration	2.30	2.30
97.032.000-8	BBVA	Chile	UF	-	57,363	-	-	-	57,363	55,801	At Expiration	3.57	2.77
97.036.000-K	SANTANDER	Chile	ThUS\$	30,131	-	-	-	-	30,131	30,000	At Expiration	2.49	2.49
97.030.000-7	ESTADO	Chile	ThUS\$	40,257	-	-	-	-	40,257	40,000	At Expiration	2.57	2.57
97.003.000-K	BANCO DO BRASIL	Chile	ThUS\$	100,935	-	-	-	-	100,935	100,000	At Expiration	2.40	2.40
97.951.000-4	HSBC	Chile	ThUS\$	12,061	-	-	-	-	12,061	12,000	At Expiration	2.03	2.03
<b>Bank loans</b>													
97.023.000-9	CORPBANCA	Chile	UF	22,082	22,782	43,430	-	-	88,294	84,664	Quarterly	3.68	3.68
0-E	BLADEX	U.S.A	ThUS\$	-	16,465	15,628	-	-	32,093	30,000	Semiannual	5.51	5.51
97.036.000-K	SANTANDER	Chile	ThUS\$	2,040	3,368	202,284	-	-	207,692	202,284	Quarterly	4.41	4.41
<b>Obligations with the public</b>													
0-E	BANK OF NEW YORK	U.S.A.	ThUS\$	-	84,375	650,625	96,250	772,188	1,603,438	1,200,000	At Expiration	7.44	7.03
97.030.000-7	ESTADO	Chile	UF	-	20,860	41,720	226,379	245,067	534,026	379,274	At Expiration	5.50	5.50
<b>Guaranteed obligations</b>													
0-E	CREDIT AGRICOLE	France	ThUS\$	8,368	25,415	56,305	12,751	-	102,839	98,091	Quarterly	2.66	2.22
0-E	BNP PARIBAS	U.S.A.	ThUS\$	14,498	59,863	148,469	145,315	313,452	681,597	575,221	Quarterly	3.41	3.40
0-E	WELLS FARGO	U.S.A.	ThUS\$	30,764	92,309	246,285	246,479	245,564	861,401	808,987	Quarterly	2.46	1.75
0-E	WILMINGTON TRUST COMPANY	U.S.A.	ThUS\$	32,026	95,042	253,469	244,836	676,474	1,301,847	1,034,853	Quarterly	4.48	4.48
0-E	CITIBANK	U.S.A.	ThUS\$	14,166	42,815	114,612	112,435	102,045	386,073	351,217	Quarterly	3.31	2.47
0-E	BTMU	U.S.A.	ThUS\$	3,292	9,997	26,677	26,704	14,133	80,803	74,734	Quarterly	2.87	2.27
0-E	APPLE BANK	U.S.A.	ThUS\$	1,611	4,928	13,163	13,196	7,369	40,267	37,223	Quarterly	2.78	2.18
0-E	US BANK	U.S.A.	ThUS\$	18,485	55,354	146,709	145,364	158,236	524,148	472,833	Quarterly	4.00	2.82
0-E	DEUTSCHE BANK	U.S.A.	ThUS\$	4,043	12,340	32,775	32,613	32,440	114,211	96,906	Quarterly	4.39	4.39
0-E	NATIXIS	France	ThUS\$	18,192	54,952	129,026	105,990	166,011	474,171	413,011	Quarterly	3.42	3.40
0-E	PK AirFinance	U.S.A.	ThUS\$	2,375	7,308	20,812	18,104	-	48,599	46,500	Monthly	3.18	3.18
0-E	KFW IPEX-BANK	Germany	ThUS\$	2,570	7,111	16,709	1,669	-	28,059	26,888	Quarterly	3.31	3.31
0-E	AIRBUS FINANCIAL	U.S.A.	ThUS\$	2,033	6,107	15,931	-	-	24,071	22,925	Monthly	3.19	3.19
0-E	INVESTEC	England	ThUS\$	1,930	11,092	26,103	26,045	11,055	76,225	63,378	Semiannual	6.04	6.04
<b>Other guaranteed obligations</b>													
0-E	CREDIT AGRICOLE	France	ThUS\$	1,757	5,843	246,926	-	-	254,526	241,287	At Expiration	3.38	3.38
<b>Financial leases</b>													
0-E	ING	U.S.A.	ThUS\$	5,890	12,076	28,234	-	-	46,200	42,957	Quarterly	5.67	5.00
0-E	CITIBANK	U.S.A.	ThUS\$	12,699	38,248	91,821	51,222	2,880	196,870	184,274	Quarterly	3.78	3.17
0-E	PEFCO	U.S.A.	ThUS\$	13,354	34,430	23,211	-	-	70,995	67,783	Quarterly	5.46	4.85
0-E	BNP PARIBAS	U.S.A.	ThUS\$	13,955	35,567	50,433	2,312	-	102,267	98,105	Quarterly	3.66	3.25
0-E	WELLS FARGO	U.S.A.	ThUS\$	12,117	38,076	98,424	66,849	21,253	236,719	221,113	Quarterly	3.17	2.67
97.036.000-K	SANTANDER	Chile	ThUS\$	6,049	18,344	48,829	47,785	3,156	124,163	117,023	Quarterly	2.51	1.96
0-E	RRPF ENGINE	England	ThUS\$	370	3,325	8,798	8,692	9,499	30,684	25,983	Monthly	4.01	4.01
<b>Other loans</b>													
0-E	CITIBANK (*)	U.S.A.	ThUS\$	25,783	77,810	206,749	-	-	310,342	285,891	Quarterly	6.00	6.00
<b>Derivatives of coverage</b>													
-	Others	-	ThUS\$	5,656	6,719	6,228	-	-	18,603	17,407	-	-	-
<b>Total</b>				<b>535,352</b>	<b>960,284</b>	<b>3,010,385</b>	<b>1,630,990</b>	<b>2,780,822</b>	<b>8,917,833</b>	<b>7,633,613</b>			

(\*) Bonus securitized with the future flows of credit card sales in the United States and Canada.

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2017  
 Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Up to	More than	More than	More than	More than	Total	Nominal	Amortization	Effective	Nominal
				90 days	90 days to one year	one to three years	three to five years	five years		value		rate	rate
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$		%	%
Bank loans													
0-E	NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ	Holland	ThUS\$	176	497	1,332	722	-	2,727	2,382	Monthly	6.01	6.01
Financial leases													
0-E	NATIXIS	France	ThUS\$	4,248	7,903	23,141	71,323	-	106,615	99,036	Quarterly / Semiannual	5.59	5.59
0-E	WACAPOU LEASING S.A.	Luxembourg	ThUS\$	837	2,411	6,509	3,277	-	13,034	12,047	Quarterly	3.69	3.69
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	ThUS\$	11,735	32,230	204,836	-	-	248,801	244,513	Quarterly	4.87	4.81
0-E	BANCO IBM S.A.	Brazil	BRL	34	-	-	-	-	34	21	Monthly	6.89	6.89
0-E	SOCIÉTÉ GÉNÉRALE	France	BRL	161	12	-	-	-	173	109	Monthly	6.89	6.89
	Total			17,191	43,053	235,818	75,322	-	371,384	358,108			

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2017  
 Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Up to	More than	More than	More than	More than	Total	Nominal value	Amortization	Effective rate	Nominal rate
				90 days	90 days to one year	one to three years	three to five years	five years					
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$		%	%
Trade and other accounts payables													
-	OTHERS	OTHERS	ThUS\$	566,838	-	-	-	-	566,838	566,838	-	-	-
			CLP	165,299	-	-	-	-	165,299	165,299	-	-	-
			BRL	315,605	-	-	-	-	315,605	315,605	-	-	-
			Other currencies	290,244	11,215	-	-	-	301,459	301,459	-	-	-
Accounts payable to related parties currents													
78.997.060-2	Viajes Falabella Ltda.	Chile	CLP	534	-	-	-	-	534	534	-	-	-
0-E	Inversora Aeronáutica Argentina	Argentina	ThUS\$	4	-	-	-	-	4	4	-	-	-
0-E	Consultoría Administrativa Profesional S.A. de C.V.	Mexico	MXN	210	-	-	-	-	210	210	-	-	-
78.591.370-1	Bethia S.A. y Filiales	Chile	CLP	12	-	-	-	-	12	12	-	-	-
Total				1,338,746	11,215	-	-	-	1,349,961	1,349,961			
Total consolidated				1,891,289	1,014,552	3,246,203	1,706,312	2,780,822	10,639,178	9,341,682			

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

At the end of 2017, the Company had delivered US \$ 16.4 million in guarantees for derivative margins, corresponding to cash and standby letters of credit. As of June 30, 2018, US \$ 5.0 million have been delivered in guarantees corresponding to cash and standby letters of credit. The decrease was due to: i) the expiration of hedge contracts, ii) acquisition of new fuel contracts, and iii) changes in fuel prices, changes in exchange rates and interest rates.

### 3.2. Capital risk management

The Company's objectives, with respect to the management of capital, are (i) to comply with the restrictions of minimum equity and (ii) to maintain an optimal capital structure.

The Company monitors its contractual obligations and the regulatory limitations in the different countries where the entities of the group are domiciled to assure they meet the limit of minimum net equity, where the most restrictive limitation is to maintain a positive net equity.

Additionally, the Company periodically monitors the short and long term cash flow projections to assure the Company has adequate sources of funding to generate the cash requirement to face its investment and funding future commitments.

The Company international credit rating is the consequence of the Company capacity to face its long terms financing commitments. As of December 31, 2017 the Company has an international long term credit rating of BB- with stable outlook by Standard & Poor's, a B+ rating with stable outlook by Fitch Ratings and a B1 rating with stable outlook by Moody's.

### 3.3. Estimates of fair value.

At June 30, 2018, the Company maintained financial instruments that should be recorded at fair value. These are grouped into two categories:

#### 1. Hedge Instruments:

This category includes the following instruments:

- Interest rate derivative contracts,
- Fuel derivative contracts,
- Currency derivative contracts.

#### 2. Financial Investments:

This category includes the following instruments:

- Investments in short-term Mutual Funds (cash equivalent).

- Private investment funds.

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

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

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

	As of June 30, 2018				As of December 31, 2017			
	Fair value measurements using values considered as				Fair value measurements using values considered as			
	Fair value	Level I	Level II	Level III	Fair value	Level I	Level II	Level III
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
<b>Assets</b>								
Cash and cash equivalents	98,843	98,843	-	-	29,658	29,658	-	-
Short-term mutual funds	98,843	98,843	-	-	29,658	29,658	-	-
Other financial assets, current	493,809	416,709	77,100	-	536,001	473,653	62,348	-
Fair value derived interest rate	19,859	-	19,859	-	3,113	-	3,113	-
Fair value of fuel derivatives	26,571	-	26,571	-	10,711	-	10,711	-
Fair value derived from foreign currency	30,670	-	30,670	-	48,322	-	48,322	-
Interest accrued since the last payment date of Cross Currency Swap	-	-	-	-	202	-	202	-
Private investment funds	416,709	416,709	-	-	472,232	472,232	-	-
Domestic and foreign bonds	-	-	-	-	1,421	1,421	-	-
Other financial assets, not current	466	-	466	-	519	-	519	-
Fair value derived from foreign currency	466	-	466	-	519	-	519	-
<b>Liabilities</b>								
Other financial liabilities, current	3,260	-	3,260	-	12,200	-	12,200	-
Fair value of interest rate derivatives	2,345	-	2,345	-	8,919	-	8,919	-
Fair value of foreign currency derivatives	-	-	-	-	2,092	-	2,092	-
Interest accrued since the last payment date of Currency Swap	915	-	915	-	1,189	-	1,189	-
Other financial liabilities, non current	995	-	995	-	2,617	-	2,617	-
Fair value of interest rate derivatives	995	-	995	-	2,617	-	2,617	-

Additionally, at June 30, 2018, the Company has financial instruments which are not recorded at fair value. In order to meet the disclosure requirements of fair values, the Company has valued these instruments as shown in the table below:

	As of June 30, 2018		As of December 31, 2017	
	Book	Fair	Book	Fair
	value	value	value	value
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Cash and cash equivalents	675,046	675,046	1,112,346	1,112,346
Cash on hand	44,268	44,268	8,562	8,562
Bank balance	291,739	291,739	330,430	330,430
Overnight	194,155	194,155	239,292	239,292
Time deposits	144,884	144,884	534,062	534,062
Other financial assets, current	21,128	21,128	23,918	23,918
Other financial assets	21,128	21,128	23,918	23,918
Trade debtors, other accounts receivable and				
Current accounts receivable	1,187,476	1,187,476	1,214,050	1,214,050
Accounts receivable from entities				
related, current	1,535	1,535	2,582	2,582
Other financial assets, not current	86,116	86,116	87,571	87,571
Accounts receivable, non-current	5,638	5,638	6,891	6,891
Other current financial liabilities	1,387,400	1,583,160	1,288,749	1,499,495
Accounts payable for trade and other accounts				
payable, current	1,534,476	1,534,476	1,695,202	1,695,202
Accounts payable to entities				
related, current	379	379	760	760
Other financial liabilities, not current	6,115,926	6,100,375	6,602,891	6,738,872
Accounts payable, not current	535,383	535,383	498,832	498,832

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

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

#### NOTE 4 - ACCOUNTING ESTIMATES AND JUDGMENTS

The Company has used estimates to value and record some of the assets, liabilities, income, expenses and commitments. Basically these estimates refer to:

(a) Evaluation of possible losses due to impairment of goodwill and intangible assets with indefinite useful life

As of June 30, 2018, goodwill amount to ThUS \$ 2,310,528 (ThUS \$ 2,672,550 as of December 31, 2017), while the intangible assets comprise the Airport Slots for ThUS \$ 832,867 (ThUS \$ 964,513 as of December 31, 2017) and Loyalty Program for ThUS \$ 275,772 (ThUS \$ 321,440 as of December 31, 2017).

The Company checks at least once a year whether goodwill and intangible assets with an indefinite useful life have suffered an impairment loss. For this evaluation, the Company has identified two cash generating units (CGU), "Air transport" and "Multiplus coalition and loyalty program". The book value of the surplus value assigned to each CGU as of June 30, 2018 amounts to ThUS \$ 2,141,854 and ThUS \$ 523,358 (ThUS \$ ThUS \$ 2,146,692 and ThUS \$ 525,858 as of December 31, 2017), which include the following intangible assets with an indefinite useful life:

	Air Transport CGU		Coalition and loyalty Program Multiplus CGU	
	As of June 30, 2018	As of December 31, 2017	As of June 30, 2018	As of December 31, 2017
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Airport Slots	832,867	964,513	-	-
Loyalty program	-	-	275,772	321,440

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

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

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

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

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

## (c) Recoverability of deferred tax assets

Deferred taxes are calculated according to the liability method, on the temporary differences that arise between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets on tax losses are recognized to the extent that it is probable that future tax benefits will be available with which to offset the temporary differences. The Company makes financial and fiscal projections to evaluate the realization in time of this deferred tax asset. Additionally, it ensures that these projections are consistent with those used to measure other long-lived assets. As of June 30, 2018, the Company has recognized deferred tax assets of ThUS \$ 301,014 (ThUS \$ 364,021 as of December 31, 2017) and has ceased to recognize deferred tax assets on tax losses of ThUS \$ 144,072 (ThUS \$ 81,155 December 31, 2017) (Note 18).

## (d) Air tickets sold that will not be finally used.

The Company records the advance sale of air tickets as deferred revenue. Revenue from the sale of tickets is recognized in the income statement when the passenger transport service is provided or expired due to non-use. The Company evaluates monthly the probability of expiration of air tickets, with refund clauses, based on the history of use of air tickets. A change in this probability could have an impact on ordinary income in the year in which the change occurs and in future periods. As of June 30, 2018, deferred revenues associated with air tickets sold amounted to ThUS \$ 1,513,586 (ThUS \$ 1,550,447 as of December 31, 2017). A hypothetical change of one percentage point in passenger behavior with respect to use would result in an impact of up to ThUS \$ 6,000 per month.

## (e) Valuation of miles and points awarded to holders of loyalty programs, pending use.

As of June 30, 2018, the deferred revenue associated with the LATAM Pass loyalty program amounts to ThUS \$ 785,943 (ThUS \$ 853,505 as of December 31, 2017). A hypothetical change of one percentage point in the exchange probability would result in an impact of ThUS \$ 26,000 on the results of 2018 (ThUS \$ 25,000 in 2017). The deferred revenues associated with the LATAM Fidelidade and Multiplus loyalty programs amount to ThUS \$ 392,747 as of June 30, 2018 (ThUS \$ 364,866 as of December 31, 2017). A hypothetical change of two percentage points in the number of points pending to be exchanged would result in an impact of ThUS \$ 6,852 on the results of 2018 (ThUS \$ 4,486 in 2017).

## (f) Provisions needs, and their valuation when required

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

## (g) Investment in subsidiary (TAM)

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

The grounds for this decision are that LATAM issued ordinary shares in exchange for the majority of circulating ordinary and preferential shares in TAM, except for those TAM shareholders who did not accept the exchange, which were subject to a squeeze out, entitling LATAM to substantially all economic benefits generated by the LATAM Group, and thus exposing it to substantially all risks relating to the operations of TAM. This exchange aligns the economic interests of LATAM and all of its shareholders, including the controlling shareholders of TAM, thus insuring that the shareholders and directors of TAM shall have no incentive to exercise their rights in a manner that would be beneficial to TAM but detrimental to LATAM. Furthermore, all significant actions necessary of the operation of the airlines require votes in favor by the controlling shareholders of both LATAM and TAM.

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

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

These estimates were made based on the best information available relating to the matters analyzed.

In any case, it is possible that events that may take place in the future could lead to their modification in future reporting periods, which would be made in a prospective manner.

#### NOTE 5 - SEGMENTAL INFORMATION

The Company considers that it has two operating segments: air transport and the Multiplus loyalty and coalition program.

The air transport segment corresponds to the route network for air transport and is based on the way in which the business is managed and managed, according to the centralized nature of its operations, the ability to open and close routes, as well as reallocating resources (aircraft, crew, personnel, etc.) within the network, which implies a functional interrelation between them, making them inseparable. This segment definition is one of the most common at the level of the airline industry worldwide.

The Multiplus Coalition and Loyalty Program segment, unlike the LATAM Pass and LATAM Fidelidade programs, which are frequent flyer programs that operate as a unilateral loyalty system, offers a flexible, interrelated coalition system among its members, which has 21,1 million members, together with being an entity with a separate administration and a business not directly related to air transport.

For the 6 periods ended

	Air transportation		Coalition and loyalty program Multiplus		Eliminations		Consolidated	
	At June 30,		At June 30,		At June 30,		At June 30,	
	2018	2017	2018	2017	2018	2017	2018	2017
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited							
Income from ordinary activities from external customers (*)	4,859,720	4,274,856	37,584	229,873	(27,211)	-	4,870,093	4,504,729
Passenger	4,264,197	3,764,599	37,584	229,873	(27,211)	-	4,274,570	3,994,472
Freight	595,523	510,257	-	-	-	-	595,523	510,257
Income from ordinary activities from transactions with other operating segments	-	229,873	-	38,343	-	(268,216)	-	-
Other operating income	157,029	125,245	60,768	121,209	-	-	217,797	246,454
Interest income	7,745	16,443	17,182	25,781	-	-	24,927	42,224
Interest expense	(177,469)	(198,333)	-	-	-	-	(177,469)	(198,333)
Total net interest expense	(169,724)	(181,890)	17,182	25,781	-	-	(152,542)	(156,109)
Depreciation and amortization	(485,469)	(491,691)	(3,535)	(4,016)	-	-	(489,004)	(495,707)
Material non-cash items other than depreciation and amortization	(92,748)	(32,379)	2	(148)	-	-	(92,746)	(32,527)
Disposal of fixed assets and inventory losses	(12,144)	(17,776)	-	-	-	-	(12,144)	(17,776)
Doubtful accounts	(5,619)	(4,124)	-	(145)	-	-	(5,619)	(4,269)
Exchange differences	(78,074)	(10,526)	2	(3)	-	-	(78,072)	(10,529)
Result of indexation units	3,089	47	-	-	-	-	3,089	47
Income (loss) attributable to owners of the parents	(80,575)	(154,516)	60,910	82,035	-	-	(19,665)	(72,481)
Expenses for income tax	(13,977)	(41,861)	(25,294)	(39,646)	-	-	(39,271)	(81,507)
Segment profit / (loss)	(65,015)	(131,225)	60,910	82,035	-	-	(4,105)	(49,190)
Assets of segment	16,171,590	17,775,849	1,229,838	1,403,553	(9,298)	(12,215)	17,392,130	19,167,187
Segment liabilities	13,227,761	14,547,271	543,612	587,230	(34,846)	(41,887)	13,736,527	15,092,614
Amount of non-current asset additions	308,059	161,425	-	-	-	-	308,059	161,425
Property, plant and equipment	263,552	123,271	-	-	-	-	263,552	123,271
Intangibles other than goodwill	44,507	38,154	-	-	-	-	44,507	38,154
Purchase of non-monetary assets of segment	322,182	227,487	-	-	-	-	322,182	227,487

(\*) The Company does not have any interest revenue that should be recognized as income from ordinary activities by interest.

For the 6 months ended

	Air transportation		Coalition and loyalty program Multiplus		Eliminations		Consolidated	
	At June 30,		At June 30,		At June 30,		At June 30,	
	2018	2017	2018	2017	2018	2017	2018	2017
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited							
Net cash flows from								
Purchases of property, plant and equipment:								
Additions associated with maintenance	277,352	189,483	-	-	-	-	277,352	189,483
Other additions	171,363	89,261	-	-	-	-	171,363	89,261
Purchases of intangible assets (**)	105,989	100,222	-	-	-	-	105,989	100,222
Other additions	41,323	37,468	3,507	536	-	-	44,830	38,004
Other additions	41,323	37,468	3,507	536	-	-	44,830	38,004
Net cash flows from (used in)								
Operating activities	398,052	303,222	60,444	167,385	2,554	(1,103)	461,050	469,504
Investing activities	(45,578)	(156,812)	(2,909)	(5,203)	-	-	(48,487)	(162,015)
Financing activities	(564,384)	70,687	(60,349)	(161,923)	-	-	(624,733)	(91,236)

(\*\*) The Company does not have cash flows from purchases of intangible assets associated with maintenance.

(b) For the 3 months ended

	Air transportation At June 30,		Coalition and loyalty program Multiplus At June 30,		Eliminations At June 30,		Consolidated At June 30,	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited							
Income from ordinary activities from external customers (*)	2,218,674	2,035,431	37,584	109,391	(27,211)	-	2,229,047	2,144,822
Passenger	1,918,971	1,778,920	37,584	109,391	(27,211)	-	1,929,344	1,888,311
Freight	299,703	256,511	-	-	-	-	299,703	256,511
Income from ordinary activities from transactions with other operating segments	-	109,391	(13,498)	19,757	13,498	(129,148)	-	-
Other operating income	84,979	64,103	16,117	64,809	-	-	101,096	128,912
Interest income	2,736	7,411	10,004	11,889	-	-	12,740	19,300
Interest expense	(91,252)	(102,545)	-	-	-	-	(91,252)	(102,545)
Total net interest expense	(88,516)	(95,134)	10,004	11,889	-	-	(78,512)	(83,245)
Depreciation and amortization	(236,124)	(241,512)	(1,420)	(1,980)	-	-	(237,544)	(243,492)
Material non-cash items other than depreciation and amortization	(86,616)	(55,555)	2	(143)	-	-	(86,614)	(55,698)
Disposal of fixed assets and inventory losses	(6,365)	(9,151)	-	-	-	-	(6,365)	(9,151)
Doubtful accounts	(2,021)	(540)	-	(140)	-	-	(2,021)	(680)
Exchange differences	(78,885)	(45,899)	2	(3)	-	-	(78,883)	(45,902)
Result of indexation units	655	35	-	-	-	-	655	35
Income (loss) attributable to owners of the parents	(138,991)	(179,081)	25,437	41,043	-	-	(113,554)	(138,038)
Expenses for income tax	18,364	(9,272)	(10,912)	(18,747)	-	-	7,452	(28,019)
Segment profit / (loss)	(137,114)	(165,033)	25,437	41,043	-	-	(111,677)	(123,990)
Assets of segment	16,171,590	17,775,849	1,229,838	1,403,553	(9,298)	(12,215)	17,392,130	19,167,187
Amount of non-current asset additions	147,634	93,451	-	-	-	-	147,634	93,451
Property, plant and equipment	122,961	73,841	-	-	-	-	122,961	73,841
Intangibles other than goodwill	24,673	19,610	-	-	-	-	24,673	19,610
Segment liabilities	13,227,761	14,547,271	543,612	587,230	(34,846)	(41,887)	13,736,527	15,092,614
Purchase of non-monetary assets of segment	123,705	141,813	-	-	-	-	123,705	141,813

For the 3 months ended

	Air transportation		Coalition and loyalty program Multiplus		Eliminations		Consolidated	
	At June 30,		At June 30,		At June 30,		At June 30,	
	2018	2017	2018	2017	2018	2017	2018	2017
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited							
Net cash flows from								
Purchases of property, plant and equipment:								
Additions associated with maintenance	127,697	122,346	-	-	-	-	127,697	122,346
Other additions	82,490	58,099	-	-	-	-	82,490	58,099
Purchases of intangible assets (**)	45,207	64,247	-	-	-	-	45,207	64,247
Other additions	22,383	19,049	2,536	418	-	-	24,919	19,467
Other additions	22,383	19,049	2,536	418	-	-	24,919	19,467
Net cash flows from (used in)								
Operating activities	54,836	289,141	47,406	(3,848)	12,604	16,367	114,846	301,660
Investing activities	181,259	(104,493)	(2,627)	120	-	-	178,632	(104,373)
Financing activities	(165,062)	123,159	(57,661)	3,722	-	-	(222,723)	126,881

(\*\*) The company does not have the cash flows of intangible asset acquisitions associated with maintenance.

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

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

The Company has no customers that individually represent more than 10% of sales.

#### NOTE 6 - CASH AND CASH EQUIVALENTS

	As of June 30, 2018	As of December 31, 2017
	ThUS\$	ThUS\$
	Unaudited	
Cash on hand	44,268	8,562
Bank balances	291,739	330,430
Overnight	194,155	239,292
Total Cash	<u>530,162</u>	<u>578,284</u>
Cash equivalents		
Time deposits	144,884	534,062
Mutual funds	98,843	29,658
Total cash equivalents	<u>243,727</u>	<u>563,720</u>
Total cash and cash equivalents	<u><u>773,889</u></u>	<u><u>1,142,004</u></u>

Cash and cash equivalents are denominated in the following currencies:

Currency	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
Argentine peso	4,199	12,135
Brazilian real	55,779	106,499
Chilean peso	19,991	81,845
Colombian peso	18,347	7,264
Euro	21,102	11,746
US Dollar	609,222	882,114
Other currencies	45,249	40,401
Total	773,889	1,142,004

## NOTE 7 - FINANCIAL INSTRUMENTS

## 7.1. Financial instruments by category

As of June 30, 2018 (Unaudited)

<u>Assets</u>	Measured at amortized cost	At fair value with changes in results	Hedge derivatives	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalents	675,046	98,843	-	773,889
Other financial assets, current (*)	21,128	416,709	77,100	514,937
Trade and others				
accounts receivable, current	1,187,476	-	-	1,187,476
Accounts receivable from related entities, current	1,535	-	-	1,535
Other financial assets, non current (*)	86,116	-	466	86,582
Accounts receivable, non current	5,638	-	-	5,638
Total	<u>1,976,939</u>	<u>515,552</u>	<u>77,566</u>	<u>2,570,057</u>
 <u>Liabilities</u>		Measured at amortized cost	Hedge derivatives	Total
		ThUS\$	ThUS\$	ThUS\$
Other liabilities, current		1,387,400	3,260	1,390,660
Trade and others accounts payable, current		1,534,476	-	1,534,476
Accounts payable to related entities, current		379	-	379
Other financial liabilities, non-current		6,115,926	995	6,116,921
Accounts payable, non-current		535,383	-	535,383
Total		<u>9,573,564</u>	<u>4,255</u>	<u>9,577,819</u>

(\*) The value presented in designated at the initial moment at fair value with changes in results, corresponds mainly to private investment funds, and in loans and accounts receivable, corresponds to guarantees delivered.

As of December 31, 2017

<u>Assets</u>	Loans and receivables	Hedge derivatives	Held for trading	Initial designation as fair value through profit and loss	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalents	1,112,346	-	-	29,658	1,142,004
Other financial assets, current (*)	23,918	62,348	1,421	472,232	559,919
Trade and others					
accounts receivable, current	1,214,050	-	-	-	1,214,050
Accounts receivable from related entities, current	2,582	-	-	-	2,582
Other financial assets, non current (*)	87,077	519	494	-	88,090
Accounts receivable, non current	6,891	-	-	-	6,891
<b>Total</b>	<b>2,446,864</b>	<b>62,867</b>	<b>1,915</b>	<b>501,890</b>	<b>3,013,536</b>
<u>Liabilities</u>		Other financial liabilities	Held Hedge derivatives	Total	
		ThUS\$	ThUS\$	ThUS\$	
Other liabilities, current		1,288,749	12,200	1,300,949	
Trade and others accounts payable, current		1,695,202	-	1,695,202	
Accounts payable to related entities, current		760	-	760	
Other financial liabilities, non-current		6,602,891	2,617	6,605,508	
Accounts payable, non-current		498,832	-	498,832	
<b>Total</b>		<b>10,086,434</b>	<b>14,817</b>	<b>10,101,251</b>	

(\*) The value presented as initial designation as fair value through profit and loss, corresponds mainly to private investment funds; and loans and receivables corresponds to guarantees given.

## 7.2. Financial instruments by currency

a) Assets	As of	As of
	June 30, 2018	December 31, 2017
	ThUS\$	ThUS\$
	Unaudited	
Cash and cash equivalents	773,889	1,142,004
Argentine peso	4,199	12,135
Brazilian real	55,779	106,499
Chilean peso	19,991	81,845
Colombian peso	18,347	7,264
Euro	21,102	11,746
US Dollar	609,222	882,114
Other currencies	45,249	40,401
Other financial assets (current and non-current)	601,519	648,009
Argentine peso	203	297
Brazilian real	426,224	475,810
Chilean peso	26,652	26,679
Colombian peso	516	1,928
Euro	7,487	7,853
US Dollar	138,455	133,431
Other currencies	1,982	2,011
Trade and other accounts receivable, current	1,187,476	1,214,050
Argentine peso	60,692	49,958
Brazilian real	564,160	635,890
Chilean peso	86,627	83,415
Colombian peso	6,786	3,249
Euro	51,094	48,286
US Dollar	182,947	257,324
Other currencies (*)	235,170	135,928
Accounts receivable, non-current	5,638	6,891
Brazilian real	3	4
Chilean peso	5,635	6,887
Accounts receivable from related entities, current	1,535	2,582
Brazilian real	-	2
Chilean peso	500	735
US Dollar	1,035	1,845
Total assets	2,570,057	3,013,536
Argentine peso	65,094	62,390
Brazilian real	1,046,166	1,218,205
Chilean peso	139,405	199,561
Colombian peso	25,649	12,441
Euro	79,683	67,885
US Dollar	931,659	1,274,714
Other currencies	282,401	178,340

(\*) See the composition of the others currencies in Note 8 Trade, other accounts receivable and non-current accounts receivable.

## b) Liabilities

Liabilities information is detailed in the table within Note 3 Financial risk management.

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

	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>
Trade accounts receivable	1,059,587	1,175,796
Other accounts receivable	213,659	133,054
Total trade and other accounts receivable	<u>1,273,246</u>	<u>1,308,850</u>
Less: Allowance for impairment loss	(80,132)	(87,909)
Total net trade and accounts receivable	<u>1,193,114</u>	<u>1,220,941</u>
Less: non-current portion – accounts receivable	(5,638)	(6,891)
Trade and other accounts receivable, current	<u><u>1,187,476</u></u>	<u><u>1,214,050</u></u>

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

The maturity of the portfolio as of December 31, 2017 is as follows:

Up to date	1,040,671
Matured accounts receivable, but not impaired	
Expired from 1 to 90 days	34,153
Expired from 91 to 180 days	10,141
More than 180 days overdue (*)	2,922
Total matured accounts receivable, but not impaired	<u>47,216</u>
Matured accounts receivable and impaired	
Judicial, pre-judicial collection and protested documents	43,175
Debtor under pre-judicial collection process and portfolio sensitization	44,734
Total matured accounts receivable and impaired	<u>87,909</u>
Total	<u><u>1,175,796</u></u>

(\*) Value of this segment corresponds primarily to accounts receivable that were evaluated in their ability to recover, therefore not requiring a provision.

As of June 30, 2018, in order to determine the expected credit losses, the company groups accounts receivable for passenger and cargo transportation; depending on the characteristics of shared credit risk and maturity.

	Portfolio maturity					Total
	Up to date	from 1 to	from 91 to	from 181 to	more of	
	ThUS\$	90 days	180 days	360 days	360 days	
Expected loss rate (1)	1%	3%	24%	56%	82%	7%
Gross book value (2)	842,789	111,733	21,333	23,791	59,941	1,059,587
Impairment loss provision	(8,720)	(3,377)	(5,166)	(13,429)	(49,440)	(80,132)

(1) Corresponds to the expected average rate.

(2) the gross book value represents the maximum growth risk value of trade accounts receivable.

Currency balances that make up the Trade and other accounts receivable and non-current accounts receivable are the following:

Currency	As of	As of
	June 30, 2018	December 31, 2017
	ThUS\$	ThUS\$
	Unaudited	
Argentine Peso	60,692	49,958
Brazilian Real	564,163	635,894
Chilean Peso	92,262	90,302
Colombian peso	6,786	3,249
Euro	51,094	48,286
US Dollar	182,947	257,324
Other currency (*)	235,170	135,928
Total	<u>1,193,114</u>	<u>1,220,941</u>
(*) Other currencies		
Australian Dollar	65,172	40,303
Chinese Yuan	1,670	37
Danish Krone	732	197
Pound Sterling	12,603	5,068
Indian Rupee	5,411	3,277
Japanese Yen	33,478	18,756
Norwegian Kroner	516	133
Swiss Franc	4,083	2,430
Korean Won	24,582	18,225
New Taiwanese Dollar	4,558	2,983
Other currencies	82,365	44,519
Total	<u>235,170</u>	<u>135,928</u>

The movements of the provision for impairment losses of the Trade Debtors and other accounts receivable are as follows:

Periods	Opening balance	Adjustment adoption IFRS 9 (*)	Punishments	(Increase) Decrease	Closing balance
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
From January 1 as of June 30, 2017 (IAS 39) (Unaudited)	(77,054)	-	1,745	(4,608)	(79,917)
From July 1 to December 31, 2017	(79,917)	-	6,504	(14,496)	(87,909)
From January 1 as of June 30, 2018 (IAS 39) (Unaudited)	(87,909)	(10,499)	6,489	11,787	(80,132)

(\*) Adjustment to the balance as of December 31, 2017 registered in retained earnings as of 01.01.2018 for the adoption of IFRS 9.

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

The historical and current renegotiations are not very relevant and the policy is to analyze case by case to classify them according to the existence of risk, determining if their reclassification corresponds to pre-judicial collection accounts.

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

	As of June 30, 2018			As of December 31, 2017		
	Gross exposure according to balance	Gross impaired exposure	Exposure net of risk concentrations	Gross exposure according to balance	Gross Impaired exposure	Exposure net of risk concentrations
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited					
Trade accounts receivable	1,059,587	(80,132)	979,455	1,175,796	(87,909)	1,087,887
Other accounts receivable	213,659	-	213,659	133,054	-	133,054

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

## NOTE 9 - ACCOUNTS RECEIVABLE FROM/PAYABLE TO RELATED ENTITIES

## (a) Accounts Receivable

<u>Tax No.</u>	<u>Related party</u>	<u>Relationship</u>	<u>Country of origin</u>	<u>Currency</u>	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
Foreign	Qatar Airways	Indirect shareholder	Qatar	ThUS\$	1,016	1,845
78.591.370-1	Bethia S.A. and Subsidiaries	Related director	Chile	CLP	483	728
Foreign	TAM Aviação Executiva e Taxi Aéreo S.A.	Common shareholder	Brazil	BRL	-	2
Foreign	Inversora Aeronáutica Argentina S.A.	Related director	Argentina	USD	19	-
87.752.000-5	Granja Marina Tornagaleones S.A.	Common shareholder	Chile	CLP	17	5
96.810.370-9	Inversiones Costa Verde Ltda. y CPA.	Related director	Chile	CLP	-	2
	Total current assets				<u>1,535</u>	<u>2,582</u>

## (b) Accounts payable

<u>Tax No.</u>	<u>Related party</u>	<u>Relationship</u>	<u>Country of origin</u>	<u>Currency</u>	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
78.997.060-2	Viajes Falabella Ltda.	Related director	Chile	CLP	161	534
78.591.370-1	Bethia S.A. and Subsidiaries	Related director	Chile	CLP	11	12
Foreign	Inversora Aeronáutica Argentina S.A.	Related director	Argentina	ThUS\$	-	4
Foreign	Consultoría Administrativa Profesional S.A. de C.V.	Related company	Mexico	MXN	206	210
Foreign	TAM Aviação Executiva e Taxi Aéreo S.A.	Common shareholder	Brazil	BRL	<u>1</u>	<u>-</u>
	Total current liabilities				<u>379</u>	<u>760</u>

Transactions between related parties have been carried out on free-trade conditions between interested and duly-informed parties. The transaction times are between 30 and 45 days, and the nature of settlement of the transactions is monetary.

## NOTE 10 -INVENTORIES

The composition of Inventories is as follows:

	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>
Technical stock	203,573	195,530
Non-technical stock	44,052	41,136
Total	<u>247,625</u>	<u>236,666</u>

The items included in this heading are spare parts and materials that will be used mainly in consumption in in-flight and maintenance services provided to the Company and third parties, which are valued at average cost, net of provision for obsolescence, as per the following detail:

	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>
Provision for obsolescence Technical stock	19,882	21,839
Provision for obsolescence Non-technical stock	7,512	6,488
Total	<u>27,394</u>	<u>28,327</u>

The resulting amounts do not exceed the respective net realization values.

As of June 30, 2018, the Company recorded ThUS \$ 63,622 (ThUS \$ 68,257 as of June 30, 2017) in product results, mainly on-board consumption and maintenance, which is part of the Cost of sales.

## NOTE 11 - OTHER FINANCIAL ASSETS

The composition of other financial assets is as follows:

	Current Assets		Non-current assets		Total Assets	
	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
(a) Other financial assets						
Private investment funds	416,709	472,232	-	-	416,709	472,232
Deposits in guarantee (aircraft)	14,643	15,690	40,386	41,058	55,029	56,748
Guarantees for margins of derivatives	661	2,197	-	-	661	2,197
Other investments	-	-	494	494	494	494
Domestic and foreign bonds	-	1,421	-	-	-	1,421
Other guarantees given	5,824	6,031	45,236	46,019	51,060	52,050
Subtotal of other financial assets	<u>437,837</u>	<u>497,571</u>	<u>86,116</u>	<u>87,571</u>	<u>523,953</u>	<u>585,142</u>
(b) Hedging assets						
Interest accrued since the last payment date of Cross currency swap	-	202	-	-	-	202
Fair value of interest rate derivatives	19,859	3,113	-	-	19,859	3,113
Fair value of foreign currency derivatives	30,670	48,322	466	519	31,136	48,841
Fair value of fuel price derivatives	26,571	10,711	-	-	26,571	10,711
Subtotal of hedging assets	<u>77,100</u>	<u>62,348</u>	<u>466</u>	<u>519</u>	<u>77,566</u>	<u>62,867</u>
Total Other Financial Assets	<u>514,937</u>	<u>559,919</u>	<u>86,582</u>	<u>88,090</u>	<u>601,519</u>	<u>648,009</u>

The types of derivative hedging contracts maintained by the Company at the end of each period are described in Note 19.

## NOTE 12 - OTHER NON-FINANCIAL ASSETS

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

	Current assets		Non-current assets		Total Assets	
	As of June 30, 2018	As of December 31, 2017	As of June 30, 2018	As of December 31, 2017	As of June 30, 2018	As of December 31, 2017
	Unaudited ThUS\$	Unaudited ThUS\$	Unaudited ThUS\$	Unaudited ThUS\$	Unaudited ThUS\$	Unaudited ThUS\$
(a) Advance payments						
Aircraft leases	36,017	31,322	487	4,718	36,504	36,040
Aircraft insurance and other	30,501	17,681	-	-	30,501	17,681
Others	10,428	10,012	1,068	1,186	11,496	11,198
Subtotal advance payments	76,946	59,015	1,555	5,904	78,501	64,919
(b) Contract assets (1)						
GDS costs	14,274	-	-	-	14,274	-
Commissions credit cards	15,382	-	-	-	15,382	-
Commissions travel agencies	14,380	-	-	-	14,380	-
Subtotal assets of contracts	44,036	-	-	-	44,036	-
(c) Other assets						
Aircraft maintenance reserve (2)	16,619	21,505	51,836	51,836	68,455	73,341
Sales tax	144,166	137,866	30,255	37,959	174,421	175,825
Other taxes	7,893	2,475	-	-	7,893	2,475
Contributions to Société Internationale de Télécommunications Aéronautiques ("SITA")	327	327	670	670	997	997
Judicial deposits	-	-	122,255	124,438	122,255	124,438
Others	191	-	16	-	207	-
Subtotal other assets	169,196	162,173	205,032	214,903	374,228	377,076
Total Other Non - Financial Assets	290,178	221,188	206,587	220,807	496,765	441,995

(1) As of June 30, 2018 the costs of activated contracts amount to ThUS \$ 96,165 and the amortization of the period is ThUS \$ 91,669.

(2) Aircraft maintenance reserves reflect prepayment deposits made by the group to lessors of certain aircraft under operating lease agreements in order to ensure that funds are available to support the scheduled heavy maintenance of the aircraft.

These amounts are calculated based on performance measures, such as flight hours or cycles, are paid periodically (usually monthly) and are contractually required to be repaid to the lessee upon the completion of the required maintenance of the leased aircraft. At the end of the lease term, any unused maintenance reserves are either returned to the Company in cash or used to offset amounts that we may owe the lessor as a maintenance adjustment.

In some cases (five lease agreements), if the maintenance cost incurred by LATAM is less than the corresponding maintenance reserves, the lessor is entitled to retain those excess amounts at the time the heavy maintenance is performed. The Company periodically reviews its maintenance reserves for each of its leased aircraft to ensure that they will be recovered, and recognizes an expense if any

such amounts are less than probable of being returned. The cost of aircraft maintenance in the last years has been higher than the related maintenance reserves for all aircraft.

As of June 30, 2018, maintenance reserves amount to ThUS \$ 68,455 (ThUS \$ 74,341 as of December 31, 2017), corresponding to 13 aircraft that maintain remaining balances, which will be settled in the next maintenance or return.

Aircraft maintenance reserves are classified as current or non-current depending on the dates when the related maintenance is expected to be performed (Note 2.23)

#### NOTE 13 - NON-CURRENT ASSETS AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Non-current assets and groups in expropriation held for sale at June 30, 2018 and December 31, 2017, are detailed below:

	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>
Current assets		
Aircraft	266	236,022
Engines and rotables	5,613	9,197
Other assets	22,596	45,884
Total	<u>28,475</u>	<u>291,103</u>
Current liabilities		
Other liabilities	8,822	15,546
Total	<u>8,822</u>	<u>15,546</u>

The balances are presented at the lower of book value and fair value less cost to sell. The fair value of these assets was determined based on quoted prices in active markets for similar assets or liabilities. This is a level II measurement as per the fair value hierarchy set out in note 3.3 (2). There were no transfers between levels for recurring fair value measurements during the year.

(a) Assets reclassified from Property, plant and equipment to Non-current assets or groups of assets for disposal classified as held for sale

During fiscal year 2017, adjustments were recognized for US \$ 17.4 million to register these assets at their net realizable value.

Additionally, during the same period 2017, the sale of seven Airbus A330 spare engines occurred.

During the 2018 period, adjustments for US \$ 2.3 million were recognized to record these assets at their net realizable value.

In addition, during the 2018 period, two Boeing 777 aircraft were sold, an Airbus A330 aircraft, an Airbus A330 spare engine were sold and a Airbus A320 aircraft was transfer to the property, plant and equipment.

The detail of fleet classified as non-current assets or groups of assets for disposal classified as held for sale is the following:

Aircraft	As of June 30, 2018 Unaudited	As of December 31, 2017
Boeing 777 Freighter	-	2 (*)
Airbus A330-200	-	1
Airbus A320-200	-	1
ATR42-300	<u>1</u>	<u>1</u>
Total	<u>1</u>	<u>5</u>

(\*) One aircraft leased to DHL.

(b) Assets reclassified from Inventories to Non-current assets or groups of assets for disposal classified as held for sale

During in the first quarter of 2017, stocks of the fleet Airbus A330, were reclassified from Inventories to Non-current assets or groups of assets for disposal classified as held for sale.

During fiscal year 2017, an adjustment of US \$ 1.3 million was recognized to record these assets at their net realizable value.

#### NOTE 14 - INVESTMENTS IN SUBSIDIARIES

(a) Investments in subsidiaries

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

Detail of significant subsidiaries and summarized financial information:

Name of significant subsidiary	Country of incorporation	Functional currency	Ownership	
			As of June 30, 2018	As of December 31, 2017
			%	%
			Unaudited	
Lan Perú S.A.	Peru	US\$	70.00000	70.00000
Lan Cargo S.A.	Chile	US\$	99.89803	99.89803
Lan Argentina S.A.	Argentina	ARS	99.86560	99.86560
Transporte Aéreo S.A.	Chile	US\$	100.00000	100.00000
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	Ecuador	US\$	100.00000	100.00000
Aerovías de Integración Regional, AIRE S.A.	Colombia	COP	99.19061	99.19061
TAM S.A.	Brazil	BRL	99.99938	99.99938

The consolidated subsidiaries do not have significant restrictions for transferring funds to controller.

## Summary financial information of significant subsidiaries

Name of significant subsidiary	Statement of financial position as of June 30, 2018						Results for the period ended June 30, 2018	
	Total Assets	Current Assets	Non-current Assets	Total Liabilities	Current Liabilities	Non-current Liabilities	Revenue	Net Income
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited						Unaudited	
Lan Perú S.A.	455,621	434,678	20,943	454,965	453,343	1,622	560,880	(3,023)
Lan Cargo S.A.	510,967	204,815	306,152	286,082	272,295	13,787	128,112	13,392
Lan Argentina S.A.	249,905	247,621	2,284	293,100	289,675	3,425	174,775	(82,111)
Transporte Aéreo S.A.	329,067	35,095	293,972	110,837	30,447	80,390	146,464	(1,836)
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	112,454	93,548	18,906	94,493	88,173	6,320	107,758	2,899
Aerovías de Integración Regional, AIRES S.A.	133,267	57,959	75,308	88,606	77,311	11,295	140,455	(3,303)
TAM S.A. (*)	4,398,272	2,080,803	2,317,469	3,121,607	1,745,215	1,376,392	2,256,267	(48,163)

  

Name of significant subsidiary	Statement of financial position as of December 31, 2017						Results for the period ended June 30, 2017	
	Total Assets	Current Assets	Non-current Assets	Total Liabilities	Current Liabilities	Non-current Liabilities	Revenue	Net Income
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited						Unaudited	
Lan Perú S.A.	315,607	294,308	21,299	303,204	301,476	1,728	498,798	(828)
Lan Cargo S.A.	584,169	266,836	317,333	371,934	292,529	79,405	117,519	(26,986)
Lan Argentina S.A.	198,951	166,445	32,506	143,731	139,914	3,817	184,340	(25,063)
Transporte Aéreo S.A.	324,498	30,909	293,589	104,357	36,901	67,456	157,063	20,798
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	96,407	66,166	30,241	84,123	78,817	5,306	98,300	(3,691)
Aerovías de Integración Regional, AIRES S.A.	138,138	64,160	73,978	91,431	80,081	11,350	110,780	(12,260)
TAM S.A. (*)	4,490,714	1,843,822	2,646,892	3,555,423	2,052,633	1,502,790	2,169,627	(56,902)

(\*) Corresponds to consolidated information of TAM S.A. and Subsidiaries

## (b) Non-controlling

Equity	Tax No.	Country of origin	As of	As of	As of	As of
			June 30,	December 31,	June 30,	December 31,
			2018	2017	2018	2017
			%	%	ThUS\$	ThUS\$
		Unaudited		Unaudited		
Lan Perú S.A.	0-E	Peru	30.00000	30.00000	198	3,722
Lan Cargo S.A. and Subsidiaries	93.383.000-4	Chile	0.10196	0.10196	29	849
Inversiones Lan S.A. and Subsidiaries	96.575.810-0	Chile	0.00000	0.00000	-	-
Promotora Aérea Latinoamericana S.A. and Subsidiaries	0-E	Mexico	51.00000	51.00000	4,547	4,578
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A.	0-E	Ecuador	0.00000	0.00000	-	-
Inversora Cordillera S.A. and Subsidiaries	0-E	Argentina	0.13940	0.13940	2,817	3,502
Lan Argentina S.A.	0-E	Argentina	0.02842	0.02842	(485)	79
Americonsult de Guatemala S.A.	0-E	Guatemala	1.00000	1.00000	1	1
Americonsult S.A. and Subsidiaries	0-E	Mexico	0.20000	0.20000	(1)	-
Americonsult Costa Rica S.A.	0-E	Costa Rica	1.00000	1.00000	12	12
Línea Aérea Carguera de Colombiana S.A.	0-E	Colombia	10.00000	10.00000	(340)	(520)
Aerolíneas Regionales de Integración Aires S.A.	0-E	Colombia	0.80944	0.80944	435	461
Transportes Aereos del Mercosur S.A.	0-E	Paraguay	5.02000	5.02000	1,508	1,324
Multiplus S.A.	0-E	Brazil	27.26000	27.26000	70,485	77,139
Total					79,206	91,147

  

Incomes	Tax No.	Country of origin	For the period ended		For the 6 months ended		For the 3 months ended	
			June 30,		June 30,		June 30,	
			2018	2017	2018	2017	2018	2017
			%	%	ThUS\$	ThUS\$	ThUS\$	ThUS\$
		Unaudited		Unaudited				
Lan Perú S.A.	0-E	Peru	30.00000	30.00000	(1,852)	(248)	(5,386)	1,987
Lan Cargo S.A. and Subsidiaries	93.383.000-4	Chile	0.10196	0.10196	25	4	13	(11)
Inversiones Lan S.A. and Subsidiaries	96.575.810-0	Chile	0.00000	0.00000	-	-	-	-
Promotora Aerea Latinoamericana S.A. and Subsidiaries	0-E	Mexico	51.00000	51.00000	230	1,064	(30)	830
Aerolinhas Brasileiras S.A. and Subsidiaries	0-E	Brazil	0.00000	0.00000	-	-	-	-
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A.	0-E	Ecuador	0.00000	0.00000	-	-	-	-
Inversora Cordillera S.A. and Subsidiaries	0-E	Argentina	0.70422	0.70422	-	117	-	27
Lan Argentina S.A.	0-E	Argentina	0.13440	0.13440	-	24	-	6
Americonsult de Guatemala S.A.	0-E	Guatemala	0.00000	0.00000	-	-	-	-
Americonsult Costa Rica S.A.	0-E	Costa Rica	0.00000	0.00000	-	-	-	-
Línea Aérea Carguera de Colombiana S.A.	0-E	Colombia	10.00000	10.00000	181	299	124	393
Aerolíneas Regionales de Integración Aires S.A.	0-E	Colombia	0.80586	0.80586	(27)	(99)	(25)	(40)
Transportes Aereos del Mercosur S.A.	0-E	Paraguay	5.02000	5.02000	536	53	315	(46)
Multiplus S.A.	0-E	Brazil	27.26000	27.26000	16,467	22,077	6,866	10,902
Total					15,560	23,291	1,877	14,048

## NOTE 15 - INTANGIBLE ASSETS OTHER THAN GOODWILL

The details of intangible assets are as follows:

	Classes of intangible assets (net)		Classes of intangible assets (gross)	
	As of June 30, 2018 ThUS\$	As of December 31, 2017 ThUS\$	As of June 30, 2018 ThUS\$	As of December 31, 2017 ThUS\$
	Unaudited		Unaudited	
Airport slots	832,867	964,513	832,867	964,513
Loyalty program	275,772	321,440	275,772	321,440
Computer software	165,118	160,970	510,257	509,377
Developing software	121,795	123,415	121,794	123,415
Trademarks (1)	34,879	46,909	53,654	62,539
Other assets	482	-	1,315	-
Total	<u>1,430,913</u>	<u>1,617,247</u>	<u>1,795,659</u>	<u>1,981,284</u>

## Movement in Intangible assets other than goodwill:

	Computer software Net ThUS\$	Developing software ThUS\$	Airport slots (2) ThUS\$	Trademarks and loyalty program (1) (2) ThUS\$	Total ThUS\$
Opening balance as of January 1, 2017	157,016	91,053	978,849	383,395	1,610,313
Additions	1,848	36,306	-	-	38,154
Withdrawals	(231)	(670)	-	-	(901)
Transfer software	34,801	(34,639)	-	-	162
Foreing exchange	(1,068)	(366)	(14,528)	(5,586)	(21,548)
Amortization	(23,346)	-	-	(4,793)	(28,139)
Closing balance as of June 30, 2017 (Unaudited)	<u>169,020</u>	<u>91,684</u>	<u>964,321</u>	<u>373,016</u>	<u>1,598,041</u>
Opening balance as of July 1, 2017	169,020	91,684	964,321	373,016	1,598,041
Additions	6,603	42,574	-	-	49,177
Withdrawals	(13)	(14)	-	-	(27)
Transfer software	10,986	(10,941)	-	-	45
Foreing exchange	(188)	112	192	127	243
Amortization	(25,438)	-	-	(4,794)	(30,232)
Closing balance as of December 31, 2017	<u>160,970</u>	<u>123,415</u>	<u>964,513</u>	<u>368,349</u>	<u>1,617,247</u>
Opening balance as of January 1, 2018	160,970	123,415	964,513	368,349	1,617,247
Additions	753	43,754	-	-	44,507
Withdrawals	(395)	(11)	-	-	(406)
Transfer software	39,800	(40,779)	-	-	(979)
Foreing exchange	(9,705)	(4,584)	(131,646)	(51,904)	(197,839)
Amortization	(25,823)	-	-	(5,794)	(31,617)
Closing balance as of June 30, 2018 (Unaudited)	<u>165,600</u>	<u>121,795</u>	<u>832,867</u>	<u>310,651</u>	<u>1,430,913</u>

1) In 2016, the Company resolved to adopt a unique name and identity, and announced that the group's brand will be LATAM, which united all the companies under a single image.

The estimate of the new useful life is 5 years, equivalent to the period necessary to complete the change of image.

2) See Note 2.5

The amortization of each period is recognized in the consolidated income statement in the administrative expenses. The cumulative amortization of computer programs and brands as of June 30, 2018, amounts to ThUS \$ 405,080 (ThUS \$ 373,463 as of December 31, 2017).

NOTE 16 – GOODWILL

Goodwill as of June 30, 2018, amounts to ThUS \$ 2,310,528 (ThUS \$ 2,672,550 as of December 31, 2017). The goodwill movement, separated by CGU, includes the following:

Movement of Goodwill, separated by CGU:	Air Transport	Coalition and loyalty program Multiplus	Total
	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2017	2,176,634	533,748	2,710,382
Increase (decrease) due to exchange rate differences	(31,213)	(7,922)	(39,135)
Closing balance as of June 30, 2017 (Unaudited)	<u>2,145,421</u>	<u>525,826</u>	<u>2,671,247</u>
Opening balance as of July 1, 2017	2,145,421	525,826	2,671,247
Increase (decrease) due to exchange rate differences	1,271	32	1,303
Closing balance as of December 31, 2017	<u>2,146,692</u>	<u>525,858</u>	<u>2,672,550</u>
Opening balance as of January 1, 2018	2,146,692	525,858	2,672,550
Increase (decrease) due to exchange rate differences	(285,625)	(74,709)	(360,334)
Others	(1,688)	-	(1,688)
Closing balance as of June 30, 2018 (Unaudited)	<u>1,859,379</u>	<u>451,149</u>	<u>2,310,528</u>

The Company has two cash- generating units (CGUs), “Air transportation” and, “Coalition and loyalty program Multiplus”. The CGU "Air transport" considers the transport of passengers and cargo, both in the domestic markets of Chile, Peru, Argentina, Colombia, Ecuador and Brazil, and in a developed series of regional and international routes in America, Europe and Oceania, while the CGU "Coalition and loyalty program Multiplus" works with an integrated network associated companies in Brazil.

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of expected cash flows, 5 years after tax, which are based on the budget approved by the Board. Cash flows beyond the budget period are extrapolated using the estimated growth rates, which do not exceed the average rates of long-term growth.

Management establish rates for annual growth, discount, inflation and exchange for each cash generating, as well as fuel prices, based on their key assumptions. The annual growth rate is based on past performance and management's expectations over market developments in each country where it operates. The discount rates used are in American Dollars for the CGU "Air transportation" and Brazilian Reals for CGU "Program coalition loyalty Multiplus", both after taxes and reflect specific risks related to each country where the Company operates. Inflation and exchange rates are based on available data for each country and the information provided by the Central Bank of each

country, and the fuel price is determined based on estimated production levels, competitive environment market in which they operate and its business strategy.

As of December 31, 2017 the recoverable values were determined using the following assumptions presented below:

		Air transportation CGU	Coalition and loyalty program Multiplus CGU (2)
Annual growth rate (Terminal)	%	1.0 - 2.0	4.0 - 5.0
Exchange rate (1)	R\$/US\$	3.3 - 3.9	3.3 - 3.9
Discount rate based on the weighted average cost of capital (WACC)	%	7.55 - 8.55	
Discount rate based on cost of equity (CoE)	%	-	12.4 - 13.4
Fuel Price from futures price curves commodities markets	US\$/barril	73-78	

(1) In line with the expectations of the Central Bank of Brazil

(2) The flows, like the growth and discount rates, are denominated in reais.

The result of the impairment test, which includes a sensitivity analysis of the main variables, showed that the estimated recoverable amount is higher than carrying value of the book value of net assets allocated to the cash generating unit, and therefore impairment was not detected.

CGU's are sensitive to rates for annual growth, discount and exchanges rates. The sensitivity analysis included the individual impact of changes in estimates critical in determining the recoverable amounts, namely:

	Increase Maximum WACC	Increase Maximum CoE	Decrease Minimum terminal growth rate
Air transportation CGU	% 8.55	% -	% 1.0
Coalition and loyalty program Multiplus CGU	-	13.4	4.0

In none of the previous cases impairment in the cash- generating unit was presented.

As of June 30, 2018, no signs of deterioration have been identified for the CGU Multiplus Coalition and Loyalty Program and for the CGU Transporte Aéreo that require a deterioration test.

## NOTE 17 - PROPERTY, PLANT AND EQUIPMENT

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

	Gross Book Value		Acumulated depreciation		Net Book Value	
	As of June 30, 2018 ThUS\$	As of December 31, 2017 ThUS\$	As of June 30, 2018 ThUS\$	As of December 31, 2017 ThUS\$	As of June 30, 2018 ThUS\$	As of December 31, 2017 ThUS\$
	Unaudited		Unaudited		Unaudited	
Construction in progress (1)	585,788	556,822	-	-	585,788	556,822
Land	45,645	49,780	-	-	45,645	49,780
Buildings	181,896	190,552	(65,424)	(66,004)	116,472	124,548
Plant and equipment	7,405,346	9,222,540	(2,197,738)	(2,390,142)	5,207,608	6,832,398
Own aircraft (2)	6,739,122	8,544,185	(1,942,706)	(2,138,612)	4,796,416	6,405,573
Other (3)	666,224	678,355	(255,032)	(251,530)	411,192	426,825
Machinery	34,152	39,084	(26,691)	(29,296)	7,461	9,788
Information technology equipment	160,191	166,713	(133,838)	(136,557)	26,353	30,156
Fixed installations and accessories	175,894	186,989	(105,273)	(106,212)	70,621	80,777
Motor vehicles	69,236	70,290	(58,809)	(58,812)	10,427	11,478
Leasehold improvements	201,631	186,679	(115,311)	(102,454)	86,320	84,225
Other property, plants and equipment	5,574,504	3,640,838	(1,843,954)	(1,355,475)	3,730,550	2,285,363
Financial leasing aircraft (2)	5,491,464	3,551,041	(1,817,499)	(1,328,421)	3,673,965	2,222,620
Other	83,040	89,797	(26,455)	(27,054)	56,585	62,743
Total	<u>14,434,283</u>	<u>14,310,287</u>	<u>(4,547,038)</u>	<u>(4,244,952)</u>	<u>9,887,245</u>	<u>10,065,335</u>

(1) As of June 30, 2018, includes advances paid to aircraft manufacturers for ThUS \$ 557,129 (ThUS \$ 543,720 as of December 31, 2017)

(2) In the period ended June 30, 2018, the Company sold its participation in eighteen permanent establishments. As a result of this, 45 aircraft were reclassified from the category Plants and equipment to the category Other properties, plants and equipment.

(3) Consider mainly rotatables and tools.

## a) Movement in the different categories of Property, plant and equipment:

	Construction in progress	Land	Buildings net	Plant and equipment net	Information technology equipment net	Fixed installations & accessories net	Motor vehicles net	Leasehold improvements net	Other property, plant and equipment net	Property, Plant and equipment net
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2017	470,065	50,148	130,219	7,789,875	39,714	83,912	1,045	104,541	1,828,630	10,498,149
Additions	6,024	-	-	95,753	1,531	96	-	1,165	18,702	123,271
Disposals	-	-	-	(7,295)	(1)	(3)	(43)	-	(11)	(7,353)
Retirements	(8)	-	-	(9,780)	(435)	(122)	-	2	(1,407)	(11,750)
Depreciation expenses	-	-	(4,318)	(245,416)	(7,049)	(7,388)	(96)	(13,569)	(98,213)	(376,049)
Foreing exchange	47	(361)	(341)	(4,460)	(209)	(1,066)	(4)	(264)	(5,015)	(11,673)
Other increases (decreases)	54,277	-	3,415	(794,280)	(4)	10,316	-	(456)	795,993	69,261
Changes, total	60,340	(361)	(1,244)	(965,478)	(6,167)	1,833	(143)	(13,122)	710,049	(214,293)
Closing balance as of June 30, 2017 (Unaudited)	530,405	49,787	128,975	6,824,397	33,547	85,745	902	91,419	2,538,679	10,283,856
Opening balance as of July 1, 2017	530,405	49,787	128,975	6,824,397	33,547	85,745	902	91,419	2,538,679	10,283,856
Additions	5,121	-	-	162,861	4,176	232	77	6,991	22,781	202,239
Disposals	-	-	-	(8,709)	(5)	(7)	-	-	(16)	(8,737)
Retirements	(119)	-	(6)	(14,561)	(38)	(375)	-	-	(204)	(15,303)
Depreciation expenses	-	-	(3,627)	(251,441)	(7,538)	(6,737)	(91)	(13,697)	(106,024)	(389,155)
Foreing exchange	60	(7)	66	(143)	26	245	(3)	21	(100)	165
Other increases (decreases)	21,355	-	(860)	140,824	(12)	1,674	(449)	(509)	(169,753)	(7,730)
Changes, total	26,417	(7)	(4,427)	28,831	(3,391)	(4,968)	(466)	(7,194)	(253,316)	(218,521)
Closing balance as of December 31, 2017	556,822	49,780	124,548	6,853,228	30,156	80,777	436	84,225	2,285,363	10,065,335
Opening balance as of January 1, 2018	556,822	49,780	124,548	6,853,228	30,156	80,777	436	84,225	2,285,363	10,065,335
Additions	2,449	-	-	229,286	3,685	54	24	10,205	17,849	263,552
Disposals	-	-	(791)	-	(24)	(45)	-	-	-	(860)
Retirements	(80)	-	-	(13,149)	(90)	(22)	-	(4)	(23)	(13,368)
Depreciation expenses	-	-	(3,166)	(180,813)	(6,574)	(6,436)	(82)	(14,589)	(170,561)	(382,221)
Foreing exchange	(946)	(4,135)	(4,119)	(41,400)	(1,630)	(7,174)	(19)	(2,270)	(50,398)	(112,091)
Other increases (decreases)	27,543	-	-	(1,622,266)	830	3,467	251	8,753	1,648,320	66,898
Changes, total	28,966	(4,135)	(8,076)	(1,628,342)	(3,803)	(10,156)	174	2,095	1,445,187	(178,090)
Closing balance as of June 30, 2018 (Unaudited)	585,788	45,645	116,472	5,224,886	26,353	70,621	610	86,320	3,730,550	9,887,245

## (b) Composition of the fleet:

Aircraft	Model	Aircraft included in Property, plant and equipment		Operating leases		Total fleet	
		As of June 30, 2018 Unaudited	As of December 31, 2017	As of June 30, 2018 Unaudited	As of December 31, 2017	As of June 30, 2018 Unaudited	As of December 31, 2017
Boeing 747	400	-	-	1	-	1	-
Boeing 767	300ER	34	34	2	2	36	36
Boeing 767	300F	8	8 (1)	1	2	9	10 (1)
Boeing 777	300ER	4	4	6	6	10	10
Boeing 787	800	6	6	4	4	10	10
Boeing 787	900	4	4	10	10	14	14
Airbus A319	100	37	37	9	9	46	46
Airbus A320	200	95 (2)	93 (2)	36	38	131 (1)	131 (2)
Airbus A320	NEO	1	1	3	3	4	4
Airbus A321	200	30	30	19	17	49	47
Airbus A330	200	-	-	4	-	4	-
Airbus A350	900	5 (3)	5 (3)	3 (3)	2 (3)	8 (3)	7 (3)
Total		224	222	98	93	322	315

(1) An aircraft leased to FEDEX as of December 2017

(2) Three aircraft leased to Salam Air and two to Sundair

(3) Two aircraft leased to Qatar Air. One in operating leases and one in property, plant and equipment.

## (c) Method used for the depreciation of Property, plant and equipment:

	Method	Useful life (years)	
		minimum	maximum
Buildings	Straight line without residual value	20	50
Plant and equipment	Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet. (*)	5	30
Information technology equipment	Straight line without residual value	5	10
Fixed installations and accessories	Straight line without residual value	10	10
Motor vehicle	Straight line without residual value	10	10
Leasehold improvements	Straight line without residual value	5	5
Other property, plant and equipment	Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet. (*)	10	30

(\*) Except in the case of the Boeing 767 300ER and Boeing 767 300F fleets that consider a lower residual value due to the extension of their useful life to 22 and 30 years respectively. Additionally, certain technical components are depreciated based on cycles and hours flown.

The aircraft with remarketing clause (\*\*\*) under modality of financial leasing, which are depreciated according to the duration of their contracts, between 12 and 18 years. Its residual values are estimated according to market value at the end of such contracts.

(\*\*\*) Aircraft with remarketing clause are those that are required to sell at the end of the contract.

As of June 30, 2018, the charge to income for the depreciation of the period, which is included in the consolidated statement of income, amounts to ThUS \$ 382,221 (ThUS \$ 376,049 as of June 30, 2017). This charge is recognized in the cost of sales and administrative expenses of the consolidated statement of income.

(d) Additional information regarding Property, plant and equipment:

(i) Property, plant and equipment pledged as guarantee:

Description of Property, plant and equipment pledged as guarantee:

Guarantee agent (*)	Assets committed	Fleet	As of June 30, 2018		As of December 31, 2017	
			Existing Debt	Book Value	Existing Debt	Book Value
			ThUS\$	ThUS\$	ThUS\$	ThUS\$
			Unaudited			
Wilmington Trust Company	Aircraft and engines	Airbus A319	22,223	36,388	-	-
		Airbus A320	90,150	169,596	-	-
		Airbus A321 / A350	612,738	709,399	637,934	721,602
		Boeing 767	15,814	42,735	593,655	888,948
		Boeing 787	552,840	614,906	720,267	842,127
Banco Santander S.A.	Aircraft and engines	Airbus A320	185,898	281,500	199,165	291,649
		Airbus A321	27,489	41,314	29,296	40,584
BNP Paribas	Aircraft and engines	Airbus A319	29,381	46,683	84,767	136,407
		Airbus A320	10,015	20,159	110,267	175,650
Credit Agricole	Aircraft and engines	Airbus A319	14,574	20,730	20,874	38,826
		Airbus A320	160,422	82,219	46,895	98,098
		Airbus A321	-	-	30,322	85,463
		Airbus A350	22,439	14,689	-	-
		Boeing 767	10,788	20,406	-	-
		Boeing 787	74,023	20,470	-	-
Wells Fargo	Aircraft and engines	Airbus A320	210,740	297,039	224,786	306,660
Bank Of Utah	Aircraft and engines	Airbus A320 / A350	585,579	1,046,447	614,632	666,665
Natixis	Aircraft and engines	Airbus A320	-	-	34,592	72,388
		Airbus A321	344,636	422,693	378,418	481,397
Citibank N.A.	Aircraft and engines	Airbus A320	86,521	131,061	94,882	141,817
		Airbus A321	32,512	74,860	36,026	72,741
KfW IPEX-Bank	Aircraft and engines	Airbus A319	-	-	5,592	5,505
		Airbus A320	-	-	21,296	30,513
Airbus Financial Services	Aircraft and engines	Airbus A319	-	-	22,927	26,973
PK AirFinance US, Inc.	Aircraft and engines	Airbus A320	42,135	54,670	46,500	56,539
Banco BBVA	Land and buildings (2)		53,399	65,684	55,801	66,876
Total direct guarantee			3,184,316	4,213,648	4,008,894	5,247,428

(\*) For syndicated loans, given the characteristics of the same the agent of the guarantee is the representative of the creditors.

(1) Corresponds to a debt classified in item loans to exporters (see Note 19).

The amounts of the current debt are presented at their nominal value. The book value corresponds to the goods granted as collateral.

Additionally, there are indirect guarantees associated with assets registered in properties, plants and equipment whose total debt as of June 30, 2018, amounts to ThUS\$ 1,937,653 (ThUS \$ 1,087,052 as of December 31, 2017). The book value of the assets with indirect guarantees as of June 30, 2018, amounts to ThUS \$ 3,673,965 (ThUS \$ 2,222,620 as of December 31, 2017).

(ii) Commitments and others

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

	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>
Gross book value of fully depreciated property, plant and equipment still in use	181,586	136,811
Commitments for the acquisition of aircraft (*)	15,100,000	15,400,000

(\*) According to the manufacturer's price list.

Purchase commitment of aircraft

Manufacturer	Year of delivery					Total
	2018	2019	2020	2021	2022 - 2024	
Airbus S.A.S.	5	15	16	21	12	69
A320-NEO	4	6	9	8	5	32
A321-NEO	-	5	5	5	5	20
A350-1000	-	-	2	8	2	12
A350-900	1	4	-	-	-	5
The Boeing Company	-	2	4	4	-	10
Boeing 777	-	-	-	2	-	2
Boeing 787-9	-	2	4	2	-	8
Total	<u>5</u>	<u>17</u>	<u>20</u>	<u>25</u>	<u>12</u>	<u>79</u>

As of June 30, 2018, as a result of the different aircraft purchase agreements signed with Airbus SAS, there remain to receive 52 Airbus aircraft of the A320 family, with deliveries between 2018 and 2022, and 17 Airbus aircraft of the A350 family with dates delivery between 2018 and 2024. The approximate amount, according to manufacturer's list prices, is ThUS \$ 12,114,200.

As of June 30, 2018, as a result of the different aircraft purchase agreements signed with The Boeing Company, there remain 8 Boeing 787 Dreamliner aircraft, with delivery dates between 2019 and 2021, and 2 Boeing 777-300 Freighter aircraft, with delivery scheduled for the year 2021. The approximate amount, according to manufacturer's list prices, is ThUS \$ 2,800,000.

## (iii) Capitalized interest costs with respect to Property, plant and equipment.

		For the periods ended	
		June 30,	
		2018	2017
		Unaudited	
Average rate of capitalization of			
capitalized interest costs	%	4.62	3.75
Costs of capitalized interest	ThUS\$	8,146	7,845

## (iv) Financial leases

The detail of the main financial leases is as follows:

Lessor	Aircraft and engines	Model	As of June 30, 2018 Unaudited	As of December 31, 2017
Amendoeira Leasing Limited	Airbus A319	100	1	-
Angelim Leasing Limited	Airbus A319	100	1	-
Angelim Leasing Limited	Airbus A320	200	2	-
Angelim Leasing Limited	Airbus A321	200	2	-
Araucaria Leasing Limited	Airbus A320	200	1	-
Azalea Leasing Limited	Airbus A320	200	2	-
Bailarin Leasing LLC	Boeing B787	800	2	-
Bandurria Leasing Limited	Airbus A319	100	3	3
Bandurria Leasing Limited	Airbus A320	200	4	4
Becacina Leasing LLC	Boeing 767	300ER	1	1
Chucaco Leasing Limited	Airbus A319	100	2	-
Caiquen Leasing LLC	Boeing 767	300F	1	1
Cisne Leasing LLC	Boeing 767	300ER	2	2
Conure Leasing Limited	Airbus A320	200	2	2
Figueira Leasing Limited	Airbus A320	200	1	-
Flamenco Leasing LLC	Boeing 767	300ER	1	1
FLYAFI 1 S.R.L.	Boeing 777	300ER	1	1
FLYAFI 2 S.R.L.	Boeing 777	300ER	1	1
FLYAFI 3 S.R.L.	Boeing 777	300ER	1	1
Fragata Leasing LLC	Boeing B787	800	1	-
Garza Leasing LLC	Boeing 767	300ER	1	1
Golondrina Leasing LLC	Boeing 767	300ER	4	-
Jacarandá Leasing Limited	Airbus A320	200	1	-
Jatobá Leasing Limited	Airbus A319	100	1	-
Jilguero Leasing LLC	Boeing B767	300ER	3	3
Loica Leasing Limited	Airbus A319	100	2	2
Loica Leasing Limited	Airbus A320	200	2	2
Manaca Leasing Limited	Airbus A320	200	1	-
Massaranduba Leasing Limited	Airbus A320	200	2	-
Massaranduba Leasing Limited	Airbus A321	200	3	-
Mirlo Leasing LLC	Boeing 767	300ER	1	1
Mogno Leasing Limited	Airbus A319	100	1	-
NBB Rio de Janeiro Lease CO and Brasilia Lease LLC (BBAM)	Airbus A320	200	1	1
NBB São Paulo Lease CO. Limited (BBAM)	Airbus A321	200	1	1
Osprey Leasing Limited	Airbus A319	100	8	8
Patagon Leasing Limited	Airbus A319	100	3	3
Petrel Leasing LLC	Boeing 767	300ER	-	1
Pau Brasil Leasing Limited	Airbus A319	100	1	-
Pochard Leasing LLC	Boeing 767	300ER	2	2
Quetro Leasing LLC	Boeing 767	300ER	1	3
Rolls Royce Leasing Limited	Engine	TRENTXWB	1	-
SG Infrastructure Italia S.R.L.	Boeing 777	300ER	1	1
SL Alcyone LTD (Showa)	Airbus A320	200	1	1
Tagua Leasing LLC	Boeing B767	300ER	9	-
Tiuque Leasing Limited	Airbus A319	100	1	-
Tiuque Leasing Limited	Airbus A320	200	5	-
Torcaza Leasing Limited	Airbus A320	200	8	8
Tricahue Leasing LLC	Boeing 767	300ER	3	3
Wacapou Leasing S.A	Airbus A320	200	1	1
Wells Fargo Trust Company, N.A.	Airbus A319	100	1	1
Ype Leasing Limited	Airbus A319	100	1	-
Total			103	60

Financial leasing contracts where the Company acts as the lessee of aircrafts establish duration between 12 and 18 year terms and semi-annual, quarterly and monthly payments of obligations.

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

The assets acquired under the financial leasing modality are classified under Other property, plant and equipment. As of June 30, 2018, the Company registers under this modality one hundred two aircraft and one spare engine (sixty aircraft and zero engines as of December 31, 2017).

The minimum payments under financial leases are as follows:

	As of June 30, 2018			As of December 31, 2017		
	Gross Value	Interest	Present Value	Gross Value	Interest	Present Value
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited					
No later than one year	479,682	(52,318)	427,364	303,863	(32,447)	271,416
Between one and five years	1,379,173	(70,117)	1,309,056	835,696	(30,050)	805,646
Over five years	205,377	(4,144)	201,233	36,788	(816)	35,972
Total	2,064,232	(126,579)	1,937,653	1,176,347	(63,313)	1,113,034

#### NOTE 18 - CURRENT AND DEFERRED TAXES

In the period ended June 30, 2018, the income tax provision was calculated for such period, applying the rate of 27% for the business year 2018, in accordance with the Law No. 20,780 published in the Official Journal of the Republic of Chile on September 29, 2014.

Among the main changes is the progressive increase of the First Category Tax which will reach 27% in 2018 if the "Partially Integrated Taxation System" is chosen. Alternatively, if the Company chooses the "Attributed Income Taxation System" the top rate would reach 25% in 2017.

On February 8, 2016, an amendment to the abovementioned Law was issued (as Law 20,899) stating, as its main amendments, that Companies such Latam Airlines Group S.A. had to mandatorily choose the "Partially Integrated Taxation System" and could not elect to use the other system.

The Partially Integrated Taxation System is based on the taxation by the perception of profits and the Attributed Income Taxation System is based on the taxation by the accrual of profits.

The net result for deferred tax corresponds to the variation of the year, of the assets and liabilities for deferred taxes generated by temporary differences and tax losses.

Because of the permanent differences that give rise to an accounting value of the assets and liabilities other than their tax value, no deferred tax has been recorded since they are caused by

transactions that are recorded in the financial statements and that will not affect the expense tax for income tax.

(a) Current taxes

(a.1) The composition of the current tax assets is the following:

	Current assets		Non-current assets		Total assets	
	As of June 30, 2018	As of December 31, 2017	As of June 30, 2018	As of December 31, 2017	As of June 30, 2018	As of December 31, 2017
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited		Unaudited		Unaudited	
Provisional monthly payments (advances)	73,868	65,257	16,332	-	90,200	65,257
Other recoverable credits	29,308	12,730	-	17,532	29,308	30,262
Total assets by current tax	<u>103,176</u>	<u>77,987</u>	<u>16,332</u>	<u>17,532</u>	<u>119,508</u>	<u>95,519</u>

(a.2) The composition of the current tax liabilities are as follows:

	Current liabilities		Non-current liabilities		Total liabilities	
	As of June 30, 2018	As of December 31, 2017	As of June 30, 2018	As of December 31, 2017	As of June 30, 2018	As of December 31, 2017
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited		Unaudited		Unaudited	
Income tax provision	5,245	3,511	-	-	5,245	3,511
Additional tax provision	-	-	-	-	-	-
Total liabilities by current tax	<u>5,245</u>	<u>3,511</u>	<u>-</u>	<u>-</u>	<u>5,245</u>	<u>3,511</u>

(b) Deferred taxes

The balances of deferred tax are the following:

Concept	Assets		Liabilities	
	As of June 30, 2018	As of December 31, 2017	As of June 30, 2018	As of December 31, 2017
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited		Unaudited	
Depreciation	207,682	210,855	1,250,630	1,401,277
Leased assets	(44,942)	(103,201)	499,793	275,142
Amortization	222	(484)	56,577	54,335
Provisions	8,967	(9,771)	76,857	690
Revaluation of financial instruments	(698)	(734)	(11,479)	(4,484)
Tax losses	130,717	290,973	(1,325,176)	(1,188,586)
Intangibles	-	-	336,194	406,536
Others	(934)	(23,617)	4,127	4,787
Total	<u>301,014</u>	<u>364,021</u>	<u>887,523</u>	<u>949,697</u>

The balance of deferred tax assets and liabilities are composed primarily of temporary differences to be reversed in the long term.

### Movements of Deferred tax assets and liabilities

(a) From January 1 to June 30, 2017

	Opening balance	Recognized in consolidated	Recognized in comprehensive	Exchange rate	Ending balance
	Assets/(liabilities)	income	income	variation	Asset (liability)
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Depreciation	(1,376,025)	67,070	-	332	(1,308,623)
Leased assets	(239,758)	(47,521)	-	304	(286,975)
Amortization	(77,480)	17,063	-	179	(60,238)
Provisions	281,369	(66,147)	(874)	(4,935)	209,413
Revaluation of financial instruments	3,223	1,714	2,005	(124)	6,818
Tax losses (*)	1,328,736	(45,405)	-	(1,298)	1,282,033
Intangibles	(430,705)	69,353	-	6,511	(354,841)
Others	(20,539)	(6,763)	-	(329)	(27,631)
<b>Total</b>	<b>(531,179)</b>	<b>(10,636)</b>	<b>1,131</b>	<b>640</b>	<b>(540,044)</b>

(b) From July 1 to December 31, 2017

	Opening balance	Recognized in consolidated	Recognized in comprehensive	Exchange rate	Ending balance
	Assets/(liabilities)	income	income	variation	Asset (liability)
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Depreciation	(1,308,623)	118,212	-	(10)	(1,190,421)
Leased assets	(286,975)	(91,358)	-	(10)	(378,343)
Amortization	(60,238)	5,423	-	(5)	(54,820)
Provisions	209,413	(220,120)	89	157	(10,461)
Revaluation of financial instruments	6,818	703	(3,775)	4	3,750
Tax losses (*)	1,282,033	197,486	-	41	1,479,560
Intangibles	(354,841)	(44,917)	-	(267)	(400,025)
Others	(27,631)	(784)	-	10	(28,405)
<b>Total</b>	<b>(540,044)</b>	<b>(35,355)</b>	<b>(3,686)</b>	<b>(80)</b>	<b>(579,165)</b>

(c) From January 1 to June 30, 2018 (Unaudited)

	Opening balance	Recognized in consolidated	Recognized in comprehensive	Exchange rate	Ending balance
	Assets/(liabilities)	income	income	variation	Asset (liability)
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Depreciation	(1,190,421)	144,440	-	3,032	(1,042,949)
Leased assets	(378,343)	(169,163)	-	2,771	(544,735)
Amortization	(54,820)	(3,170)	-	1,635	(56,355)
Provisions	(10,461)	(12,907)	505	(45,027)	(67,890)
Revaluation of financial instruments	3,750	7,968	192	(1,129)	10,781
Tax losses (*)	1,479,560	(11,820)	-	(11,847)	1,455,893
Intangibles	(406,536)	20,144	-	50,198	(336,194)
Others	(28,405)	26,351	-	(3,006)	(5,060)
<b>Total</b>	<b>(585,676)</b>	<b>1,843</b>	<b>697</b>	<b>(3,373)</b>	<b>(586,509)</b>

Deferred tax assets not recognized:	As of	As of
	June 30,	December 31,
	<u>2018</u>	<u>2017</u>
	ThUS\$	ThUS\$
	Unaudited	
Tax losses	144,072	81,155
Total Deferred tax assets not recognized	<u>144,072</u>	<u>81,155</u>

Deferred tax assets due to negative tax results are recognized to the extent that the corresponding tax benefit is probable in the future. As a result, as of June 30, 2018, the Company no longer recognizes deferred tax assets for ThUS \$ 144,072 (ThUS \$ 81,155 as of December 31, 2017) with respect to losses of ThUS \$ 465,388 (ThUS \$ 247,920 at December 31, 2017), additionally, and after the re-evaluation of the financial and fiscal projections, it has written off during the second quarter ThUS \$ 30,633 that were no longer considered recoverable.

Deferred tax expense and current income taxes:

	For the 6 months ended		For the 3 months ended	
	June 30,		June 30,	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Current tax expense				
Current tax expense	37,428	70,901	(2,267)	47,086
Adjustment to previous period's current tax	-	(30)	-	(1,297)
Total current tax expense, net	<u>37,428</u>	<u>70,871</u>	<u>(2,267)</u>	<u>45,789</u>
Deferred tax expense				
Deferred expense for taxes related to the creation and reversal of temporary differences	1,843	10,636	(5,185)	(17,751)
Reduction (increase) in value of deferred tax assets during the evaluation of its usefulness	-	-	-	(19)
Total deferred tax expense, net	<u>1,843</u>	<u>10,636</u>	<u>(5,185)</u>	<u>(17,770)</u>
	<u>39,271</u>	<u>81,507</u>	<u>(7,452)</u>	<u>28,019</u>

## Composition of income tax expense (income):

	For the 6 months ended June 30,		For the 3 months ended June 30,	
	2018	2017	2018	2017
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Current tax expense, net, foreign	35,929	33,256	(3,036)	9,289
Current tax expense, net, Chile	1,499	37,615	769	9,741
Total current tax expense, net	<u>37,428</u>	<u>70,871</u>	<u>(2,267)</u>	<u>19,030</u>
Deferred tax expense, net, foreign	23,248	(1,852)	23,456	6,722
Deferred tax expense, net, Chile	(21,405)	12,488	(28,641)	2,267
Deferred tax expense, net, total	<u>1,843</u>	<u>10,636</u>	<u>(5,185)</u>	<u>8,989</u>
Income tax expense	<u>39,271</u>	<u>81,507</u>	<u>(7,452)</u>	<u>28,019</u>

Profit before tax by the legal tax rate in Chile (27% and 25.5% at June 30, 2018 and 2017, respectively)

	For the period ended June 30,		For the period ended June 30,	
	2018	2017	2018	2017
	ThUS\$	ThUS\$	%	%
	Unaudited		Unaudited	
Tax expense using the legal rate (*)	9,495	8,241	27.00	25.50
Tax effect by change in tax rate (*)	-	11,640	-	36.02
Tax effect of rates in other jurisdictions	(5,592)	(60,514)	(15.90)	-187.25
Tax effect of non-taxable operating revenues	908	43,456	2.58	134.47
Tax effect of disallowable expenses	68,107	73,956	193.67	228.85
Tax effect of the use of tax losses not previously recognized	560	-	1.59	0.00
Other increases (decreases) in legal tax charge	(34,207)	4,728	(97.27)	14.63
Total adjustments to tax expense using the legal rate	<u>29,776</u>	<u>73,266</u>	<u>84.67</u>	<u>226.72</u>
Tax expense using the effective rate	<u>39,271</u>	<u>81,507</u>	<u>111.67</u>	<u>252.22</u>

(\*) On September 29, 2014, Law No. 20,780 "Amendment to the system of income taxation and introduces various adjustments in the tax system." was published in the Official Journal of the Republic of Chile. Within major tax reforms that this law contains, the First- Category Tax rate is gradually modified from 2014 to 2018 and should be declared and paid in tax year 2015.

Thus, at June 30, 2018 the Company presents the reconciliation of income tax expense and legal tax rate considering the rate increase.

## Deferred taxes related to items charged to net equity:

	For the 6 months ended		For the 3 months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited		Unaudited	
Aggregate deferred taxation of components of other comprehensive income	697	1,131	3,254	2,891
Aggregate deferred taxation related to items charged to net equity	-	-	-	-

## NOTE 19 - OTHER FINANCIAL LIABILITIES

The composition of other financial liabilities is as follows:

	As of	As of
	June 30, 2018	December 31, 2017
	ThUS\$	ThUS\$
	Unaudited	
Current		
(a) Interest bearing loans	1,387,400	1,288,749
(b) Hedge derivatives	3,260	12,200
Total current	<u>1,390,660</u>	<u>1,300,949</u>
Non-current		
(a) Interest bearing loans	6,115,926	6,602,891
(b) Hedge derivatives	995	2,617
Total non-current	<u>6,116,921</u>	<u>6,605,508</u>

## (a) Interest bearing loans

## Obligations with credit institutions and debt instruments:

	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
Current		
Loans to exporters	446,723	314,618
Bank loans (1)	39,044	59,017
Guaranteed obligations	327,137	531,173
Other guaranteed obligations	30,986	2,170
Subtotal bank loans	843,890	906,978
Obligation with the public (2)	14,498	14,785
Financial leases	436,022	276,541
Other loans	92,990	90,445
Total current	1,387,400	1,288,749
Non-current		
Bank loans	214,630	260,433
Guaranteed obligations (3) (7)	2,378,262	3,505,669
Other guaranteed obligations	346,817	240,007
Subtotal bank loans	2,939,709	4,006,109
Obligation with the public (4) (5) (6)	1,554,449	1,569,281
Financial leases (7)	1,473,195	832,964
Other loans	148,573	194,537
Total non-current	6,115,926	6,602,891
Total obligations with financial institutions	7,503,326	7,891,640

(1) On September 29, 2016 TAM Linhas Aéreas S.A. obtained financing for US\$ 200 million, guaranteed with 18% of the shares of Multiplus S.A., percentage adjustable depending on the shares price. Additionally, TAM obtained a hedging economic (Cross Currency Swap) for the same amount and period, in order to convert the commitment currency from US\$ to BRL.

On March 30, 2017, TAM Linhas Aéreas S.A. restructured the financing mentioned in the previous paragraph, modifying the nominal amount of the transaction to US \$ 137 million.

On September 27, 2017, TAM Linhas Aéreas S.A. made the payment of capital plus interest corresponding to the last installment of the financing described above. Simultaneously, all the garments were lifted on the shares of Multiplus S.A. delivered as collateral.

(2) On April 25, 2017, the payment of the principal plus interest on the long-term bonds issued by the company TAM Capital Inc. for an amount of US\$ 300,000,000 at an interest rate of 7.375% annual. The payment consisted of 100% of the capital, US\$ 300,000,000, and interest accrued as of the date of payment for ThUS \$ 11,063.

(3) On April 10, 2017, the issuance and private placement of debt securities in the amount of US\$ 140,000,000 was made under the current structure of the Enhanced Equipment Trust Certificates ("EETC") issued and placed the year 2015 to finance the acquisition of eleven Airbus A321-200, two Airbus A350-900 and four Boeing 787-9 with arrivals between July 2015 and April 2016. The offer is made up of Class C Certificates, which are subordinate to the Current Class A Certificates and Class B Certificates held by the Company. The term of the Class C Certificates is six years and expires in 2023.

(4) On April 11, 2017, LATAM Finance Limited, a company incorporated in the Cayman Islands with limited liability and exclusively owned by LATAM Airlines Group SA, has issued and placed on the international market, pursuant to Rule 144 -A and Regulation S of the securities laws of the United States of America, long-term unsecured bonds in the amount of US\$ 700,000,000, maturing in 2024 at an annual interest rate of 6.875%.

As reported in the essential fact of April 6, 2017, the Issue and placement of the 144-A Bonds was intended to finance general corporate purposes of LATAM.

(5) On August 17, 2017, LATAM made the placement in the local market (Santiago Stock Exchange) of the Series A Bonds (BLATM-A), Series B (BLATM-B), Series C (BLATM-C) and Series D (BLATM-D), which correspond to the first issue of bonds charged to the line inscribed in the Securities Registry of the Commission for the Financial Market ("CMF"), under number 862 for a total of UF 9,000,000.

The total amount placed of the Series A Bond was UF 2,500,000; The total amount placed of the Series B Bond was UF 2,500,000. The total amount placed of the Series C Bond was UF 1,850,000. The total amount placed of the Series D Bond was UF 1,850,000, thus totaling UF 8,700,000.

The Series A Bonds have an expiration date on June 1, 2022 and an annual interest rate of 5.25%. The Series B Bonds have an expiration date on January 1, 2028 and an annual interest rate of 5.75%. The Series C Bonds have an expiration date on June 1, 2022 and an annual interest rate of 5.25%. The Series D Bonds have an expiration date on January 1, 2028 and an annual interest rate of 5.75%.

The proceeds of the placement of the Series A, Series B, Series C and Series D Bonds were allocated in full to the partial financing of the early redemption of the total bonds of TAM Capital 3 inc.

(6) On September 1, 2017, TAM Capital 3 Inc., a company controlled indirectly by TAM S.A. through its subsidiary TAM Linhas Aéreas SA, which consolidates its financial statements with LATAM, made the full advance redemption of the bonds it placed abroad on June 3, 2011, for an amount of US \$ 500 million at a 8.375% rate and with an expiration date on June 3, 2021. The total redemption was partially financed with the placement of bonds in the local market described in number (5) above, and the balance, with other funds available from the Company.

(7) In the period ended June 30, 2018, the Company sold its participation in nineteen permanent establishments. As a result of this, the classification of the financial liabilities associated with 45 aircraft from bonds guaranteed to finance leases was modified.

All interest-bearing liabilities are recorded according to the effective rate method. Under IFRS, in the case of fixed rate loans, the effective rate determined does not vary over the duration of the loan, whereas in variable rate loans, the effective rate changes to the date of each payment of interest.

Currency balances that make the interest bearing loans:

<u>Currency</u>	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>
Brazilian real	-	130
Chilean peso (U.F.)	469,265	521,122
US Dollar	<u>7,034,061</u>	<u>7,370,388</u>
Total	<u><u>7,503,326</u></u>	<u><u>7,891,640</u></u>

Interest-bearing loans due in installments to June 30, 2018 (Unaudited)  
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective rate %	Nominal rate %
				Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total nominal value	Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total accounting value			
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			
Loans to exporters																		
97.032.000-8	BBVA	Chile	ThUS\$	75.000	-	-	-	-	75.000	75.902	-	-	-	-	75.902	At Expiration	2,64	2,64
97.032.000-8	BBVA	Chile	UF	-	53.399	-	-	-	53.399	-	53.484	-	-	-	53.484	At Expiration	2,66	1,86
97.036.000-K	SANTANDER	Chile	ThUS\$	115.000	-	-	-	-	115.000	115.105	-	-	-	-	115.105	At Expiration	3,07	3,07
97.030.000-7	ESTADO	Chile	ThUS\$	40.000	-	-	-	-	40.000	40.209	-	-	-	-	40.209	At Expiration	3,09	3,09
97.003.000-K	BANCO DO BRASIL	Chile	ThUS\$	150.000	-	-	-	-	150.000	150.014	-	-	-	-	150.014	At Expiration	3,25	3,25
97.951.000-4	HSBC	Chile	ThUS\$	12.000	-	-	-	-	12.000	12.009	-	-	-	-	12.009	At Expiration	2,43	2,43
Bank loans																		
97.023.000-9	CORPBANCA	Chile	UF	5.742	17.228	28.713	-	-	51.683	5.767	17.228	28.506	-	-	51.501	Quarterly	3,35	3,35
0-E	BLADEX	U.S.A	ThUS\$	-	15.000	7.500	-	-	22.500	-	15.112	7.312	-	-	22.424	Semiannual	6,33	6,33
97.036.000-K	SANTANDER	Chile	ThUS\$	-	-	177.238	-	-	177.238	380	-	177.238	-	-	177.618	Quarterly	5,14	5,14
Obligations with the public																		
0-E	BANK OF NEW YORK	U.S.A	ThUS\$	-	-	500.000	-	700.000	1.200.000	-	12.890	494.196	-	697.581	1.204.667	At Expiration	7,44	7,03
97.030.000-7	ESTADO	Chile	UF	-	-	-	181.472	181.471	362.943	-	1.608	-	181.336	181.336	364.280	At Expiration	5,50	5,50
Guaranteed obligations																		
0-E	CREDIT AGRICOLE	France	ThUS\$	2.147	5.614	13.195	7.213	-	28.169	2.309	5.613	12.743	7.100	-	27.765	Quarterly	4,24	3,80
0-E	BNP PARIBAS	U.S.A	ThUS\$	11.156	44.969	116.290	119.576	255.921	547.912	13.835	45.719	112.913	117.690	253.679	543.836	Quarterly	4,13	4,12
0-E	WILMINGTON TRUST	U.S.A	ThUS\$	20.556	63.190	177.618	218.237	514.334	993.935	26.383	63.190	172.100	215.657	511.522	988.852	Quarterly	4,48	4,48
0-E	CITIBANK	U.S.A	ThUS\$	10.617	32.324	89.685	81.566	76.484	290.676	11.834	32.324	84.527	79.213	74.644	282.542	Quarterly	3,71	2,83
0-E	US BANK	U.S.A	ThUS\$	15.330	46.518	127.998	133.956	118.630	442.432	17.398	46.518	112.267	127.307	115.620	419.110	Quarterly	4,00	2,82
0-E	NATIXIS	France	ThUS\$	9.992	30.724	86.807	81.242	135.871	344.636	10.933	30.723	84.897	80.286	134.378	341.217	Quarterly	4,17	4,17
0-E	PK AIRFINANCE	U.S.A	ThUS\$	2.240	6.961	20.445	12.490	-	42.136	2.306	6.960	20.445	12.490	-	42.201	Monthly	3,77	3,77
0-E	INVESTEC	England	ThUS\$	1.421	8.212	21.047	23.658	-	4.420	1.846	8.412	20.470	23.497	-	58.636	Semiannual	6,74	6,74
-	SWAP Received aircraft	-	ThUS\$	251	582	406	-	-	1.239	251	582	406	-	-	1.239	Quarterly	-	-
Other guaranteed obligations																		
0-E	CREDIT AGRICOLE	France	ThUS\$	-	-	254.076	-	-	254.076	29	-	252.456	-	-	252.485	At Expiration	4,03	4,03
0-E	DVB BANK SE	Germany	ThUS\$	7.734	23.201	61.871	35.380	-	128.186	7.757	23.201	59.779	34.582	-	125.319	Quarterly	3,92	3,92
Financial leases																		
0-E	ING	U.S.A	ThUS\$	3.589	11.059	19.409	-	-	34.057	3.878	11.059	19.183	-	-	34.120	Quarterly	5,70	5,01
0-E	CREDIT AGRICOLE	France	ThUS\$	5.794	17.725	30.760	-	-	54.279	6.011	17.725	30.760	-	-	54.496	Quarterly	3,07	2,62
0-E	CITIBANK	U.S.A	ThUS\$	12.962	39.633	88.394	53.676	3.532	198.197	13.844	39.633	86.269	53.337	3.524	196.607	Quarterly	4,16	3,56
0-E	PEFCO	U.S.A	ThUS\$	9.092	20.261	11.348	-	-	40.701	9.371	20.259	11.184	-	-	40.814	Quarterly	5,55	4,93
0-E	BNP PARIBAS	U.S.A	ThUS\$	13.475	21.376	36.786	-	-	71.637	13.881	21.376	36.391	-	-	71.648	Quarterly	3,94	3,55
0-E	WELLS FARGO	U.S.A	ThUS\$	32.890	99.763	267.757	239.334	155.931	795.675	36.297	99.763	248.478	232.233	153.445	770.216	Quarterly	2,69	2,02
97.036.000-K	SANTANDER	Chile	ThUS\$	5.508	16.722	45.898	37.945	-	106.073	5.963	16.722	44.674	37.747	-	105.106	Quarterly	3,47	2,93
0-E	RRPF ENGINE	England	ThUS\$	541	2.480	6.998	7.594	7.033	24.646	541	2.480	6.998	7.594	7.033	24.646	Monthly	4,01	4,01
0-E	APPLE BANK	U.S.A	ThUS\$	1.426	4.330	11.986	12.640	4.018	34.400	1.650	4.330	11.513	12.506	4.008	34.007	Quarterly	3,76	3,16
0-E	BTMU	U.S.A	ThUS\$	2.895	8.801	24.314	25.603	7.378	68.991	3.172	8.801	23.369	25.341	7.360	68.043	Quarterly	3,73	3,13
0-E	DEUTSCHE BANK	U.S.A	ThUS\$	3.042	9.317	26.397	28.826	23.339	90.921	3.673	9.317	25.701	28.362	22.992	90.045	Quarterly	5,29	5,29
0-E	NATIXIS	France	ThUS\$	4.969	13.703	16.716	3.511	-	38.899	5.126	13.703	16.716	3.511	-	39.056	Quarterly	3,81	3,65
0-E	KFV IPEX-BANK	Germany	ThUS\$	2.116	6.490	12.907	556	-	22.069	2.144	6.490	12.907	556	-	22.097	Quarterly	3,92	3,92
0-E	AIRBUS FINANCIAL	U.S.A	ThUS\$	1.885	5.745	11.571	-	-	19.201	1.927	5.745	11.571	-	-	19.243	Monthly	3,68	3,68
Other loans																		
0-E	CITIBANK (*)	U.S.A	ThUS\$	21.985	70.407	149.727	-	-	242.119	22.583	70.407	148.573	-	-	241.563	Quarterly	6,00	6,00
Total				601.355	695.734	2.443.857	1.304.475	2.188.362	7.233.783	624.328	711.374	2.374.542	1.280.345	2.171.533	7.162.122			

(\*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

Interest-bearing loans due in installments to June 30, 2018 (Unaudited)  
Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective rate %	Nominal rate %
				Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total nominal value	Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total accounting value			
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			
<b>Bank loans</b>																		
0-E	NEDERLANDSCHE CREDITVERZEKERING MAATSCHAPPIJ	Holland	US\$	134	413	1.197	377	-	2.121	145	412	1.197	377	-	2.131	Monthly	6,01	6,01
<b>Financial leases</b>																		
0-E	NATIXIS	France	US\$	2.938	6.299	45.792	45.302	-	100.331	3.620	6.299	45.792	45.302	-	101.013	Quarterly/Semiannual	6,27	6,27
0-E	WACAPOU LEASING S.A.	Luxembourg	US\$	705	2.177	6.148	1.620	-	10.650	738	2.177	6.148	1.620	-	10.683	Quarterly	4,34	4,34
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	9.172	28.215	189.269	-	-	226.656	10.092	28.215	189.070	-	-	227.377	Quarterly	5,51	5,45
Total				12.949	37.104	242.406	47.299	-	339.758	14.595	37.103	242.207	47.299	-	341.204			
Total consolidado				614.304	732.838	2.686.263	1.351.774	2.188.362	7.573.541	638.923	748.477	2.616.749	1.327.644	2.171.533	7.503.326			

Interest-bearing loans due in installments to December 31, 2017  
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective rate %	Nominal rate %
				Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total nominal value	Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total accounting value			
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			
<b>Loans to exporters</b>																		
97.032.000-8	BBVA	Chile	ThUS\$	75.000	-	-	-	-	75.000	75.781	-	-	-	-	75.781	At Expiration	2,30	2,30
97.032.000-8	BBVA	Chile	UF	-	55.801	-	-	-	55.801	-	55.934	-	-	-	55.934	At Expiration	3,57	2,77
97.036.000-K	SANTANDER	Chile	ThUS\$	30.000	-	-	-	-	30.000	30.129	-	-	-	-	30.129	At Expiration	2,49	2,49
97.030.000-7	ESTADO	Chile	ThUS\$	40.000	-	-	-	-	40.000	40.071	-	-	-	-	40.071	At Expiration	2,57	2,57
97.003.000-K	BANCO DO BRASIL	Chile	ThUS\$	100.000	-	-	-	-	100.000	100.696	-	-	-	-	100.696	At Expiration	2,40	2,40
97.951.000-4	HSBC	Chile	ThUS\$	12.000	-	-	-	-	12.000	12.007	-	-	-	-	12.007	At Expiration	2,03	2,03
<b>Bank loans</b>																		
97.023.000-9	CORPBANCA	Chile	UF	21.298	21.360	42.006	-	-	84.664	21.542	21.360	41.548	-	-	84.450	Quarterly	3,68	3,68
0-E	BLADEX	U.S.A.	ThUS\$	-	15.000	15.000	-	-	30.000	-	15.133	14.750	-	-	29.883	Semiannual	5,51	5,51
97.036.000-K	SANTANDER	Chile	ThUS\$	-	-	202.284	-	-	202.284	439	-	202.284	-	-	202.723	Quarterly	4,41	4,41
<b>Obligations with the public</b>																		
0-E	BANK OF NEW YORK	U.S.A.	ThUS\$	-	-	500.000	-	700.000	1.200.000	-	13.047	492.745	-	697.536	1.203.328	At Expiration	7,44	7,03
97.030.000-7	ESTADO	Chile	UF	-	-	-	189.637	189.637	379.274	-	1.738	189.500	189.500	380.738	At Expiration	5,50	5,50	
<b>Guaranteed obligations</b>																		
0-E	CREDIT AGRICOLE	France	ThUS\$	7.767	23.840	54.074	12.410	-	98.091	8.101	23.840	52.924	12.026	-	96.891	Quarterly	2,66	2,22
0-E	BNP PARIBAS	U.S.A.	ThUS\$	10.929	44.145	114.800	119.948	285.399	575.221	13.328	44.781	111.319	117.987	282.714	570.129	Quarterly	3,41	3,40
0-E	WELLS FARGO	U.S.A.	ThUS\$	27.223	82.402	225.221	233.425	240.716	808.987	30.143	82.402	203.371	224.295	236.179	776.390	Quarterly	2,46	1,75
0-E	WILMINGTON TRUST	U.S.A.	ThUS\$	20.427	61.669	175.334	183.332	594.091	1.034.853	26.614	61.669	169.506	180.520	590.723	1.029.032	Quarterly	4,48	4,48
0-E	CITIBANK	U.S.A.	ThUS\$	11.994	36.501	101.230	104.308	97.184	351.217	13.231	36.501	95.208	101.558	94.807	341.305	Quarterly	3,31	2,47
0-E	BTMU	U.S.A.	ThUS\$	2.856	8.689	24.007	25.278	13.904	74.734	3.082	8.689	22.955	24.941	13.849	73.516	Quarterly	2,87	2,27
0-E	APPLE BANK	U.S.A.	ThUS\$	1.401	4.278	11.828	12.474	7.242	37.223	1.583	4.278	11.303	12.303	7.212	36.679	Quarterly	2,78	2,18
0-E	US BANK	U.S.A.	ThUS\$	15.157	45.992	126.550	132.441	152.693	472.833	17.364	45.992	109.705	125.006	148.318	446.385	Quarterly	4,00	2,82
0-E	DEUTSCHE BANK	U.S.A.	ThUS\$	2.965	9.127	25.826	28.202	30.786	96.906	3.534	9.127	25.130	27.739	30.323	95.853	Quarterly	4,39	4,39
0-E	NATIXIS	France	ThUS\$	14.645	44.627	107.068	91.823	154.848	413.011	15.642	44.627	105.056	90.823	153.124	409.272	Quarterly	3,42	3,40
0-E	PK AIRFINANCE	U.S.A.	ThUS\$	2.163	6.722	19.744	17.871	-	46.500	2.225	6.722	19.744	17.871	-	46.562	Monthly	3,18	3,18
0-E	KFW IPEX-BANK	Germany	ThUS\$	2.397	6.678	16.173	1.640	-	26.888	2.428	6.677	16.174	1.640	-	26.919	Quarterly	3,31	3,31
0-E	AIRBUS FINANCIAL	U.S.A.	ThUS\$	1.855	5.654	15.416	-	-	22.925	1.900	5.654	15.416	-	-	22.970	Monthly	3,19	3,19
0-E	INVESTEC	England	ThUS\$	1.374	7.990	20.440	22.977	10.597	63.378	1.808	8.181	19.801	22.769	10.565	63.124	Semiannual	6,04	6,04
-	SWAP Received aircraft	-	ThUS\$	301	749	765	-	-	1.815	301	749	765	-	-	1.815	Quarterly	-	-
<b>Other guaranteed obligations</b>																		
0-E	CREDIT AGRICOLE	France	ThUS\$	-	-	241.287	-	-	241.287	2.170	-	240.007	-	-	242.177	At Expiration	3,38	3,38
<b>Financial leases</b>																		
0-E	ING	U.S.A.	ThUS\$	5.347	10.779	26.831	-	-	42.957	5.717	10.779	26.500	-	-	42.996	Quarterly	5,67	5,00
0-E	CITIBANK	U.S.A.	ThUS\$	11.206	34.267	86.085	49.853	2.863	184.274	12.013	34.267	84.104	49.516	2.859	182.759	Quarterly	3,78	3,17
0-E	PEFCO	U.S.A.	ThUS\$	12.526	32.850	22.407	-	-	67.783	12.956	32.850	22.088	-	-	67.894	Quarterly	5,46	4,85
0-E	BNP PARIBAS	U.S.A.	ThUS\$	13.146	33.840	48.823	2.296	-	98.105	13.548	33.840	48.253	2.293	-	97.934	Quarterly	3,66	3,25
0-E	WELLS FARGO	U.S.A.	ThUS\$	10.630	33.866	91.162	64.471	20.984	221.113	11.460	33.866	88.674	63.860	20.903	218.763	Quarterly	3,17	2,67
97.036.000-K	SANTANDER	Chile	ThUS\$	5.459	16.542	45.416	46.472	3.134	117.023	5.813	16.542	44.010	46.153	3.128	115.646	Quarterly	2,51	1,96
0-E	RRPF ENGINE	England	ThUS\$	265	2.430	6.856	7.441	8.991	25.983	265	2.430	6.856	7.441	8.991	25.983	Monthly	4,01	4,01
<b>Other loans</b>																		
0-E	CITIBANK (*)	U.S.A.	ThUS\$	21.822	67.859	196.210	-	-	285.891	22.586	67.859	194.537	-	-	284.982	Quarterly	6,00	6,00
<b>Total</b>				<b>482.153</b>	<b>713.657</b>	<b>2.562.843</b>	<b>1.346.299</b>	<b>2.513.069</b>	<b>7.618.021</b>	<b>508.477</b>	<b>729.534</b>	<b>2.484.733</b>	<b>1.318.241</b>	<b>2.490.731</b>	<b>7.531.716</b>			

(\*) Bonus securitized with the future flows of credit card sales in the United States and Canada.

Interest-bearing loans due in installments to December 31, 2017  
 Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective rate %	Nominal rate %	
				Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total nominal value	Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total accounting value				
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$				
<b>Bank loans</b>																			
0-E	NEDERLANDSCHE CREDITVERZEKERING MAATSCHAPPIJ	Holland	ThUS\$	130	401	1,161	690	-	2,382	142	401	1,161	690	-	2,394	Monthly	6.01	6.01	
<b>Financial leases</b>																			
0-E	NATIXIS	France	ThUS\$	2,853	6,099	19,682	70,402	-	99,036	3,592	6,099	19,682	70,402	-	99,775	Quarterly/Semiannual	5.59	5.59	
0-E	WACAPOU LEASING S.A.	Luxemburg	ThUS\$	696	2,125	6,020	3,206	-	12,047	732	2,125	6,020	3,207	-	12,084	Quarterly	3.69	3.69	
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	ThUS\$	8,964	27,525	208,024	-	-	244,513	9,992	27,525	208,024	-	-	245,541	Quarterly	4.87	4.81	
0-E	BANCO IBM S.A	Brazil	BRL	21	-	-	-	-	21	21	-	-	-	-	21	Monthly	6.89	6.89	
0-E	SOCIETE GENERALE	France	BRL	101	8	-	-	-	109	101	8	-	-	-	109	Monthly	6.89	6.89	
Total				12,765	36,158	234,887	74,298	-	358,108	14,580	36,158	234,887	74,299	-	359,924				
Total consolidated				494,918	749,815	2,797,730	1,420,597	2,513,069	7,976,129	523,057	765,692	2,719,620	1,392,540	2,490,731		7,891,640			

## (b) Hedge derivatives

	Current liabilities		Non-current liabilities		Total hedge derivatives	
	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
Accrued interest from the last date of interest rate swap	915	1,189	-	-	915	1,189
Fair value of interest rate derivatives	2,345	8,919	995	2,617	3,340	11,536
Fair value of foreign currency derivatives	-	2,092	-	-	-	2,092
Total hedge derivatives	3,260	12,200	995	2,617	4,255	14,817

The foreign currency derivatives correspond to options, forwards and swaps.

Hedging operation

The fair values of net assets/ (liabilities), by type of derivative, of the contracts held as hedging instruments are presented below:

	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
Cross currency swaps (CCS) (1)	39,621	38,875
Interest rate swaps (2)	(3,605)	(6,542)
Fuel options (3)	26,571	10,711
Currency options R\$/US\$ (4)	10,724	4,370
Currency options CLP/US\$ (4)	-	636

- (1) Covers the significant variations in cash flows associated with market risk implicit in the changes in the 3-month LIBOR interest rate and the exchange rate US\$/UF of bank loans. These contracts are recorded as cash flow hedges and fair value.
- (2) Covers the significant variations in cash flows associated with market risk implicit in the increases in the 3 months LIBOR interest rates for long-term loans incurred in the acquisition of aircraft and bank loans. These contracts are recorded as cash flow hedges.
- (3) Covers significant variations in cash flows associated with market risk implicit in the changes in the price of future fuel purchases. These contracts are recorded as cash flow hedges.
- (4) Covers the foreign exchange risk exposure of operating cash flows caused mainly by fluctuations in the exchange rate CLP/US\$, R\$/US\$, US\$/EUR and US\$/GBP. These contracts are recorded as cash flow hedges.

During the periods presented, the Company only has cash flow and fair value hedges (in the case of CCS). In the case of fuel hedges, the cash flows subject to such hedges will occur and will impact results in the next 12 months from the date of the consolidated statement of financial position, while in the case of hedges of interest rates, these they will occur and will impact results throughout the life of the associated loans, up to their maturity. In the case of currency hedges through a CCS, there is a group of hedging relationships, in which two types of hedge accounting are generated, one of cash flow for the US \$ / UF component; and another of fair value, for the floating rate component US \$. The other group of hedging relationships only generates cash flow hedge accounting for the US \$ / UF component.

During the periods presented, no hedging operations of future highly probable transaction that have not been realized have occurred.

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

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

	For the 6 months ended June 30,		For the 3 months ended June 30,	
	<u>2018</u> ThUS\$	<u>2017</u> ThUS\$	<u>2018</u> ThUS\$	<u>2017</u> ThUS\$
	Unaudited			
Debit (credit) recognized in comprehensive income during the period	32,509	(7,329)	17,119	(2,450)
Debit (credit) transferred from net equity to income during the period	18,832	(26,731)	14,735	(8,078)

#### NOTE 20 - TRADE AND OTHER ACCOUNTS PAYABLES

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

	As of June 30, <u>2018</u> ThUS\$	As of December 31, <u>2017</u> ThUS\$
	Unaudited	
Current		
(a) Trade and other accounts payables	1,253,430	1,349,201
(b) Accrued liabilities at the reporting date	281,046	346,001
Total trade and other accounts payables	<u>1,534,476</u>	<u>1,695,202</u>

## (a) Trade and other accounts payable:

	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>
Trade creditors	1,050,823	1,096,540
Leasing obligation	6,649	4,448
Other accounts payable	195,958	248,213
Total	<u>1,253,430</u>	<u>1,349,201</u>

The details of Trade and other accounts payables are as follows:

	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>
Boarding Fee	229,873	249,898
Aircraft Fuel	212,953	219,601
Suppliers technical purchases	132,811	114,690
Airport charges and overflight	107,364	106,534
Handling and ground handling	87,239	103,784
Other personnel expenses	78,332	89,621
Professional services and advisory	75,863	81,679
Services on board	58,865	68,605
Leases, maintenance and IT services	56,283	69,873
Marketing	46,089	75,220
Air companies	32,790	31,381
Aviation insurance	24,734	5,108
Communications	22,423	5,732
Crew	21,353	24,163
Land services	20,693	31,151
Maintenance	11,838	26,244
Achievement of goals	6,646	4,285
Aircraft and engines leasing	2,292	5,273
Others	24,989	36,359
Total trade and other accounts payables	<u>1,253,430</u>	<u>1,349,201</u>

## (b) Liabilities accrued:

	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>
Accrued personnel expenses	139,634	125,246
Aircraft and engine maintenance	93,428	92,711
Accounts payable to personnel (*)	17,460	99,862
Others accrued liabilities	30,524	28,182
Total accrued liabilities	<u>281,046</u>	<u>346,001</u>

(\*) Profits and bonds participation (Note 23 letter b)

## NOTE 21 - OTHER PROVISIONS

## Other provisions:

	<u>Current liabilities</u>		<u>Non-current liabilities</u>		<u>Total Liabilities</u>	
	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>
Provision for contingencies (1)						
Tax contingencies	1,894	1,913	220,246	258,305	222,140	260,218
Civil contingencies	874	497	62,680	62,858	63,554	63,355
Labor contingencies	548	373	23,911	28,360	24,459	28,733
Other	-	-	13,676	15,187	13,676	15,187
Provision for European						
Commission investigation (2)	-	-	9,597	9,883	9,597	9,883
Total other provisions (3)	<u>3,316</u>	<u>2,783</u>	<u>330,110</u>	<u>374,593</u>	<u>333,426</u>	<u>377,376</u>

## (1) Provisions for contingencies:

The tax contingencies correspond to litigation and tax criteria related to the tax treatment applicable to direct and indirect taxes, which are found in both administrative and judicial stage.

The civil contingencies correspond to different demands of civil order filed against the Company.

The labor contingencies correspond to different demands of labor order filed against the Company.

The Provisions are recognized in the consolidated income statement in administrative expenses or tax expenses, as appropriate.

- (2) Provision made for proceedings brought by the European Commission for possible breaches of free competition in the freight market.
- (3) Total other provision at June 30, 2018, and 2017, include the fair value correspond to those contingencies from the business combination with TAM S.A and subsidiaries, with a probability of loss under 50%, which are not provided for the normal application of IFRS enforcement and that only must be recognized in the context of a business combination in accordance with IFRS 3.

Movement of provisions:

	Legal claims (1)	European Commission Investigation (2)	Total
	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2017	416,473	8,664	425,137
Increase in provisions	42,418	-	42,418
Provision used	(7,412)	-	(7,412)
Difference by subsidiaries conversion	(5,853)	-	(5,853)
Reversal of provision	(22,322)	-	(22,322)
Exchange difference	(124)	720	596
Closing balance as of June 30, 2017 (Unaudited)	<u>423,180</u>	<u>9,384</u>	<u>432,564</u>
Opening balance as of July 1, 2017	423,180	9,384	432,564
Increase in provisions	64,525	-	64,525
Provision used	(7,448)	-	(7,448)
Difference by subsidiaries conversion	23	-	23
Reversal of provision	(112,787)	-	(112,787)
Exchange difference	-	499	499
Closing balance as of December 31, 2017	<u>367,493</u>	<u>9,883</u>	<u>377,376</u>
Opening balance as of January 1, 2018	367,493	9,883	377,376
Increase in provisions	53,599	-	53,599
Provision used	(25,192)	-	(25,192)
Difference by subsidiaries conversion	(49,079)	-	(49,079)
Reversal of provision	(22,249)	-	(22,249)
Exchange difference	(743)	(286)	(1,029)
Closing balance as of June 30, 2018 (Unaudited)	<u>323,829</u>	<u>9,597</u>	<u>333,426</u>

- (1) Cumulative balances include judicial deposit delivered as security, with respect to the "Aerovía Fundo" (FA), for US \$ 87 million, made in order to suspend the application of the tax credit. The Company is discussing in the Court the constitutionality of the requirement made by FA in a lawsuit. Initially it was covered by the effects of a precautionary measure, this means that the Company would not be obliged to collect the tax, as long as there is no judicial decision in this regard. However, the decision taken by the judge in the first instance was published unfavorably, revoking the injunction. As the lawsuit is still underway (TAM appealed this first decision), the Company needed to make the judicial deposit, for the suspension of the enforceability of the tax credit; deposit that was classified in this item, discounting the existing provision for this purpose. Finally, if the final decision is favorable to the Company, the deposit made will return to TAM. On the other hand, if the court confirms the first decision,

said deposit will become a final payment in favor of the Government of Brazil. The procedural stage as of June 30, 2018 is described in Note 31 in the Role of the case 2001.51.01.012530-0.

2) European Commission Provision:

Provision constituted on the occasion of the process initiated in December 2007 by the General Competition Directorate of the European Commission against more than 25 cargo airlines, among which is Lan Cargo SA, which forms part of the global investigation initiated in 2006 for possible infractions of free competition in the air cargo market, which was carried out jointly by the European and United States authorities.

With respect to Europe, the General Directorate of Competition imposed fines totaling € 799,445,000 (seven hundred and ninety-nine million four hundred and forty-five thousand Euros) for infractions of European Union regulations on free competition against eleven (11) airlines, among which are LATAM Airlines Group SA and its subsidiary Lan Cargo S.A. For its part, LATAM Airlines Group S.A. and Lan Cargo S.A., jointly and severally, have been fined for the amount of € 8,220,000 (eight million two hundred and twenty thousand Euros), for these infractions, an amount that was provisioned in the financial statements of LATAM. On January 24, 2011, LATAM Airlines Group S.A. and Lan Cargo S.A. They appealed the decision before the Court of Justice of the European Union. On December 16, 2015, the European Court resolved the appeal and annulled the Commission's Decision. The European Commission did not appeal the judgment, but on March 17, 2017, the European Commission again adopted its original decision to impose on the eleven lines original areas, the same fine previously imposed, amounting to a total of 776,465,000 Euros In the case of LAN Cargo and its parent, LATAM Airlines Group S.A. imposed the same fine of 8.2 million Euros. The procedural stage as of June 30, 2018 is described in Note 31 in section (ii) judgments received by LATAM Airlines Group S.A. and Subsidiaries.

NOTE 22 - OTHER NON-FINANCIAL LIABILITIES

	Current liabilities		Non-current liabilities		Total Liabilities	
	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
Deferred revenues (*)	2,623,171	2,690,961	120,523	158,305	2,743,694	2,849,266
Sales tax	21,829	22,902	-	-	21,829	22,902
Retentions	24,085	38,197	-	-	24,085	38,197
Others taxes	5,792	8,695	-	-	5,792	8,695
Dividends payable	-	46,591	-	-	-	46,591
Other sundry liabilities	14,693	16,617	-	-	14,693	16,617
<b>Total other non-financial liabilities</b>	<b>2,689,570</b>	<b>2,823,963</b>	<b>120,523</b>	<b>158,305</b>	<b>2,810,093</b>	<b>2,982,268</b>

(\*) Note 2.20.

The balance comprises, mainly, deferred income by services not yet rendered at June 30, 2018 and 2017; and programs such as: LATAM Pass, LATAM Fidelidade y Multiplus:

LATAM Pass is the frequent passenger program created by LAN to reward the preference and loyalty of its customers with multiple benefits and privileges, through the accumulation of miles that can be exchanged for free flight tickets or for a varied range of products and services. Customers accumulate LATAM Pass miles every time they fly on LAN, TAM, oneworld® member companies and other airlines associated with the program, as well as buying at stores or using the services of a vast network of companies that have an agreement with the program around the world.

For its part, TAM, thinking of people who travel constantly, created the LATAM Fidelidade program, in order to improve the service and give recognition to those who choose the company. Through the program, customers accumulate points in a wide variety of loyalty programs in a single account and can redeem them in all TAM destinations and associated airline companies, and even more, participate in the Multiplus Fidelidade Network.

Multiplus is a coalition of loyalty programs, with the objective of operating accumulation and exchange of points. This program has a network integrated by associated companies, including hotels, financial institutions, retail companies, supermarkets, vehicle leases and magazines, among many other partners from different segments.

Movement of Other non-financial liabilities:

	Deferred income Air transport and other
	<u>ThUS\$</u>
Opening balance as of January 1, 2018	2,849,266
Recognition of deferred income	4,031,849
Use deferred income	(4,239,235)
Expiration of tickets	(121,399)
Deferred revenue loyalty (accreditation and exchange)	241,015
Others provisions	(33,154)
Others	15,352
Closing balance as of June 30, 2018 (Unaudited)	<u><u>2,743,694</u></u>

## NOTE 23 - EMPLOYEE BENEFITS

	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>
Retirements payments	53,974	55,119
Resignation payments	9,798	10,124
Other obligations	49,827	35,844
Total liability for employee benefits	<u>113,599</u>	<u>101,087</u>

(a) The movement in retirements and resignation payments and other obligations:

	Opening balance <u>ThUS\$</u>	Increase (decrease) current service provision <u>ThUS\$</u>	Benefits paid <u>ThUS\$</u>	Actuarial (gains) losses <u>ThUS\$</u>	Currency translation <u>ThUS\$</u>	Closing balance <u>ThUS\$</u>
From January 1 to June 30, 2017 (Unaudited)	82,322	7,303	(2,538)	(1,456)	-	85,631
From July 1 to December 31, 2017	85,631	14,332	(2,861)	(1,307)	5,292	101,087
From January 1 to June 30, 2018 (Unaudited)	101,087	13,080	(3,325)	1,917	840	113,599

The principal assumptions used in the calculation to the provision in Chile are presented below:

<u>Assumptions</u>	As of June 30,	
	2018	2017
	<u>Unaudited</u>	
Discount rate	4.59%	4.44%
Expected rate of salary increase	4.50%	4.50%
Rate of turnover	6.98%	6.98%
Mortality rate	RV-2014	RV-2014
Inflation rate	2.88%	2.87%
Retirement age of women	60	60
Retirement age of men	65	65

The discount rate corresponds to the 20-year term rate of the BCP Central Bank of Chile Bonds. The RV-2014 mortality tables correspond to those established by the Commission for the Financial Market of Chile and for the determination of the inflation rates; the market performance curves of Central Bank of Chile papers of the BCUs have been used. BCP long term at the date of scope.

The calculation of the present value of the defined benefit obligation is sensitive to the variation of some actuarial assumptions such as discount rate, salary increase, rotation and inflation.

The sensitivity analysis for these variables is presented below:

	Effect on the liability	
	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
<u>Discount rate</u>		
Change in the accrued liability an closing for increase in 100 p.b.	(5,537)	(5,795)
Change in the accrued liability an closing for decrease of 100 p.b.	6,314	6,617
<u>Rate of wage growth</u>		
Change in the accrued liability an closing for increase in 100 p.b.	6,137	6,412
Change in the accrued liability an closing for decrease of 100 p.b.	(5,502)	(5,751)

(b) The liability for short-term:

	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
Profit-sharing and bonuses (*)	<u>17,460</u>	<u>99,862</u>

(\*) Accounts payables to employees (Note 20 letter b)

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

(c) Employment expenses are detailed below:

	For the 6 months ended June 30,		For the 3 months ended June 30,	
	2018 ThUS\$	2017 ThUS\$	2018 ThUS\$	2017 ThUS\$
	Unaudited			
Salaries and wages	787,984	809,450	373,350	388,953
Short-term employee benefits	37,830	31,705	4,087	(7,154)
Termination benefits	26,268	43,494	11,646	23,530
Other personnel expenses	98,204	93,211	46,660	47,313
Total	<u>950,286</u>	<u>977,860</u>	<u>435,743</u>	<u>452,642</u>

## NOTE 24 - ACCOUNTS PAYABLE, NON-CURRENT

	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>
Aircraft and engine maintenance	520,127	483,795
Provision for vacations and bonuses	14,952	14,725
Other sundry liabilities	304	312
Total accounts payable, non-current	<u>535,383</u>	<u>498,832</u>

## NOTE 25 - EQUITY

## (a) Capital

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

The paid capital of the Company at June 30, 2018 amounts to ThUS\$ 3,146,265 divided into 606,407,693 common stock of a same series (ThUS\$ 3,146,265 (\*) divided into 606,407,693 shares as of December 31, 2017), a single series nominative, ordinary character with no par value. There are no special series of shares and no privileges. The form of its stock certificates and their issuance, exchange, disablement, loss, replacement and other similar circumstances, as well as the transfer of the shares, is governed by the provisions of Corporations Law and its regulations.

(\*) Includes deduction of issuance costs for ThUS \$ 3,299 and adjustment for placement of 10,282 shares for ThUS \$ 156, approved at the Extraordinary Shareholders Meeting of the Company on April 27, 2017.

## (b) Subscribed and paid shares

On August 18, 2016, the Company held an extraordinary shareholders' meeting at which it was approved to increase the capital by issuing 61,316,424 payment shares, all ordinary, without par value. As of December 31, 2016, 60,849,592 shares had been placed against said increase, according to the following breakdown: (a) 30,499,685 shares subscribed and paid at the end of the pre-emptive option period, which expired on December 23, 2016; December 2016, collecting the equivalent of US \$ 304,996,850; and (b) 30,349,907 additional shares subscribed on December 28, 2016, collecting the equivalent of US \$ 303,499,070. Due to this last described placement, as of June 30, 2018, the number of subscribed and paid shares of the Company reached 606,407,693.

Consequently, as of June 30, 2018, the statutory capital of the Company is represented by 606,874,525 shares, all of the same and unique series, registered, ordinary, without par value, which is divided into: (a) 606,407,693 subscribed and paid shares mentioned above; and (b) 466,832

shares pending subscription and payment, which correspond to the balance of shares pending placement of the last capital increase, described in the previous paragraph.

The following table shows the movement of the authorized and fully paid shares described above:

Movement of authorized shares	Opening balance	Expired Shares for compensation plans	Closing balance
<u>Nro. of shares</u>	<u></u>	<u></u>	<u></u>
From January 1 to June 30, 2017 (Unaudited)	608,374,525	-	608,374,525
From July 1 to December 31, 2017	608,374,525	-	608,374,525
From January 1 to June 30, 2018 (Unaudited)	608,374,525	(1,500,000) (*)	606,874,525

(\*) On June 11, 2018, the term of subscription and payment of 1,500,000 shares to create and implement compensation plans for Company employees expired.

Movement fully paid shares

	N° of shares	Movement value of shares (1) ThUS\$	Cost of issuance and placement of shares (2) ThUS\$	Paid- in Capital ThUS\$
Paid shares as of January 1, 2017	606,407,693	3,160,718	(11,154)	3,149,564
Capital reserve	-	-	(3,299)	(3,299)
Paid shares as of December 31, 2017	<u>606,407,693</u>	<u>3,160,718</u>	<u>(14,453)</u>	<u>3,146,265</u>
Paid shares as of January 1, 2018	606,407,693	3,160,718	(14,453)	3,146,265
Capital reserve	-	-	-	-
Paid shares as of June 30, 2018 (Unaudited)	<u>606,407,693</u> (3)	<u>3,160,718</u>	<u>(14,453)</u>	<u>3,146,265</u>

(1) Amounts reported represent only those arising from the payment of the shares subscribed.

(2) Decrease of capital by capitalization of reserves for cost of issuance and placement of shares established according to Extraordinary Shareholder's Meetings, where such decreases were authorized.

(3) At June 30, 2018, the difference between authorized shares and fully paid shares are 466,832 shares, of which correspond to the shares issued and unsubscribed from the capital increase approved at the Extraordinary Shareholders Meeting held on August 18, 2016.

(c) Treasury stock

At June 30, 2018, the Company held no treasury stock, the remaining of ThUS\$ (178) corresponds to the difference between the amount paid for the shares and their book value, at the time of the full right decrease of the shares which held in its portfolio.

## (d) Reserve of share- based payments

Movement of Reserves of share- based payments:

Periods	Opening balance	Stock option plan	Net movement of the period	Closing balance
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
From January 1 to June 30, 2017 (Unaudited)	38,538	739	739	39,277
From July 1 to December 31, 2017	39,277	204	204	39,481
From January 1 to June 30, 2018 (Unaudited)	39,481	(1,420)	(1,420)	38,061

These reserves are related to the “Share-based payments” explained in Note 34.

## (e) Other sundry reserves

Movement of Other sundry reserves:

Periods	Opening balance	Legal reserves	Closing balance
	ThUS\$	ThUS\$	ThUS\$
From January 1 to June 30, 2017 (Unaudited)	2,640,281	(274)	2,640,007
From July 1 to December 31, 2017	2,640,007	(227)	2,639,780
From January 1 to June 30, 2018 (Unaudited)	2,639,780	(235)	2,639,545

Balance of Other sundry reserves comprises the following:

	As of June 30, 2018	As of December 31, 2017
	ThUS\$	ThUS\$
	Unaudited	
Higher value for TAM S.A. share exchange (1)	2,665,692	2,665,692
Reserve for the adjustment to the value of fixed assets (2)	2,620	2,620
Transactions with non-controlling interest (3)	(25,911)	(25,911)
Others	(2,856)	(2,621)
Total	<u>2,639,545</u>	<u>2,639,780</u>

- (1) Corresponds to the difference between the value of the shares of TAM S.A., acquired by Sister Holdco S.A. (under the Subscriptions) and by Holdco II S.A. (by virtue of the Exchange Offer), which is recorded in the declaration of completion of the merger by absorption, and the fair value of the shares exchanged by LATAM Airlines Group S.A. as of June 22, 2012.

- (2) Corresponds to the technical revaluation of the fixed assets authorized by the Commission for the Financial Market in the year 1979, in Circular No. 1529. The revaluation was optional and could be made only once; the originated reserve is not distributable and can only be capitalized.
- (3) The balance as of June 30, 2018, corresponds to the loss generated by: Lan Pax Group S.A. e Inversiones Lan S.A. in the acquisition of shares of Aerovías de Integración Regional Aires S.A. for ThUS \$ (3,480) and ThUS \$ (20), respectively; the acquisition of TAM S.A. of the minority interest in Aerolinhas Brasileiras S.A. for ThUS \$ (885) and the acquisition of minority stake in Aerolane S.A. by Lan Pax Group S.A. for an amount of ThUS \$ (21,526) through Holdco Ecuador S.A.

## (f) Reserves with effect in other comprehensive income.

## Movement of Reserves with effect in other comprehensive income:

	Currency translation reserve	Cash flow hedging reserve	Actuarial gain or loss on defined benefit plans reserve	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2017	(2,086,555)	1,506	(12,900)	(2,097,949)
Derivatives valuation gains (losses)	-	(7,237)	-	(7,237)
Deferred tax	-	1,973	-	1,973
Actuarial reserves				
by employee benefit plans	-	-	4,023	4,023
Deferred tax actuarial IAS				
by employee benefit plans	-	-	(873)	(873)
Difference by subsidiaries conversion	(33,990)	-	-	(33,990)
Closing balance as of June 30, 2017 (Unaudited)	<u>(2,120,545)</u>	<u>(3,758)</u>	<u>(9,750)</u>	<u>(2,134,053)</u>
Opening balance as of July 1, 2017	(2,120,545)	(3,758)	(9,750)	(2,134,053)
Derivatives valuation gains (losses)	-	25,673	-	25,673
Deferred tax	-	(3,775)	-	(3,775)
Actuarial reserves				
by employee benefit plans	-	-	(1,265)	(1,265)
Deferred tax actuarial IAS			89	89
by employee benefit plans	-	-	-	-
Difference by subsidiaries conversion	(11,045)	-	-	(11,045)
Closing balance as of December 31, 2017	<u>(2,131,590)</u>	<u>18,140</u>	<u>(10,926)</u>	<u>(2,124,376)</u>
Opening balance as of January 1, 2018	(2,131,590)	18,140	(10,926)	(2,124,376)
Derivatives valuation gains (losses)	-	33,381	-	33,381
Deferred tax	-	(104)	-	(104)
Actuarial reserves				
by employee benefit plans	-	-	(1,916)	(1,916)
Deferred tax actuarial IAS			505	505
by employee benefit plans	-	-	-	-
Difference by subsidiaries conversion	(600,689)	-	-	(600,689)
Closing balance as of June 30, 2018 (Unaudited)	<u>(2,732,279)</u>	<u>51,417</u>	<u>(12,337)</u>	<u>(2,693,199)</u>

## (f.1) Currency translation reserve

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

## (f.2) Cash flow hedging reserve

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

## (f.3) Reserves of actuarial gains or losses on defined benefit plans

Correspond to the increase or decrease in the obligation present value for defined benefit plan due to changes in actuarial assumptions, and experience adjustments, which is the effects of differences between the previous actuarial assumptions and what has actually occurred.

## (g) Retained earnings

Movement of Retained earnings:

<u>Periods</u>	<u>Opening balance</u>	<u>Result for the period</u>	<u>Dividends</u>	<u>Other increase (decreases)</u>	<u>Closing balance</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
From January 1 to June 30, 2017 (Unaudited)	366,404	(72,481)	-	-	293,923
From July 1 to December 31, 2017	293,923	227,785	(46,591)	-	475,117
From January 1 to June 30, 2018 (Unaudited)	475,117	(19,665)	-	(9,549) (*)	445,903

(\*) Adjustments adoption IFRS 9 and IFRS 15 (See Note 2)

## (h) Dividends per share

<u>Description of dividend</u>	<u>Minimum mandatory dividend 2018</u>	<u>Final dividend dividend 2017</u>
Date of dividend	06-30-2018	12-31-2017
Amount of the dividend (ThUS\$)	-	46,591 (*)
Number of shares among which the dividend is distributed	-	606,407,693
Dividend per share (US\$)	-	0.0768

(\*) By virtue of the Essential Fact issued on April 26, 2018, the shareholders of LATAM approved the distribution of the final dividend proposed by the Board of Directors in Ordinary Session of April 26, 2018, which amounts to ThUS \$ 46,591, which corresponds to 30% of the profits for the year corresponding to 2017.

The payment was made on May 18, 2018.

## NOTE 26 - REVENUE

The detail of revenues is as follows:

	For the 6 months ended		For the 3 months ended	
	June 30,		June 30,	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Passengers	4.274.570	3.994.472	1.956.555	1.888.311
Cargo	595.523	510.257	299.703	256.511
Total	<u>4.870.093</u>	<u>4.504.729</u>	<u>2.256.258</u>	<u>2.144.822</u>

## NOTE 27 - COSTS AND EXPENSES BY NATURE

(a) Costs and operating expenses

The main operating costs and administrative expenses are detailed below:

	For the 6 months ended		For the 3 months ended	
	June 30,		June 30,	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Aircraft fuel	1,403,411	1,105,658	685,557	510,627
Other rentals and landing fees	608,179	550,569	297,961	272,350
Aircraft rentals	272,803	303,527	137,042	153,131
Aircraft maintenance	214,272	208,007	112,631	122,821
Comissions	114,236	119,195	54,116	57,503
Passenger services	155,760	136,392	76,004	62,076
Other operating expenses	644,923	654,230	314,276	351,245
Total	<u>3,413,584</u>	<u>3,077,578</u>	<u>1,677,587</u>	<u>1,529,753</u>

## (b) Depreciation and amortization

Depreciation and amortization are detailed below:

	For the 6 months ended June 30,		For the 3 months ended June 30,	
	2018	2017	2018	2017
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Depreciation (*)	457,387	467,568	221,629	229,181
Amortization	31,617	28,139	15,915	14,311
Total	<u>489,004</u>	<u>495,707</u>	<u>237,544</u>	<u>243,492</u>

(\*) Include the depreciation of Property, plant and equipment and the maintenance cost of aircraft held under operating leases. The amount of maintenance cost included within the depreciation line item at June 30, 2018 is ThUS\$ 82,742 and ThUS\$ 83,498 for the same period of 2017.

## (c) Personnel expenses

The costs for personnel expenses are disclosed in Note 23 liability for employee benefits.

## (d) Financial costs

The detail of financial costs is as follows:

	For the 6 months ended June 30,		For the 3 months ended June 30,	
	2018	2017	2018	2017
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Bank loan interest	140,579	173,865	71,602	90,940
Financial leases	33,826	20,461	18,096	9,625
Other financial instruments	3,064	4,007	1,554	1,980
Total	<u>177,469</u>	<u>198,333</u>	<u>91,252</u>	<u>102,545</u>

Costs and expenses by nature presented in this note plus the Employee expenses disclosed in Note 23, are equivalent to the sum of cost of sales, distribution costs, administrative expenses, other expenses and financing costs presented in the consolidated statement of income by function.

## NOTE 28 - OTHER INCOME, BY FUNCTION

Other income by function is as follows:

	For the 6 months ended June 30,		For the 3 months ended June 30,	
	<u>2018</u> ThUS\$	<u>2017</u> ThUS\$	<u>2018</u> ThUS\$	<u>2017</u> ThUS\$
	Unaudited			
Coalition and loyalty program Multiplus	60,768	121,209	16,117	64,809
Tours	59,395	51,124	26,932	24,592
Aircraft leasing	32,728	40,963	16,698	24,338
Customs and warehousing	13,178	12,248	6,668	6,814
Duty free	1,460	3,694	944	1,346
Maintenance	4,248	2,958	2,868	1,325
Other miscellaneous income	46,020	14,258	30,869	5,688
Total	<u>217,797</u>	<u>246,454</u>	<u>101,096</u>	<u>128,912</u>

## NOTE 29 - FOREIGN CURRENCY AND EXCHANGE RATE DIFFERENCES

The functional currency of LATAM Airlines Group S.A. is the US dollar, also it has subsidiaries whose functional currency is different to the US dollar, such as the chilean peso, argentine peso, colombian peso, brazilian real and guaraní.

The functional currency is defined as the currency of the primary economic environment in which an entity operates and in each entity and all other currencies are defined as foreign currency.

Considering the above, the balances by currency mentioned in this note correspond to the sum of foreign currency of each of the entities that make LATAM Airlines Group S.A. and Subsidiaries.

## (a) Foreign currency

The foreign currency detail of balances of monetary items in current and non-current assets is as follows:

	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
<u>Current assets</u>		
Cash and cash equivalents	165,980	260,092
Argentine peso	2,548	7,309
Brazilian real	10,638	14,242
Chilean peso	19,811	81,693
Colombian peso	1,769	1,105
Euro	21,102	11,746
U.S. dollar	73,244	108,327
Other currency	36,868	35,670
Other financial assets, current	36,813	36,484
Argentine peso	13	21
Brazilian real	4,507	17
Chilean peso	26,581	26,605
Colombian peso	154	150
U.S. dollar	5,215	9,343
Other currency	343	348
Other non - financial assets, current	103,998	107,170
Argentine peso	14,067	16,507
Brazilian real	18,062	19,686
Chilean peso	30,419	34,258
Colombian peso	353	340
Euro	3,154	2,722
U.S. dollar	16,255	21,907
Other currency	21,688	11,750

Current Assets	As of June 30, 2018	As of December 31, 2017
	ThUS\$	ThUS\$
	Unaudited	
Trade and other accounts receivable, current	478,617	373,447
Argentine peso	38,803	49,680
Brazilian real	53,396	22,006
Chilean peso	85,953	82,369
Colombian peso	3,234	1,169
Euro	51,094	48,286
U.S. dollar	12,927	34,268
Other currency	233,210	135,669
Accounts receivable from related entities, current	836	958
Chilean peso	500	735
U.S. dollar	336	223
Tax current assets	41,709	33,575
Argentine peso	1,863	1,679
Brazilian real	2,959	3,934
Chilean peso	6,515	3,317
Colombian peso	1,115	660
Euro	144	179
U.S. dollar	399	327
Peruvian sol	27,640	21,948
Other currency	1,074	1,531
Total current assets	827,953	811,726
Argentine peso	57,294	75,196
Brazilian real	89,562	59,885
Chilean peso	169,779	228,977
Colombian peso	6,625	3,424
Euro	75,494	62,933
U.S. dollar	108,376	174,395
Other currency	320,823	206,916

Non-current assets	As of June 30, <u>2018</u> ThUS\$ Unaudited	As of December 31, <u>2017</u> ThUS\$
Other financial assets, non-current	20,256	20,975
Brazilian real	3,356	3,831
Chilean peso	71	74
Colombian peso	285	281
Euro	7,487	7,853
U.S. dollar	7,418	7,273
Other currency	1,639	1,663
Other non - financial assets, non-current	8,697	9,108
Argentine peso	112	172
Brazilian real	6,365	6,368
U.S. dollar	3	38
Other currency	2,217	2,530
Accounts receivable, non-current	5,635	6,887
Chilean peso	5,635	6,887
Deferred tax assets	4,209	2,081
Colombian peso	87	86
U.S. dollar	2,128	-
Other currency	1,994	1,995
Total non-current assets	38,797	39,051
Argentine peso	112	172
Brazilian real	9,721	10,199
Chilean peso	5,706	6,961
Colombian peso	372	367
Euro	7,487	7,853
U.S. dollar	9,549	7,311
Other currency	5,850	6,188

The foreign currency detail of balances of monetary items in current liabilities and non-current is as follows:

<u>Current liabilities</u>	<u>Up to 90 days</u>		<u>91 days to 1 year</u>	
	As of	As of	As of	As of
	June 30,	December 31,	June 30,	December 31,
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited		Unaudited	
Other financial liabilities, current	56,591	36,000	109,339	115,182
Chilean peso	41,997	21,542	72,235	79,032
U.S. dollar	14,594	14,458	37,104	36,150
Trade and other accounts				
payables, current	984,974	919,373	40,864	33,707
Argentine peso	157,638	122,452	15,982	8,636
Brazilian real	31,094	28,810	2,142	669
Chilean peso	211,900	233,202	9,406	11,311
Colombian peso	7,978	2,964	589	855
Euro	71,717	58,081	4,523	9,165
U.S. dollar	428,655	409,380	617	1,154
Peruvian sol	36,906	39,064	6,480	825
Mexican peso	4,256	2,732	528	115
Pound sterling	6,905	5,839	164	199
Uruguayan peso	701	1,890	-	-
Other currency	27,224	14,959	433	778
Accounts payable to related entities, current	377	760	-	-
Chilean peso	171	546	-	-
U.S. dollar	-	4	-	-
Other currency	206	210	-	-
Other provisions, current	897	959	-	-
Chilean peso	29	30	-	-
Other currency	868	929	-	-

<u>Current liabilities</u>	<u>Up to 90 days</u>		<u>91 days to 1 year</u>	
	As of	As of	As of	As of
	June 30,	December 31,	June 30,	December 31,
	2018	2017	2018	2017
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited		Unaudited	
Tax liabilities, current	-	-	-	174
Argentine peso	-	-	-	174
Other non-financial liabilities, current	26,206	25,190	-	-
Argentine peso	774	393	-	-
Brazilian real	2,224	542	-	-
Chilean peso	8,773	11,283	-	-
Colombian peso	595	837	-	-
Euro	3,223	5,954	-	-
U.S. dollar	2,339	3,160	-	-
Other currency	8,278	3,021	-	-
Total current liabilities	1,069,045	982,282	150,203	149,063
Argentine peso	158,412	122,845	15,982	8,810
Brazilian real	33,318	29,352	2,142	669
Chilean peso	262,870	266,603	81,641	90,343
Colombian peso	8,573	3,801	589	855
Euro	74,940	64,035	4,523	9,165
U.S. dollar	445,588	427,002	37,721	37,304
Other currency	85,344	68,644	7,605	1,917

<u>Non-current liabilities</u>	<u>More than 1 to 3 years</u>		<u>More than 3 to 5 years</u>		<u>More than 5 years</u>	
	As of	As of	As of	As of	As of	As of
	June 30, 2018 ThUS\$	December 31, 2017 ThUS\$	June 30, 2018 ThUS\$	December 31, 2017 ThUS\$	June 30, 2018 ThUS\$	December 31, 2017 ThUS\$
	Unaudited		Unaudited		Unaudited	
Other financial liabilities, non-current	270,713	276,436	228,635	263,798	181,336	189,500
Chilean peso	28,506	41,548	181,336	189,500	181,336	189,500
U.S. dollar	242,207	234,888	47,299	74,298	-	-
Accounts payable, non-current	353,503	362,964	-	-	-	-
Chilean peso	13,368	13,251	-	-	-	-
U.S. dollar	338,627	348,329	-	-	-	-
Other currency	1,508	1,384	-	-	-	-
Other provisions, non-current	36,154	41,514	-	-	-	-
Argentine peso	658	940	-	-	-	-
Brazilian real	19,273	24,074	-	-	-	-
Colombian peso	560	551	-	-	-	-
Euro	9,597	9,883	-	-	-	-
U.S. dollar	6,066	6,066	-	-	-	-
Provisions for						
employees benefits, non-current	79,706	77,579	-	-	-	-
Chilean peso	71,513	73,399	-	-	-	-
U.S. dollar	8,193	4,180	-	-	-	-
Other non-financial liabilities, non-current	-	3	-	-	-	-
Colombian peso	-	3	-	-	-	-
Total non-current liabilities	740,076	758,496	228,635	263,798	181,336	189,500
Argentine peso	658	940	-	-	-	-
Brazilian real	19,273	24,074	-	-	-	-
Chilean peso	113,387	128,198	181,336	189,500	181,336	189,500
Colombian peso	560	554	-	-	-	-
Euro	9,597	9,883	-	-	-	-
U.S. dollar	595,093	593,463	47,299	74,298	-	-
Other currency	1,508	1,384	-	-	-	-

General summary of foreign currency:	As of June 30, 2018 ThUS\$ Unaudited	As of December 31, 2017 ThUS\$
Total assets	866,750	850,777
Argentine peso	57,406	75,368
Brazilian real	99,283	70,084
Chilean peso	175,485	235,938
Colombian peso	6,997	3,791
Euro	82,981	70,786
U.S. dollar	117,925	181,706
Other currency	326,673	213,104
Total liabilities	2,369,295	2,343,136
Argentine peso	175,052	132,595
Brazilian real	54,733	54,095
Chilean peso	820,570	864,144
Colombian peso	9,722	5,207
Euro	89,060	83,083
U.S. dollar	1,125,701	1,132,067
Other currency	94,457	71,945
Net position		
Argentine peso	(117,646)	(57,227)
Brazilian real	44,550	15,989
Chilean peso	(645,085)	(628,206)
Colombian peso	(2,725)	(1,416)
Euro	(6,079)	(12,297)
U.S. dollar	(1,007,776)	(950,361)
Other currency	232,216	141,159

## (b) Exchange differences

The exchange differences recognized in profit or loss, except for financial instruments measured at fair value through profit or loss, for the period ended June 30, 2018 and 2017, amounted to ThUS \$ 78,072 and ThUS \$ 10,529, respectively. In the second quarter of 2018 and 2017 they represented a charge of ThUS \$ 78,883 and ThUS \$ 45,902, respectively.

The exchange differences recognized in equity as reserves for translation exchange differences for the period ended June 30, 2018 and 2017, meant a charge of ThUS \$ 610,051 and ThUS \$ 36,015, respectively. In the second quarter of 2018 and 2017 they represented a charge of ThUS \$ 581,392 and ThUS \$ 145,137, respectively.

The following shows the current exchange rates for the U.S. dollar, on the dates indicated:

	As of June 30, 2018	As of December 31,		
	<u>Unaudited</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Argentine peso	28.91	18.57	15.84	12.97
Brazilian real	3.86	3.31	3.25	3.98
Chilean peso	651.21	614.75	669.47	710.16
Colombian peso	2,930.61	2,984.77	3,000.25	3,183.00
Euro	0.86	0.83	0.95	0.92
Strong bolivar	115,000.00	3,345.00	673.76	198.70
Australian dollar	1.35	1.28	1.38	1.37
Boliviano	6.86	6.86	6.86	6.85
Mexican peso	19.85	19.66	20.63	17.34
New Zealand dollar	1.48	1.41	1.44	1.46
Peruvian Sol	3.28	3.24	3.35	3.41
Uruguayan peso	31.46	28.74	29.28	29.88

## NOTE 30 - EARNINGS / (LOSS) PER SHARE

	For the 6 months ended		For the 3 months ended	
	June 30,		June 30,	
Basic earnings / (loss) per share	2018	2017	2018	2017
	Unaudited			
Earnings / (loss) attributable to owners of the parent (ThUS\$)	(19,665)	(72,481)	(113,554)	(138,038)
Weighted average number of shares, basic	606,407,693	606,407,693	606,407,693	606,407,693
Basic earnings / (loss) per share (US\$)	(0.03243)	(0.11953)	(0.18726)	(0.22763)

	For the 6 months ended		For the 3 months ended	
	June 30,		June 30,	
Diluted earnings / (loss) per share	2018	2017	2018	2017
	Unaudited			
Earnings / (loss) attributable to owners of the parent (ThUS\$)	(19,665)	(72,481)	(113,554)	(138,038)
Weighted average number of shares, basic	606,407,693	606,407,693	606,407,693	606,407,693
Weighted average number of shares, diluted	606,407,693	606,407,693	606,407,693	606,407,693
Diluted earnings / (loss) per share (US\$)	(0.03243)	(0.11953)	(0.18726)	(0.22763)

## NOTE 31 – CONTINGENCIES

## I. Lawsuits

## 1) Lawsuits filed by LATAM Airlines Group S.A. and Subsidiaries

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*)</u> ThUS\$
Tam Viagens S.A.	Fazenda Pública do Município de São Paulo.	1004194-37.2018.8.26.0053	This is a voidance action appealing the charges for violations and fines (67.168.795 / 67.168.833 / 67.168.884 / 67.168.906 / 67.168.914 / 67.168.965). We are arguing that numbers are missing from the ISS calculation base since the company supposedly made improper deductions.	The lawsuit was assigned on January 31, 2018. That same day, a decision was rendered suspending the charges without any bond. We are waiting for the deadline for the municipality to appeal to expire. The municipality filed an appeal against this decision on April 30, 2018, that is pending a decision. The voidance action is now in the evidentiary period.	83,744

## 2) Lawsuits received by LATAM Airlines Group S.A. and Subsidiaries

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*)</u> ThUS\$
LATAM Airlines Group S.A. y Lan Cargo S.A.	European Commission.	-	Investigation of alleged infringements to free competition of cargo airlines, especially fuel surcharge. On December 26 <sup>th</sup> , 2007, the General Directorate for Competition of the European Commission notified Lan Cargo S.A. and LATAM Airlines Group S.A. the instruction process against twenty five cargo airlines, including Lan Cargo S.A., for alleged breaches of competition in the air cargo market in Europe, especially the alleged fixed fuel surcharge and freight.	<p>On April 14<sup>th</sup>, 2008, the notification of the European Commission was replied. The appeal was filed on January 24, 2011.</p> <p>On May 11, 2015, we attended a hearing at which we petitioned for the vacation of the Decision based on discrepancies in the Decision between the operating section, which mentions four infringements (depending on the routes involved) but refers to Lan in only one of those four routes; and the ruling section (which mentions one single conjoint infraction).</p> <p>On November 9<sup>th</sup>, 2010, the General Directorate for Competition of the European Commission notified Lan Cargo S.A. and LATAM Airlines Group S.A. the imposition of a fine in the amount of THUS\$ 9,597 (8.220.000 Euros)</p> <p>This fine is being appealed by Lan Cargo S.A. and LATAM Airlines Group S.A. On December 16, 2015, the European Court of Justice revoked the Commission's decision because of discrepancies. The European Commission did not appeal the decision, but presented a new one on March 17, 2017 reiterating the imposition of the same fine on the eleven original airlines. The fine totals 776,465,000 Euros. It imposed the same fine as before on Lan Cargo and its parent, LATAM Airlines Group S.A., totaling 8.2 million Euros. On May 31, 2017 Lan Cargo S.A. and LATAM Airlines Group S.A. filed a petition with the General Court of the European Union seeking vacation of this decision. We presented our defense in December 2017. LATAM Airlines Group S.A. has the expectation to obtain the annulment of this decision.</p>	9,597

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*)</u> ThUS\$
Lan Cargo S.A. y LATAM Airlines Group S.A.	In the High Court of Justice Chancery División (England) Ovre Romerike District Court (Norway) y Directie Juridische Zaken Afdeling Ceveil Recht (Netherlands), Cologne Regional Court (Landgericht Köln Germany).	-	Lawsuits filed against European airlines by users of freight services in private lawsuits as a result of the investigation into alleged breaches of competition of cargo airlines, especially fuel surcharge. Lan Cargo S.A. and LATAM Airlines Group S.A., have been sued in court proceedings directly and/or in third party, based in England, Norway, the Netherlands and Germany.	Cases are in the uncovering evidence stage. Mediation has been convened for September 2018 in the England case.	-0-
Aerolinhas Brasileiras S.A.	Federal Justice.	0008285-53.2015.403.6105	An action seeking to quash a decision and petitioning for early protection in order to obtain a revocation of the penalty imposed by the Brazilian Competition Authority (CADE) in the investigation of cargo airlines alleged fair trade violations, in particular the fuel surcharge.	This action was filed by presenting a guaranty – policy – in order to suspend the effects of the CADE’s decision regarding the payment of the following fines: (i) ABSA: ThUS\$10,479; (ii) Norberto Jochmann: ThUS\$201; (iii) Hernan Merino: ThUS\$ 102; (iv) Felipe Meyer :ThUS\$ 102. The action also deals with the affirmative obligation required by the CADE consisting of the duty to publish the condemnation in a widely circulating newspaper. This obligation had also been stayed by the court of federal justice in this process. Awaiting CADE’s statement. ABSA began a judicial review in search of an additional reduction in the fine amount. At this time we cannot predict the final amount of the fine as the judicial review by the Federal Court Judge is still pending.	10,422
Aerolinhas Brasileiras S.A.	Federal Justice.	0001872-58.2014.4.03.6105	An annulment action with a motion for preliminary injunction, was filed on 28/02/2014, in order to cancel tax debts of PIS, CONFINS, IPI and II, connected with the administrative process 10831.005704/2006.43.	We have been waiting since August 21, 2015 for a statement by Serasa on TAM’s letter of indemnity and a statement by the Union. The statement was authenticated on January 29, 2016. A petition on evidence and replications were filed on June 20, 2016. A new insurance policy was submitted on March 3, 2016 with the change to the guarantee requested by PGFN, which was declared on June 3, 2016. A decision is pending.	13,861

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*)</u> ThUS\$
Tam Linhas Aéreas S.A.	Department of Federal Revenue of Brazil	19515.720476/2015-83	Alleged irregularities in the SAT payments for the periods 01/2011 to 12/2012	The lawsuit was converted into a measure in January 2018. A statement will be made after the prosecutor's measure has concluded..	58,236
am Linhas Aéreas S.A.	Court of the Second Region.	2001.51.01.012530-0	Ordinary judicial action brought for the purpose of declaring the nonexistence of legal relationship obligating the company to collect the Air Fund.	Unfavorable court decision in first instance. Currently expecting the ruling on the appeal filed by the company. In order to suspend chargeability of Tax Credit a Guaranty Deposit to the Court was delivered for MUS\$107. The court decision requesting that the Expert make all clarifications requested by the parties in a period of 30 days was published on March 29, 2016. The plaintiffs' submitted a petition on June 21, 2016 requesting acceptance of the opinion of their consultant and an urgent ruling on the dispute. No amount additional to the deposit that has already been made is required if this case is lost.	87,437
Tam Linhas Aéreas S.A.	Internal Revenue Service of Brazil.	10880.725950/2011-05	Compensation credits of the Social Integration Program (PIS) and Contribution for Social Security Financing (COFINS) Declared on DCOMPs.	The objection ( <i>manifestação de inconformidade</i> ) filed by the company was rejected, which is why the voluntary appeal was filed. The case was assigned to the 1st Ordinary Group of Brazil's Administrative Council of Tax Appeals (CARF) on June 8, 2015. TAM's appeal was included in the CARF session held August 25, 2016. An agreement that converted the proceedings into a formal case was published on October 7, 2016.	56,387

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*)</u> ThUS\$
Aerovías de Integración Regional, AIRES S.A.	United States Court of Appeals for the Eleventh Circuit, Florida, U.S.A.	2013-20319 CA 01	<p>The July 30<sup>th</sup> , 2012 Aerovías de Integración Recional, Aires S.A. ( LATAM AIRLINES COLOMBIA) initiated a legal process in Colombia against Regional One INC and Volvo Aero Services LLC, to declare that these companies are civilly liable for moral and material damages caused to LATAM AIRLINES COLOMBIA arising from breach of contractual obligations of the aircraft HK-4107.</p> <p>The June 20<sup>th</sup> , 2013 AIRES SA And / Or LATAM AIRLINES COLOMBIA was notified of the lawsuit filed in U.S. for Regional One INC and Dash 224 LLC for damages caused by the aircraft HK-4107 arguing failure of LATAM AIRLINES COLOMBIA customs duty to obtain import declaration when the aircraft in April 2010 entered Colombia for maintenance required by Regional One.</p>	<p>This case is being heard by the 45th Civil Court of the Bogota Circuit in Colombia. Statements were taken from witnesses presented by REGIONAL ONE and VAS on February 12, 2018. The court received the expert opinions requested by REGIONAL ONE and VAS and given their petition, it asked the experts to expand upon their opinions. It also changed the experts requested by LAN COLOMBIA. The process is pending completion of those opinions to schedule a new hearing. On March 26, 2014, the Federal Court in the State of Florida, USA, approved the petition by LATAM Airlines Colombia to suspend the case in the United States until the lawsuit under way in Colombia was decided. The U.S. judge also closed the case administratively. Based on the petition by Regional One, the Federal Court in the State of Florida, USA, lifted the suspension of the case on July 11, 2018 and returned the case to the State Court. At the same time, VAS filed suit against LATAM AIRLINES COLOMBIA at the end of May 2018 seeking an indemnity because of the lawsuit by Regional One against VAS due to contract default. According to the requirements for civil suits in Florida, VAS has only claimed damages from LATAM AIRLINES COLOMBIA totaling more than US\$15,000. The VAS lawsuit and Regional One lawsuit have been consolidated before the same State Court, which has set the trial by jury for September 19, 2019. All parties will attend a reconciliation hearing by order of the Court in October or November of 2018. It is possible that later on, the amount petitioned in the case may vary. Any change will be reported in due course.</p>	12,443

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*)</u> ThUS\$
TAM Linhas Aéreas S.A.	Internal Revenue Service of Brazil	16643.000085/2009-47	Notice of claim to recover income taxes and social contributions paid on the basis of net profits (SCL) according to the royalty expenses and use of the TAM trademark.	Before the Internal Revenue Service of Brazil. A service of process is expected in the lawsuit on admissibility of the special appeal, filed by the General Counsel of the National Treasury, as well as notification of the decision rendered by the Administrative Council of Tax Appeals (CARF). The decision was made to file a lawsuit on December 5, 2017.	15,410
TAM Linhas Aéreas S.A.	10th Jurisdiction of Federal Tax Enforcement of Sao Paulo	0061196-68.2016.4.03.6182	Tax Enforcement Lien No. 0020869-47.2017.4.03.6182 on Profit-Based Social Contributions from 2004 to 2007.	This tax enforcement was referred to the 10th Federal Jurisdiction on February 16, 2017. A petition reporting our request to submit collateral was recorded on April 18, 2017. At this time, the period is pending for the plaintiff to respond to our petition. The bond was replaced.	38,361
TAM Linhas Aéreas S.A.	Federal Revenue Bureau	10880.900360/2017-55	A claim regarding the negative Company Income Tax (IRPJ) balance. Appraisals of compensation that were not accepted.	The case was referred to the National Claims Management Center of the Federal Revenue Bureau for Sao Paulo on May 11, 2017. The administrative case was closed in favor of the company and its right to a credit was recognized on June 15, 2018.	-0-
TAM Linhas Aéreas S.A.	Internal Revenue Service of Brazil	10831.012344/2005-55	Notice of an infringement filed by the Company to request the import tax (II), the Social Integration Program (PIS) of the Social Security Funding Contribution (COFINS) as a result of an unidentified international cargo loss.	Before the Internal Revenue Service of Brazil. The administrative decision was against the company. The matter is pending a decision by the CARF.	15,520
TAM Linhas Aéreas S.A.	DERAT SPO (Delegacia de Receita Federal)	13808.005459/2001-45	Collection of the Social Security Funding Contribution (COFINS) based on gross revenue of the company in the period 1999-2000.	The decision on collection was pending through June 2, 2010.	23,599
TAM Linhas Aéreas S.A.	Federal Revenue Bureau	10880.938.664/2016-12	An administrative lawsuit about compensation not being proportional to the negative corporate income tax balance.	A decision is pending by CARF on the appeal.	24,116

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*)</u> ThUS\$
TAM Linhas Aéreas S.A.	Delegacia de Receita Federal	10611.720630/2017-16	This is an administrative claim about a fine for the incorrectness of an import declaration (new lawsuit).	The administrative defensive arguments were presented September 28, 2017. A ruling on the defense is currently pending in this lawsuit.	19.677
TAM Linhas Aéreas S.A.	Delegacia de Receita Federal	10611.720852/2016-58	An improper charge of the Contribution for the Financing of Social Security (COFINS) on an import (new lawsuit).	We are currently awaiting a decision. There is no predictable decision date because it depends on the court of the government agency.	14.186
TAM Linhas Aéreas S.A.	Delegacia de Receita Federal	16692.721.933/2017-80	The Internal Revenue Service of Brazil issued a notice of violation because TAM applied for credits offsetting the contributions for the Social Integration Program (PIS) and the Social Security Funding Contribution (COFINS) that do not bear a direct relationship to air transport.	We are awaiting the presentation of an administrative defense. An administrative defense was presented on May 29, 2018.	30.198
SNEA (Sindicato Nacional das empresas aviárias)	União Federal	0012177-54.2016.4.01.3400	A claim against the 72% increase in airport control fees (TAT-ADR) and approach control fees (TAT-APP) charged by the Airspace Control Department ("DECEA").	A decision is now pending on the appeal presented by SNEA.	30,845
TAM Linhas Aéreas S/A	União Federal	2001.51.01.020420-0	TAM and other airlines filed a recourse claim seeking a finding that there is no legal or tax basis to be released from collecting the Additional Airport Fee ("ATAERO").	A decision by the superior court is pending. The amount is indeterminate because even though TAM is the plaintiff, if the ruling is against it, it could be ordered by the trial judge to pay certain fees.	-0-
TAM Linhas Aéreas S/A	Delegacia da Receita Federal	10880-900.424/2018-07	This is a claim for a negative Legal Entity Income Tax (IRPJ) balance for the 2014 calendar year (2015 fiscal year) because set-offs were not allowed.	The administrative defensive arguments were presented March 19, 2018. An administrative decision is now pending	16,541

- In order to deal with any financial obligations arising from legal proceedings in effect at June 30, 2018, whether civil, tax, or labor, LATAM Airlines Group S.A. and Subsidiaries, has made provisions, which are included in Other non-current provisions that are disclosed in Note 21.
  - The Company has not disclosed the individual probability of success for each contingency in order to not negatively affect its outcome.
- (\*) The Company has reported the amounts involved only for the lawsuits for which a reliable estimation can be made of the financial impacts and of the possibility of any recovery, pursuant to Paragraph 86 of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

## II. Governmental Investigations.

- 1) On July 25, 2016, LATAM reached agreements with the *U.S. Department of Justice* (“DOJ”) and the *U.S. Securities and Exchange Commission* (“SEC”) regarding the investigation of payments for US\$1,150,000 by Lan Airlines S.A. in 2006-2007 to a consultant advising it in the resolution of labor matters in Argentina.

The purpose of the investigation was to determine whether these payments violated the U.S. Foreign Corrupt Practices Act (“FCPA”) that: (i) forbids bribery of foreign government authorities in order to obtain a commercial advantage; and (ii) requires the companies that must abide by the FCPA to keep appropriate accounting records and implant an adequate internal control system. The FCPA is applicable to LATAM because of its ADR program in effect on the U.S. securities market.

After an exhaustive investigation, the DOJ and SEC concluded that there was no violation of the bribery provisions of the FCPA, which is consistent with the results of LATAM’s internal investigation. However, the DOJ and SEC consider that LAN accounted for these payments incorrectly and, consequently, infringed the part of the FCPA requiring companies to keep accurate accounting records. These authorities also consider that LAN’s internal controls in 2006-2007 were weak, so LAN would have also violated the provisions in the FCPA requiring it to maintain an adequate internal control system.

The agreements signed, included the following:

- (a) The agreement with the DOJ involves: (i) entering into a Deferred Prosecution Agreement (“DPA”), which is a public contract under which the DOJ files public charges alleging an infringement of the FCPA accounting regulations. LATAM is not obligated to answer these charges, the DOJ will not pursue them for a period of 3 years, and the DOJ will dismiss the charges after expiration of that 3-year period provided LATAM complies with all terms of the DPA. In exchange, LATAM must admit to the negotiated events described in the DPA and agree to pay the negotiated fine explained below and abide by other terms stipulated in the agreement; (ii) clauses in which LATAM admits that the payments to the consultant in Argentina were incorrectly accounted for and that at the time those payments were made (2006-2007), it did not have adequate internal controls in place; (iii) LATAM’s agreement to have an outside

consultant monitor, evaluate and report to the DOJ on the effectiveness of LATAM's compliance program for a period of 27 months; and LATAM's agreement to continue evaluating and reporting directly to the DOJ on the effectiveness of its compliance program for a period of 9 months after the consultant's work concludes; and (iv) LATAM paid a fine of KUS\$12,750.

- (b) The agreement with the SEC involves: (i) accepting a Cease and Desist Order, which is an administrative resolution of the SEC closing the investigation, in which LATAM will accept certain obligations and statements of fact that are described in the document; (ii) accepting the same obligations regarding the consultant mentioned above; and (iii) LATAM paid a fine of KUS\$6,744 and interest of KUS\$2,694.

Nothing is owed to the SEC at this time as ThUS\$4,719 was paid in July 2017.

LATAM continued to cooperate with the Chilean authorities on this matter. The investigation continues. The 7th Criminal Court set the hearing date for October 24, 2017, at the request of the Office of the Public Prosecutor. The Prosecutor has petitioned that the investigation be closed.

#### NOTE 32 – COMMITMENTS

##### (a) Loan covenants

With respect to various loans signed by the Company for the financing of Boeing 767, 767F, 777F and 787 aircraft, which carry the guarantee of the United States Export-Import Bank, limits have been set on some of the Company's financial indicators on a consolidated basis, for which, in any case non-compliance does not generate acceleration of the loans.

Moreover, and related to these same contracts, restrictions are also in place on the Company's management in terms of its ownership, in relation to the ownership structure and the controlling group, and disposal of the assets which mainly refers to important transfers of assets.

The Company and its subsidiaries do not maintain financial credit contracts with banks in Chile that indicate some limits on financial indicators of the Company or its subsidiaries.

The revolving credit facility ("Revolving Credit Facility") with aircraft, engines, parts and supplies guaranteed for a total available amount of US \$ 600 million, contemplates minimum liquidity restrictions, measured at the level of the Consolidated Company and measured at the for companies LATAM Airlines Group SA and TAM Linhas Aéreas S.A., which remain standby while the credit line is not used. This line of credit established with a consortium of eleven banks led by Citibank, is not used as of June 30, 2018.

As of June 30, 2018, the Company is in compliance with all the indicators detailed above.

## (b) Commitments under operating leases as lessee

Details of the main operating leases are as follows:

Lessor	Aircraft	As of	As of
		June 30, 2018	December 31, 2017
		Unaudited	
ACS Aero 1 Alpha Limited	Airbus A320	-	1
Aircraft 76B-26329 Inc.	Boeing 767	1	1
Aircraft 76B-28206 Inc.	Boeing 767	1	1
Aviacion Centaurus, A.I.E	Airbus A319	3	3
Aviación Centaurus, A.I.E.	Airbus A321	1	1
Aviación Real A.I.E	Airbus A319	1	1
Aviación Real A.I.E	Airbus A320	1	1
Aviación Tritón A.I.E.	Airbus A319	3	3
Avolon Aerospace AOE 62 Limited	Boeing 777	1	1
Avolon Aerospace AOE 100 Limited	Airbus A320	2	2
Avolon Aerospace AOE 134 Limited	Airbus A321	2	-
AWAS 5234 Trust	Airbus A320	1	1
Baker & Spice Aviation Limited	Airbus A320	1	1
Bank of America	Airbus A321	2	2
Bank of Utah	Airbus A350	1	-
Bank of Utah	Boeing 787	2	2
Castlelake	Airbus A319	1	1
Chishima Real State Co., Ttd.	Airbus A321	1	-
ECAF I 2838 DAC	Airbus A320	1	1
ECAF I 40589 DAC	Boeing 777	1	1
Eden Irish Aircr Leasing MSN 1459	Airbus A320	1	1
IC Airlease One Limited	Airbus A321	1	1
JSA Aircraft 38484, LLC	Boeing 787	1	1
JSA Aircraft 7126, LLC	Airbus A320	1	1
JSA Aircraft 7128, LLC	Airbus A321	1	1
JSA Aircraft 7239, LLC	Airbus A321	1	1
JSA Aircraft 7298, LLC	Airbus A321	1	1
Macquarie Aerospace Finance 5125-2 Trust	Airbus A320	1	1
Macquarie Aerospace Finance 5178 Limited	Airbus A320	1	1
Merlin Aviation Leasing (Ireland) 18 Limited	Airbus A320	1	1
Merlin Aviation Leasing (Ireland) 7 Limited	Airbus A320	1	1
NBB Crow Co.,Ltd	Boeing 787	1	-
NBB Cuckoo Co., Ltd	Airbus A321	1	1
NBB Grosbeak Co., Ltd	Airbus A321	1	1
NBB Redstart Co. Ltd	Airbus A321	1	1
NBB-6658 Lease Partnership	Airbus A321	1	1
NBB-6670 Lease Partnership	Airbus A321	1	1
Orix Aviation Systems Limited	Airbus A320	4	4
PAAL Aquila Company Limited	Airbus A321	2	2
Sapphire Leasing I (AOE 7) Limited	Airbus A320	1	1
Shenton Aircraft Leasing Limited	Airbus A320	1	1
Sky High XXIV Leasing Company Limited	Airbus A320	5	5
Sky High XXV Leasing Company Limited	Airbus A320	2	2
SMBC Aviation Capital Limited	Airbus A320	4	4
SMBC Aviation Capital Limited	Airbus A321	2	2
Wamos Air S.A.	Airbus A330	4	-
Wamos Air S.A.	Boeing B747	1	-
Wells Fargo Trust Company, N.A.	Airbus A319	1	2
Wells Fargo Trust Company, N.A.	Airbus A320	10	11
Wells Fargo Trust Company, N.A.	Airbus A350	2	2
Wells Fargo Trust Company, N.A.	Boeing 767	1	2
Wells Fargo Trust Company, N.A.	Boeing 777	4	4
Wells Fargo Trust Company, N.A.	Boeing 787	10	11
Total		98	93

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

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

	As of June 30, 2018 <u>ThUS\$</u> Unaudited	As of December 31, 2017 <u>ThUS\$</u>
No later than one year	505,929	462,205
Between one and five years	1,745,363	1,620,253
Over five years	1,464,693	1,498,064
Total	<u>3,715,985</u>	<u>3,580,522</u>

The minimum operating lease payments charged to income are the following:

	Por los 6 meses terminados al 30 de junio de		Por los 3 meses terminados al 30 de junio de	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>MUS\$</u>	<u>MUS\$</u>	<u>MUS\$</u>	<u>MUS\$</u>
	<u>No Auditado</u>			
Pagos mínimos por arrendamientos operativos	<u>272,083</u>	<u>303,527</u>	<u>137,042</u>	<u>153,131</u>
Total	<u>272,083</u>	<u>303,527</u>	<u>137,042</u>	<u>153,131</u>

During 2018, two (2) Airbus A321-200 aircraft were added for a period of 10 years each, four (4) Airbus A330-200 aircraft for a period of 4 months, one (1) B747-400 for a period of 3 months, one (1) aircraft B777-200ER for a period of 3 months and one (1) aircraft A350-900 for a period of 12 years. On the other hand, one (1) Airbus A320-200 aircraft, one (1) Boeing B767-300 Freighter aircraft were returned and two (2) Boeing B777-300 Freighter aircraft were sold.

The operating lease agreements entered into by the Parent Company and its subsidiaries establish that aircraft maintenance must be carried out in accordance with the technical provisions of the manufacturer and in the margins agreed in the contracts with the lessor, a cost assumed by the lessee. Additionally, for each aircraft, the lessee must purchase policies that cover the associated risk and the amount of the assets involved. As for the rent payments, they are unrestricted, and can not be netted from other accounts receivable or payable by the lessor and the lessee.

The ACMI lease agreements entered into by the Parent Company and its subsidiaries establish that the costs of the aircraft, crew, maintenance and insurance must be provided by the lessor. As for the rent payments, they are unrestricted, and cannot be netted from other accounts receivable or payable by the lessor and the lessee.

At June 30, 2018 the Company has existing letters of credit related to operating leasing as follows:

<u>Creditor Guarantee</u>	<u>Debtor</u>	<u>Type</u>	<u>Value</u> ThUS\$	<u>Release</u> date
GE Capital Aviation Services Limited	Lan Cargo S.A.	One letter of credit	1,100	Nov 30, 2018
ACS Aero 1 Alpha Limited	LATAM Airlines Group S.A.	One letter of credit	3,255	Aug 31, 2018
Bank of America	LATAM Airlines Group S.A.	Three letter of credit	1,044	Sep 6, 2018
Bank of Utah	LATAM Airlines Group S.A.	One letter of credit	2,000	Mar 24, 2019
Engine Lease Finance Corporation	LATAM Airlines Group S.A.	One letter of credit	4,750	Oct 8, 2018
GE Capital Aviation Services Ltd.	LATAM Airlines Group S.A.	Three letter of credit	14,327	Dec 6, 2018
ORIX Aviation Systems Limited	LATAM Airlines Group S.A.	Two letter of credit	7,366	Dec 11, 2018
Sky High XXIV Leasing Company	LATAM Airlines Group S.A.	Seven letter of credit	4,831	Jan 19, 2019
Wells Fargo Bank	LATAM Airlines Group S.A.	Nine letter of credit	15,160	Sep 30, 2018
CIT Aerospace International	Tam Linhas Aéreas S.A.	One letter of credit	6,500	Oct 25, 2018
Wells Fargo Bank North N.A.	Tam Linhas Aéreas S.A.	One letter of credit	3,000	Mar 1, 2019
			<u>63,333</u>	

(c) Other commitments

At June 30, 2018 the Company has existing letters of credit, certificates of deposits and warranty insurance policies as follows:

<u>Creditor Guarantee</u>	<u>Debtor</u>	<u>Type</u>	<u>Value</u> ThUS\$	<u>Release</u> date
Servicio Nacional de Aduana del Ecuador	Líneas Aéreas Nacionales del Ecuador S.A.	Three letter of credit	1,705	Aug 5, 2018
Corporación Peruana de Aeropuertos y Aviación Comercial	Lan Perú S.A.	Seventeen letter of credit	2,313	Jul 18, 2018
Lima Airport Partners S.R.L.	Lan Perú S.A.	Twenty six letter of credit	2,729	Jul 16, 2018
Superintendencia Nacional de Aduanas y de Administración Tributaria	Lan Perú S.A.	Ten letter of credit	104,000	Feb 10, 2019
Aena Aeropuertos S.A.	LATAM Airlines Group S.A.	Four letter of credit	2,770	Nov 15, 2018
American Alternative Insurance Corporation	LATAM Airlines Group S.A.	Six letter of credit	3,690	Apr 5, 2019
Comisión Europea	LATAM Airlines Group S.A.	One letter of credit	9,733	Dec 31, 2018
Deutsche Bank A.G.	LATAM Airlines Group S.A.	One letter of credit	5,000	Mar 31, 2019
Dirección General de Aeronáutica Civil	LATAM Airlines Group S.A.	Sixty three letter of credit	19,844	Jul 31, 2018
Empresa Pública de Hidrocarburos del Ecuador EP Petroecuador	LATAM Airlines Group S.A.	One letter of credit	5,500	Jun 18, 2019
Metropolitan Dade County	LATAM Airlines Group S.A.	Eight letter of credit	2,273	Sep 29, 2018
Fundação de Proteção de Defesa do Consumidor Procon	Tam Linhas Aéreas S.A.	Three insurance policies guarantee	3,960	Aug 17, 2021
União Federal	Tam Linhas Aéreas S.A.	Two insurance policies guarantee	2,279	Mar 25, 2021
União Federal	ABSA Linhas Aéreas S.A. Brasileira S/A	One insurance policies guarantee	16,531	Apr 1, 2021
Vara Federal da Subseção de Campinas SP	ABSA Linhas Aéreas S.A. Brasileira S/A	One insurance policies guarantee	10,898	Oct 28, 2019
Conselho Administrativo e Conselhos Federais	ABSA Linhas Aéreas S.A. Brasileira S/A	One insurance policies guarantee	5,666	Oct 20, 2021
			<u>198,891</u>	

## NOTE 33 - TRANSACTIONS WITH RELATED PARTIES

(a) Details of transactions with related parties as follows:

Tax No.	Related party	Nature of relationship with related parties	Country of origin	Nature of related parties transactions	Currency	Transaction amount with related parties As of June 30,	
						2018	2017
						ThUS\$	ThUS\$
						Unaudited	
96.810.370-9	Inversiones Costa Verde Ltda. y CPA.	Related director	Chile	Tickets sales	CLP	4	15
65.216.000-K	Comunidad Mujer	Related director	Chile	Tickets sales	CLP	-	10
78.591.370-1	Bethia S.A and subsidiaries	Related director	Chile	Services received of cargo transport	CLP	752	913
				Services received from National and International		(107)	(183)
				Services provided of cargo transport	CLP	-	(76)
65.216.000-K	Viajes Falabella Ltda.	Related director	Chile	Sales commissions	CLP	-	(238)
79.773.440-3	Transportes San Felipe S.A	Related director	Chile	Services received of transfer of passengers	CLP	-	-
				Tickets sales	CLP	-	1
87.752.000-5	Granja Marina Tornagaleones S.A.	Common shareholder	Chile	Tickets sales	CLP	34	50
Foreign	Consultoria Administrativa Profesional S.A. de C.V.	Associate	Mexico	Professional counseling services received	MXN	(1,372)	(1,108)
Foreign	Inversora Aeronáutica Argentina	Related director	Argentina	Leases as lessor	ARS	(111)	(134)
Foreign	TAM Aviação Executiva e Taxi Aéreo S/A	Related director	Brazil	Services received of transfer of passengers	BRL	69	2
				Services received of cargo transport	BRL	14	-
				Services received at airports	BRL	-	(23)
Foreign	Qatar Airways	Indirect shareholder	Qatar	Services provided by aircraft lease	US\$	10,665	10,620
				Interlineal received service	US\$	(3,054)	(7,975)
				Interlineal provided service	US\$	3,131	7,666
				Services provided of handling	US\$	770	354
				Other services received/provided	US\$	1,219	-

The balances of Accounts receivable and accounts payable to related parties are disclosed in Note 9.

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

## (b) Compensation of key management

The Company has defined for these purposes that key management personnel are the executives who define the Company's policies and major guidelines and who directly affect the results of the business, considering the levels of Vice-Presidents, Chief Executives and Directors (Senior).

	For the 6 months ended		For the 3 months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Remuneration	7,755	10,911	3,327	5,417
Management fees	95	194	61	120
Non-monetary benefits	413	439	111	220
Short-term benefits	31,053	21,824	6,817	11,181
Share-based payments	14,470	5,637	6,735	2,029
Total	<u>53,786</u>	<u>39,005</u>	<u>17,051</u>	<u>18,967</u>

## NOTE 34 - SHARE-BASED PAYMENTS

## (a) Compensation plan for increase of capital

Compensation plans implemented by providing options for the subscription and payment of shares that have been granted by LATAM Airlines Group S.A. to employees of the Company and its subsidiaries, are recognized in the financial statements in accordance with the provisions of IFRS 2 "Share-based Payment", showing the effect of the fair value of the options granted under compensation in linear between the date of grant of such options and the date on which these irrevocable.

## (a.1) Compensation plan 2013 not current as of this date

At the Extraordinary Shareholders' Meeting held on June 11, 2013, the shareholders of the Company approved, among other matters, the increase in the share capital, of which 1,500,000 shares were allocated to compensation plans for the employees of the Company. Company and its subsidiaries, in accordance with the provisions of Article 24 of the Law on Public Limited Companies.

On June 11, 2018, expired the term to subscribe said actions, which were neither subscribed nor paid, reducing the capital of full rights.

## (b) Compensation plan 2016-2018

The company implemented a retention plan long-term for executives, which lasts until December 2018, with a vesting period between October 2018 and March 2019, which consists of an

extraordinary bonus whose calculation formula is based on the variation the value to experience the action of LATAM Airlines Group S.A. for a period of time.

This benefit is recorded in accordance with the provisions of IFRS 2 "Payments based on shares" and has been considered as a cash settled award and, therefore, recorded at fair value as a liability, which is updated at the closing date. of each financial statement with effect on the result of the period.

Periods	Base Units				Closing Balance
	Opening balance	Granted	Annulled	Exercised	
From January 1 to June 30, 2017 (Unaudited)	4,719,720	37,359	(91,056)	(515,480)	4,150,543
From January 1 to December 31, 2017	4,150,543	-	(1,102,230)	(115,417)	2,932,896
From January 1 to June 30, 2018 (Unaudited)	2,932,896	-	-	-	2,932,896

The fair value has been determined on the basis of the best estimate of the future value of the Company share multiplied by the number of units granted bases.

At June 30, 2018, the carrying amount of ThUS\$ 7,735, is classified under "Administrative expenses" in the Consolidated Statement of Income by Function.

(c) Subsidiaries compensation plans

(c.1) Stock Options

Multiplus S.A., subsidiaries of TAM S.A., have outstanding stock options at June 30, 2018, which amounted to 247,500 shares (at December 31, 2017, the distribution of outstanding stock options amounted to 316,025 for Multiplus S.A.).

Multiplus S.A.

Description	3rd Grant	4th Grant	4th Extraordinary Grant	Total
	03-21-2012	04-03-2013	11-20-2013	
Outstanding option number as December 31, 2017	84,249	163,251	68,525	316,025
Outstanding option number as June 30, 2018 (Unaudited)	84,249	163,251	-	247,500

For Multiplus S.A., the plan's terms provide that the options granted to the usual prizes are divided into three equal parts and employees may exercise one-third of their two, three and four, options respectively, as long as they keep being employees of the company. The agreed term of the options is seven years after the grant of the option. The first extraordinary granting was divided into two equal parts, and only half of the options may be exercised after three years and half after four years. The second extraordinary granting was also divided into two equal parts, which may be exercised after one and two years respectively.

The acquisition of the share's rights, in both companies is as follows:

Company	Number of shares Accrued options		Number of shares Non accrued options	
	As of June 30, 2018	As of December 31, 2017	As of June 30, 2018	As of December 31, 2017
	Unaudited		Unaudited	
Multiplus S.A.	-	247,500.00	-	316,025

In accordance with IFRS 2 - Payments based on shares, the fair value of the option must be recalculated and recorded in the liability of the Company, once cash payment is made (cash-settled). The fair value of these options was calculated using the "Black-Scholes-Merton" method, where the assumptions were updated with information from LATAM Airlines Group S.A. As of June 30, 2018 and 2017 there is no value recorded in liabilities and results.

(c.2) Payments based on restricted stock

In May of 2014 the Management Council of Multiplus S.A. approved a plan to grant restricted stock, a total of 91,103 ordinary, registered book entry securities with no face value, issued by the Company to beneficiaries.

The quantity of restricted stock units was calculated based on employees' expected remunerations divided by the average price of shares in Multiplus S.A. traded on the BM&F Bovespa exchange in the month prior to issue, April of 2014. This benefits plan will only grant beneficiaries the right to the restricted stock when the following conditions have been met:

a. Compliance with the performance goal defined by this Council as return on Capital Invested.

b. The Beneficiary must remain as an administrator or employee of the Company for the period running from the date of issue to the following dates described, in order to obtain rights over the following fractions: (i) 1/3 (one third) after the 2nd year from the issue date; (ii) 1/3 (one third) after the 3rd year from the issue date; (iii) 1/3 (one third) after the 4th year from the issue date.

Number shares in circulation

	Opening balance	Granted	Exercised	Not acquired due to breach of employment retention conditions	Closing balance
From January 1 to December 31, 2017	237,856	129,218	(41,801)	(15,563)	309,710
From January 1 to June 30, 2018 (Unaudited)	309,710	-	(83,958)	-	225,752

## NOTE 35 - STATEMENT OF CASH FLOWS

(a) The Company has done significant non-cash transactions mainly with financial leases, which are detailed in Note 17 letter (d), additional information in numeral (iv) Financial leases.

(b) Other inflows (outflows) of cash:

	For the periods ended	
	June 30,	
	2018	2017
	ThUS\$	ThUS\$
	Unaudited	
Fuel hedge	28,508	15,269
Return of vale vista	-	110
Tax paid on bank transaction	(4,153)	(2,028)
Fuel derivatives premiums	(8,620)	(2,832)
Hedging margin guarantees	1,566	(3,658)
Guarantees	(8,974)	(9,498)
Bank commissions, taxes paid and other	(3,723)	(2,862)
Currency hedge	(1,149)	(7,245)
Change reservation systems	-	(16,120)
Court deposits	(19,200)	(13,104)
Total Other inflows (outflows) Operation flow	(15,745)	(41,968)
Tax paid on bank transaction	(1,312)	(1,971)
Others	7,069	388
Total Other inflows (outflows) Investment flow	5,757	(1,583)
Loan guarantee	-	79,051
Aircraft Financing advances	-	13,107
Settlement of derivative contracts	(6,890)	(20,436)
Total Other inflows (outflows) Financing flow	(6,890)	71,722

## Dividends:

	For the periods ended	
	June 30,	
	2018	2017
	ThUS\$	ThUS\$
	Unaudited	
Latam Airlines Group S.A.	(46,591)	(20,766)
Multiplus S.A. (*)	(16,768)	(22,628)
Total dividends paid	(63,359)	(43,394)

(\*) Dividends paid to minority shareholders

## d) Reconciliation of liabilities arising from financing activities:

Obligations with financial institutions	As of	Cash flows			Non-Flow Movements		As of
	December 31,	Obtainment	Payment		Interest accrued	Reclassifications	June 30,
	2017	Capital	Capital	Interest	and others		2018
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
							Unaudited
Loans to exporters	314,619	205,001	(70,000)	(4,612)	1,715	-	446,723
Bank loans	321,633	5,003	(68,987)	(7,222)	3,247	-	253,674
Guaranteed obligations	4,036,843	-	(167,550)	(62,229)	62,139	(1,163,805)	2,705,398
Other guaranteed obligations	242,175	377,659	(240,007)	(8,032)	6,009	-	377,804
Obligation with the public	1,584,066	-	-	(54,041)	38,922	-	1,568,947
Financial leases	1,109,504	-	(370,899)	(36,589)	43,396	1,163,805	1,909,217
Other loans	282,800	-	(43,253)	(8,726)	10,742	-	241,563
Total Obligations with financial institutions	<u>7,891,640</u>	<u>587,663</u>	<u>(960,696)</u>	<u>(181,451)</u>	<u>166,170</u>	<u>-</u>	<u>7,503,326</u>

## (e) Advances of aircraft

Below are the cash flows associated with aircraft purchases, which are included in the statement of consolidated cash flow, in the item Purchases of properties, plants and equipment:

	For the periods ended	
	June 30	
	2018	2017
	ThUS\$	ThUS\$
	Unaudited	
Increases (payments)	(33,772)	(67,544)
Recoveries	30,050	-
Total cash flows	<u>(3,722)</u>	<u>(67,544)</u>

## NOTE 36 - THE ENVIRONMENT

LATAM Airlines Group S.A has a commitment to sustainable development seeking to generate value taking into account the governance, environmental and social aspects. The company manages environmental issues at a corporate level, centralized in the Sustainability Management. For the company to monitor and minimize its impact on the environment is a commitment of the highest level; where the continuous improvement and contribute to the solution of the global climate change problem, generating added value to the company and the region, are the pillars of its management.

One of the functions of the Sustainability Management in environmental issues, together with the various areas of the Company, is to ensure environmental compliance, implement a management system and environmental programs that comply with the requirements every day more. demanding worldwide; in addition to continuous improvement programs in their internal processes, which generate environmental, social and economic benefits and which are added to those currently carried out.

Within the sustainability strategy, the Environment dimension of LATAM Airlines Group S.A., is called Climate Change and is based on the goal of achieving world leadership in this area, and for which we work on the following aspects:

- i. Carbon footprint
- ii. Eco Efficiency
- iii. Sustainable Alternative Energy
- iv. Standards and Certifications

This is how, during 2018, the following initiatives have been carried out:

- Implementation of an Environmental Management System for the main operations of the company. It is highlighted that the company during 2016 has recertified its environmental management system in Miami facilities following the guidelines of the international standard ISO 14.001. During 2018, the system will be recertified with the new version of the standard.
- Maintenance of the Stage 2 Certification of IATA Environmental Assessment (IEnvA) whose scope is the international flights operated from Chile, the most advanced level of this certification; being the first in the continent and one of the four airlines in the world that have this certification.
- Preparation of the environmental chapter for the sustainability report of the company, which allows to measure progress in environmental issues.
- Answer to the questionnaire of the DJSI.
- Measurement and external verification of the Corporate Carbon Footprint.
- Neutralization of land operations in the operations of Colombia and Peru with emblematic reforestation projects in the respective countries.

It is highlighted that in 2017, LATAM Airlines Group maintained its inclusion for the fourth consecutive year in the world category of the Dow Jones Sustainability Index, with only 3 airlines in the world belonging to this select group.

#### NOTE 37 - EVENTS SUBSEQUENT TO THE DATE OF THE FINANCIAL STATEMENTS

(1) Inflation in Argentina has shown significant increases since the beginning of 2018. The cumulative inflation rate of three years, calculated using different combinations of consumer price indices, has exceeded 100% for several months and continues to increase. The accumulated three-year inflation calculated using the general price index has already exceeded 100% and is unlikely to fall significantly below 100% in 2019.

The qualitative indicators are still diverse, however, taking into account recent events, including the devaluation of the currency, they do not contradict the conclusion that Argentina is currently a hyperinflationary economy for accounting purposes.

Consequently, Argentina should be considered a hyperinflationary economy for accounting periods ending after July 1, 2018 and IAS 29 will be applied in the companies that have the Argentine Peso as the functional currency, since that date. The methodology proposed by the standard must be applied as if the economy had always been hyperinflationary. The foregoing implies that the

restatement of non-monetary items must be made from their date of origin, last restatement, appraisal or another particular date in some specific cases.

The Group has subsidiaries in Argentina, which hold the Argentine Peso as the functional currency, whose non-monetary assets and liabilities in books amount to ThUS \$ 3,057 and ThUS \$ 28,971 respectively, as of June 30, 2018.

As of the date of issuance of the financial statements, the Company has not yet quantified the impact that the application of IAS 29 will have on the consolidated financial statements.

(2) On August 20, 2018, the Company announced that as of the first half of September, it will subcontract ground handling services at the airports of Guarulhos in Sao Paulo and Galeão in Rio de Janeiro to the Orbital company, specialist in this modality of airport services.

Subsequent to June 30, 2018 and until the date of issuance of these financial statements, there is no knowledge of other financial or other events that significantly affect the balances or their interpretation.

The consolidated financial statements of LATAM Airlines Group S.A. and Subsidiaries as of June 30, 2018, have been approved in an Extraordinary Board Meeting on August 20, 2018.