



LAN AIRLINES S.A. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011

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



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REPORT OF THE INDEPENDENT ACCOUNTANTS

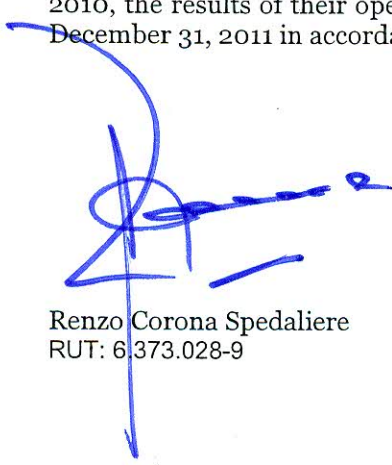
Santiago, February 14, 2012

To the Shareholders and Directors
Lan Airlines S.A.

We have audited the consolidated statements of financial position of Lan Airlines S.A. and its subsidiaries as of December 31, 2011 and 2010, the related consolidated statements of comprehensive income and cash flows for each of the three years in the period ended December 31, 2011, and the related consolidated statements of changes in net equity for each of the two years in the period ended December 31, 2011. The preparation of these financial statements (including the notes thereto) is the responsibility of Lan Airlines S.A.'s management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Lan Airlines S.A. and its subsidiaries as of December 31, 2011 and 2010, the results of their operations and cash flows for each of the three years in the period ended December 31, 2011 in accordance with International Financial Reporting Standards.



Renzo Corona Spedaliere
RUT: 6.373.028-9



PricewaterhouseCoopers

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LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

	<u>Note</u>	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Current Assets			
Cash and cash equivalents	6 - 7	374,407	631,052
Other financial assets	7 - 11	227,803	245,451
Other non-financial assets	12	26,660	18,820
Trade and other accounts receivable	7 - 8	537,406	481,350
Accounts receivable from related entities	7 - 9	838	50
Inventories	10	72,787	53,193
Tax assets		98,789	97,656
		1,338,690	1,527,572
Total current assets other than non-current assets (or disposal groups) classified as held for sale			
Non-current assets (or disposal groups) classified as held for sale	13	4,661	5,497
Total current assets		1,343,351	1,533,069
Non-current Assets			
Other financial assets	7 - 11	21,833	21,587
Other non-financial assets	12	58,163	32,508
Accounts receivable	7 - 8	7,491	7,883
Equity accounted investments	15	991	593
Intangible assets other than goodwill	16	64,923	45,749
Goodwill	17	163,777	157,994
Property, plant and equipment	18	5,927,982	4,948,430
Deferred tax assets	19	60,148	38,084
Total non-current assets		6,305,308	5,252,828
Total assets		7,648,659	6,785,897

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



LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES AND EQUITY	Note	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
LIABILITIES			
Current liabilities			
Other financial liabilities	7 - 20	582,257	542,624
Trade and other accounts payables	7 - 21	645,086	645,571
Accounts payable to related entities	7 - 9	367	184
Other provisions	22	7,363	753
Tax liabilities		29,369	15,736
Other non-financial liabilities	23	1,057,637	939,151
Total current liabilities		2,322,079	2,144,019
Non-current liabilities			
Other financial liabilities	7 - 20	3,109,136	2,562,348
Accounts payable	7 - 25	354,930	425,681
Other provisions	22	22,385	32,120
Deferred tax liabilities	19	369,625	312,012
Employee benefits	24	13,132	9,657
Total non-current liabilities		3,869,208	3,341,818
Total liabilities		6,191,287	5,485,837
EQUITY			
Share capital	26	473,907	453,444
Retained earnings	26	1,116,798	949,214
Other equity interests	26	8,492	5,463
Other reserves	26	(153,873)	(111,307)
Equity attributable to			
owners of the parent		1,445,324	1,296,814
Non-controlling interests		12,048	3,246
Total equity		1,457,372	1,300,060
Total liabilities and equity		7,648,659	6,785,897

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



LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

		For the year ended December 31,		
	<u>Note</u>	<u>2011</u> ThUS\$	<u>2010</u> ThUS\$	<u>2009</u> ThUS\$
Revenue	27	5,585,440	4,390,502	3,519,162
Cost of sales		<u>(4,078,598)</u>	<u>(3,012,698)</u>	<u>(2,522,778)</u>
Gross margin		<u>1,506,842</u>	<u>1,377,804</u>	<u>996,384</u>
Other income	30	132,804	132,826	136,351
Distribution costs		(479,829)	(383,517)	(326,964)
Administrative expenses		(405,716)	(331,831)	(269,588)
Other expenses		(214,411)	(172,428)	(100,483)
Other gains/(losses)		(33,039)	5,438	(11,728)
Financial income		14,453	14,946	18,183
Financial costs	28	(139,077)	(155,279)	(153,109)
Equity accounted earnings	15	458	132	315
Foreign exchange gains/(losses)	31	(256)	13,792	(11,237)
Result of indexation units		131	149	(605)
Income before taxes		382,360	502,032	277,519
Income tax expense	19	<u>(61,789)</u>	<u>(81,107)</u>	<u>(44,487)</u>
NET INCOME FOR THE YEAR		<u><u>320,571</u></u>	<u><u>420,925</u></u>	<u><u>233,032</u></u>
Income attributable to owners of the parent		320,197	419,702	231,126
Income attributable to non-controlling interests		<u>374</u>	<u>1,223</u>	<u>1,906</u>
Net income for the year		<u><u>320,571</u></u>	<u><u>420,925</u></u>	<u><u>233,032</u></u>
EARNINGS PER SHARE				
Basic earnings per share (US\$)	32	0.94335	1.23882	0.68221
Diluted earnings per share (US\$)	32	0.94260	1.23534	0.68221

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



LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended		
	December 31,		
<u>Note</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
	ThUS\$	ThUS\$	ThUS\$
NET INCOME	320,571	420,925	233,032
Components of other comprehensive income, before taxes			
Currency translation differences			
Gains (losses) on currency translation, before tax	31 (10,864)	708	1,442
Other comprehensive income, before taxes, currency translation differences	(10,864)	708	1,442
Cash flow hedges			
Gains (losses) on cash flow hedges before tax	20 (40,368)	(17,855)	252,508
Other comprehensive income, before taxes, cash flow hedges	(40,368)	(17,855)	252,508
Other components of other comprehensive income, before taxes	(51,232)	(17,147)	253,950
Income tax relating to other comprehensive income [abstract]			
Income tax related to currency translation differences in other comprehensive income	19 1,846	(120)	1,008
Income tax related to cash flow hedges in other comprehensive income	19 6,862	3,035	(42,925)
Amount of income taxes related to components of other comprehensive income	8,708	2,915	(41,917)
Other comprehensive income	(42,524)	(14,232)	212,033
Total comprehensive income	<u>278,047</u>	<u>406,693</u>	<u>445,065</u>
Comprehensive income attributable to owners of the parent	277,631	405,549	441,977
Comprehensive income attributable to non-controlling interests	416	1,144	3,088
TOTAL COMPREHENSIVE INCOME	<u><u>278,047</u></u>	<u><u>406,693</u></u>	<u><u>445,065</u></u>

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



LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<u>Note</u>	Attributable to owners of the parent							<u>Total equity</u> ThUS\$
		<u>Share capital</u> ThUS\$	<u>Other equity interests</u> ThUS\$	<u>Other reserves</u>			<u>Equity attributable to owners of the parent</u> ThUS\$	<u>Non-controlling interests</u> ThUS\$	
				<u>Reserve</u>	<u>Cash flow hedging reserve</u> ThUS\$	<u>Retained earnings</u> ThUS\$			
				<u>for exchange on translation differences</u> ThUS\$					
Equity previously reported									
January 1, 2011		453,444	5,463	(4,257)	(107,050)	949,214	1,296,814	3,246	1,300,060
Total increase (decrease) in equity									
Comprehensive income									
Gain (losses)	26	-	-	-	-	320,197	320,197	374	320,571
Other comprehensive income		-	-	(9,060)	(33,506)	-	(42,566)	42	(42,524)
Total comprehensive income		-	-	(9,060)	(33,506)	320,197	277,631	416	278,047
Transactions with shareholders									
Equity issuance	26-36	23,135	-	-	-	-	23,135	-	23,135
Dividends	26	-	-	-	-	(151,981)	(151,981)	-	(151,981)
Increase (decrease) through transfers and other changes, equity	26-36	(2,672)	3,029	-	-	(632)	(275)	8,386	8,111
Total transactions with shareholders		20,463	3,029	-	-	(152,613)	(129,121)	8,386	(120,735)
Closing balance as of									
December 31, 2011		473,907	8,492	(13,317)	(140,556)	1,116,798	1,445,324	12,048	1,457,372

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



LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent								
	Note	Other reserves				Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
		Share capital	Other equity interests	Currency translation reserve	Cash flow hedging reserve				
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	
Equity previously reported									
January 1, 2010		453.444	2.490	(4.924)	(92.230)	740.047	1.098.827	7.099	1.105.926
Total increase (decrease) in equity									
Comprehensive income									
Gain (losses)	26	-	-	-	-	419.702	419.702	1.223	420.925
Other comprehensive income		-	-	667	(14.820)	-	(14.153)	(79)	(14.232)
Total comprehensive income		-	-	667	(14.820)	419.702	405.549	1.144	406.693
Transactions with shareholders									
Dividends	26	-	-	-	-	(210.406)	(210.406)	-	(210.406)
Increase (decrease) through transfers and other changes, equity	26-36	-	2.973	-	-	(129)	2.844	(4.997)	(2.153)
Total transactions with shareholders		-	2.973	-	-	(210.535)	(207.562)	(4.997)	(212.559)
Closing balance as of December 31, 2010		453.444	5.463	(4.257)	(107.050)	949.214	1.296.814	3.246	1.300.060

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



LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT – METHOD

	<u>Note</u>	For the year ended December 31,		
		<u>2011</u> ThUS\$	<u>2010</u> ThUS\$	<u>2009</u> ThUS\$
Cash flows from operating activities				
Cash collection from operating activities				
Proceeds from sales of goods and services		5.966.464	4.831.963	3.871.189
Other cash receipts from operating activities		52.012	46.336	40.319
Payments for operating activities				
Payments to suppliers for goods and services		(4.286.394)	(3.058.168)	(2.475.716)
Payments to and on behalf of employees		(883.297)	(633.686)	(636.603)
Other payments for operating activities		(84.000)	(18.000)	(19.000)
Interest paid		(6.766)	(387)	-
Interest received		11.428	11.438	13.542
Income taxes refunded (paid)		626	(11.098)	10.304
Other cash inflows (outflows)		(7.499)	(43.061)	41.792
Net cash flows from operating activities		<u>762.574</u>	<u>1.125.337</u>	<u>845.827</u>
Cash flows used in investing activities				
Cash flows from disposal of subsidiaries		47.337	1.491	1.568
Cash flows used for acquisition of subsidiaries		(3.541)	(12.000)	(921)
Cash flows used for in the purchase of non-controlling interests		-	-	(2.439)
Other cash receipts from sales of equity or debt instruments of other entities		9.201	12.915	8.743
Other payments to acquire equity or debt instruments of other entities		(72)	(60.000)	(58.983)
Amounts raised from sale of property, plant and equipment		93.787	577	10.777
Purchases of property, plant and equipment		(1.367.025)	(1.029.158)	(538.576)
Amounts raised from sale of intangible assets		6.189	-	-
Purchases of intangible assets		(27.615)	(19.236)	(12.888)
Dividends received		89	111	414
Interest received		2.848	4.048	2.637
Other cash inflows (outflows)		545	812	-
Net cash flow used in investing activities		<u>(1.238.257)</u>	<u>(1.100.440)</u>	<u>(589.668)</u>
Cash flows from (used in) financing activities				
Amounts raised from issuance of shares		23.153	-	-
Amounts raised from long-term loans		969.252	687.792	671.425
Amounts raised from short-term loans		334.500	-	-
Loans Repayments		(883.402)	(554.539)	(261.705)
Payments of finance lease liabilities		(59.990)	(54.034)	(62.858)
Dividends paid		(192.133)	(155.407)	(139.937)
Interest paid		(119.086)	(128.722)	(129.323)
Other cash inflows (outflows)		146.849	80.181	21.588
Net cash flows from (used in) financing activities		<u>219.143</u>	<u>(124.729)</u>	<u>99.190</u>
Net increase (decrease) in cash and cash equivalents before effect of exchanges rate change		<u>(256.540)</u>	<u>(99.832)</u>	<u>355.349</u>
Effects of variation in the exchange rate on cash and cash equivalents		(105)	(613)	(24.824)
Net increase (decrease) in cash and cash equivalents		<u>(256.645)</u>	<u>(100.445)</u>	<u>330.525</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6	<u>631.052</u>	<u>731.497</u>	<u>400.972</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	<u><u>374.407</u></u>	<u><u>631.052</u></u>	<u><u>731.497</u></u>

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



LAN AIRLINES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011

NOTE 1 - GENERAL INFORMATION

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

On August 13, 2010, LAN Airlines S.A. and TAM S.A. (TAM) announced they have signed a non-binding Memorandum of Understanding (MOU) in which the companies agree to proceed with their intention of carrying out their operations jointly under one parent company, to be named LATAM Airlines Group. The proposed partnership of LAN with TAM would be within the world’s 10 largest airline groups. LATAM will provide transport services for passengers and cargo to more than 115 destinations in 23 countries, operating with a fleet of over 300 aircraft, with over 40,000 employees. Both airlines will continue operating independently with their current operating licenses and brands. Within the group, TAM will continue operating as a Brazilian company with its own structure. The current holding of LAN Airlines S.A. will operate as an independent business unit within the group. On October 20, 2010, LAN and TAM announced that the operating subsidiaries of TAM had presented the structure of the transaction to the Brazilian Civil Aviation Agency (ANAC), which was approved by this agency on March 01, 2011.

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

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

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

On December 21, 2011, the Board of LAN cited a special meeting of shareholders, citation was performed November 11, 2011, in which LAN shareholders approved, among others, the following matters:

(a) The merger of LAN with Sister Holdco S.A. and Holdco II S.A. and companies (the "Absorbed Companies"), two companies specially constituted for the purpose of the association between LAN and TAM;

(b) The change of name and the other transactions contemplated in contracts.

(c) The increase in capital by US\$ 1,465,372,970.09 by issuing 147,355,882 common shares without par value of which:

(i) US\$ 1,417,639,617.60 through the issue of 142,555,882 shares, which are intended to be exchanged for shares of the Absorbed Companies as a result of the proposed Merger, at a rate of 0.9 new shares of LAN for each share that is fully subscribed and paid for each of the absorbed companies, and that belongs to shareholders other than LAN. LAN shares that holds in the acquired companies at the time to perfect the Merger, shall have no effect;

(ii) US\$ 47,733,352.49 through the issuance of 4,800,000 shares, which will go towards compensation plans for employees of the Company and its subsidiaries, as provided in Article 24 of the Corporations Law.

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

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

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

The majority shareholder of the Company is the Cueto Group, which through Costa Verde Aeronáutica S.A., Inversiones Mineras del Cantábrico S.A. and Inversiones Nueva Costa Verde Aeronáutica Limitada, owns 33.91% of the shares issued by the Company, and is the controller of the Company in accordance with the provisions of the letter b) of Article 97 and Article 99 of the Securities Market Law, given that despite not meeting the majority of votes at shareholders' meeting or having the power to elect a majority of the directors of the Company, there is a decisive influence in its administration.

As of December 31, 2011, the Company had a total of 1,682 registered shareholders, and 2.99% of the Company's share capital was in the form of ADRs.

For the year ended December 31, 2011 the Company had an average of 20,870 employees, ending the year with a total of 21,838 people, with 4,170 in administration, 2,918 in maintenance, 6,194 in operations, 3,837 cabin crew, 1,969 pilots, and 2,750 in sales.



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

<u>Tax No.</u>	<u>Company</u>	<u>Country of origin</u>	<u>Functional Currency</u>	<u>As of December 31, 2011</u>			<u>As of December 31, 2010</u>		
				<u>Direct ownership</u>	<u>Indirect ownership</u>	<u>Total ownership</u>	<u>Direct ownership</u>	<u>Indirect ownership</u>	<u>Total ownership</u>
				<u>interest</u>	<u>interest</u>	<u>interest</u>	<u>interest</u>	<u>interest</u>	<u>interest</u>
				%	%	%	%	%	%
96.518.860-6	Lantours Division de Servicios Terrestres S.A. (*)	Chile	US\$	99.9900	0.0100	100.0000	99.9900	0.0100	100.0000
96.763.900-1	Inmobiliaria Aeronáutica S.A.	Chile	US\$	99.0100	0.9900	100.0000	99.0100	0.9900	100.0000
96.969.680-0	Lan Pax Group S.A. and Subsidiaries	Chile	US\$	99.8361	0.1639	100.0000	99.8361	0.1639	100.0000
Foreign	Lan Peru S.A.	Peru	US\$	49.0000	21.0000	70.0000	49.0000	21.0000	70.0000
Foreign	Lan Chile Investments Limited and Subsidiaries	Caymán Islands	US\$	99.9900	0.0100	100.0000	99.9900	0.0100	100.0000
93.383.000-4	Lan Cargo S.A.	Chile	US\$	99.8939	0.0041	99.8980	99.8939	0.0041	99.8980
Foreign	Connecta Corporation	U.S.A	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Prime Airport Services Inc. and Subsidiary	U.S.A	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.951.280-7	Transporte Aéreo S.A.	Chile	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.634.020-7	Ediciones Ladeco América S.A.	Chile	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Aircraft International Leasing Limited	U.S.A	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.631.520-2	Fast Air Almacenes de Carga S.A.	Chile	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.631.410-9	Ladeco Cargo S.A.	Chile	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Laser Cargo S.R.L.	Argentina	ARS	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Lan Cargo Overseas Limited and Subsidiaries	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	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.801.150-2	Blue Express INTL S.A. and Subsidiary	Chile	CLP	0.0000	0.0000	0.0000	0.0000	100.0000	100.0000
96.575.810-0	Inversiones Lan S.A. and Subsidiaries	Chile	CLP	99.7100	0.0000	99.7100	99.7100	0.0000	99.7100

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

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

All the entities controlled have been included in the consolidation.

Changes in the scope of consolidation between January 1, 2010 and December 31, 2011, are detailed below:

(1) Incorporation or acquisition of companies

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

(2) Disposal of companies

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Preparation

The consolidated financial statements of Lan Airlines S.A. are for the year ended December 31, 2011 and have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations.

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

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

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

<u>Standards and amendments</u>	Mandatory application: annual periods <u>beginning on or after</u>
Amendment to IAS 32: Financial instruments: Presentations	02/01/2010
IFRS 3 revised: Business combinations	07/01/2010
Amendment to IAS 27: Consolidated and separate financial statements	07/01/2010
IFRS 1: First-time adoptions	07/01/2010
Amendment to IFRS 1: First-time adoptions	07/01/2011
IFRS 7: Financial instruments: Disclosures	01/01/2010

Amendment to IFRS 7: Financial Instruments: Disclosures	07/01/2011
Amendment to IAS 34: Interim financial reporting	01/01/2011
Amendment to IAS 1: Presentation of financial statements	01/01/2011
IAS 24 revised: Related party disclosures	01/01/2011

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

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

(b) Accounting pronouncements with applications effective as of January 1, 2012 and following:

<u>Standards and amendments</u>	Mandatory application: annual periods <u>beginning on or after</u>
Amendment to IAS 12: Income taxes	01/01/2012
Amendment to IAS 1: Presentation of financial statements	07/01/2012
IAS 28: Investments in associates and joint ventures	01/01/2013

IAS 27: Separate financial statements	01/01/2013
IFRS 10: Consolidated financial statements	01/01/2013
IFRS 11: Joint arrangements	01/01/2013
IFRS 12: Disclosures of interests in other entities	01/01/2013
IFRS 13: Fair value measurement	01/01/2013
Amendment to IAS 19: Employee benefits	01/01/2013
IFRS 9: Financial instruments	01/01/2015

Interpretation

Mandatory application:
annual periods
beginning on or after

IFRIC 20: Stripping costs in the production phase of mine	01/01/2013
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The Company's management believes that the adoption of the standards, amendments and interpretations described above would not have had a significant impact on the Company's consolidated financial statements in the year of their first application. The Company has not early adopted any of the above standards.

2.2. Consolidation

(a) Subsidiaries

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

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

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

(b) Transactions with non-controlling interests

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

(c) Investees or associates

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

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

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

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

2.3. Foreign currency transactions

(a) Presentation and functional currencies

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

(b) Transactions and balances

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

(c) Group entities

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

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

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

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

2.4. Property, plant and equipment

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

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

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

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

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

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

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

2.5. Intangible assets

Computer software

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

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

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

2.6. Goodwill

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

2.7. Borrowing costs

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

2.8. Losses for impairment of non-financial assets

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

2.9. Financial assets

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

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

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

(b) Loans and accounts receivable

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

(c) Financial assets held to maturity

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

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

Financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method. Held to maturity investments are carried at amortized cost using the effective interest rate.

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

2.10. Derivative financial instruments and hedging activities

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

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

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

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

- (a) Fair value hedges

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

- (b) Cash flow hedges

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

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

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

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

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

(c) Derivatives not booked as a hedge

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

2.11. Inventories

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

2.12. Trade and other accounts receivable

Trade accounts receivable are shown initially at their fair value and later at their amortized cost in accordance with the effective interest rate method, less the allowance for impairment losses. An allowance for impairment loss of trade accounts receivable is made when there is objective evidence that the Company will not be able to recover all the amounts due according to the original terms of the accounts receivable.

The existence of significant financial difficulties on the part of the debtor, the probability that the debtor is entering bankruptcy or financial reorganization and the default or delay in making payments are considered indicators that the receivable has been impaired. The amount of the provision is the difference between the book value of the assets and the present value of the estimated future cash flows, discounted at the original effective interest rate. The book value of the asset is reduced by the amount of the allowance and the loss is shown in the consolidated statement of income in Cost of sales. When an account receivable is written off, it is charged to the allowance account for accounts receivable.

2.13. Cash and cash equivalents

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

2.14. Capital

The common shares are classified as net equity.

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

2.15. Trade and other accounts payables

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

2.16. Interest-bearing loans

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

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

2.17. Deferred taxes

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

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

The Company does not record deferred tax on temporary differences arising on investments in subsidiaries and associates, provided that the opportunity to reverse the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

2.18. Employee benefits

(a) Personnel vacations

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

(b) Share-based compensation

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

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

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

(d) Incentives

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

2.19. Provisions

Provisions are recognised when:

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

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

2.20. Revenue recognition

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

(a) Rendering of services

(i) Passenger and cargo transport

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

(ii) Frequent flyer program

The Company currently has a frequent flyer program called Lan Pass, whose objective is customer loyalty through the delivery of kilometers fly with the Company or its alliance partners in certain flights, use the services of entities registered with the program or make purchases with an associated credit card. The kilometers earned can be exchanged for flight tickets or other services of associated entities.

The consolidated financial statements include liabilities for this concept (deferred income), according to the estimate of the valuation established for the kilometers accumulated pending use at that date, in accordance with IFRIC 13: Customer loyalty programs.

(iii) Other revenues

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

(b) Interest income

Interest income is booked using the effective interest rate method.

(c) Dividend income

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

2.21. Leases

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

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

Every lease payment is separated between the liability component and the financial expenses so as to obtain a constant interest rate over the outstanding amount of the debt. The corresponding leasing obligations, net of financial charges, are included in 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 major maintenance of the aircraft's fuselage and engines are capitalized and depreciated until the next maintenance. The depreciation rate is determined on technical grounds, according to its use expressed in terms of cycles and flight hours.

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

(a) Market risk

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

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

(i) Fuel-price risk:

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

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

During 2011, the Company booked gains of US\$ 39.9 million on fuel hedging. During 2010, the Company recognized gains of US\$ 1.0 million for the same reason.

At December 31, 2011, the market value of its fuel positions amounted to US\$ 30.6 million (positive). At December 31, 2010, this market value was US\$ 45.8 million (positive). The following tables show the notional value of the purchase positions together with the derivatives contracted for the different years:

<u>Positions as of December 31, 2011 (*)</u>	<u>Maturities</u>			<u>Total</u>
	<u>Q112</u>	<u>Q212</u>	<u>Q312</u>	
Volume (thousands of barrels WTI)	1,800	1,134	693	3,627
Contracted future price (US\$ per barril)(**)	95	92	89	93
Total (ThUS\$)	171,000	104,328	61,677	337,311
Approximate percentage of hedge (of expected consumption value)	50%	33%	19%	34%

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

(**)Weighted average between collars and asset options

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

(*)Weighted average between collars and asset options

Sensitivity analysis

A drop in fuel price positively affects the Company through a reduction in costs. However, this drop 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.

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

The following table shows the sensitivity analysis of the financial instruments according to reasonable changes in the fuel price and their effect on equity. The term of the projection was defined until the end of the last current fuel hedge contract, being the last business day of the third quarter of 2012. The calculations were made considering a parallel movement of US\$ 5 per barrel in the curve of the WTI crude futures benchmark price at December 31, 2011 and the end of December 31, 2010.

<u>Benchmark price</u> <u>(US\$ per barrel)</u>	<u>Positions as of December 31, 2011</u>	<u>Positions as of December 31, 2010</u>
	<u>effect on equity</u> <u>(millions of US\$)</u>	<u>effect on equity</u> <u>(millions of US\$)</u>
+ 5	+ 16.5	+ 16.7
-5	- 13.8	-15.7

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

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

Given the fuel hedge structure during 2011, which considers a hedge-free portion, a vertical fall by US\$ 5 in the WTI benchmark price (the monthly daily average), would have meant a decrease of approximately US\$ 42.5 million in the cost of total fuel consumption for the same period. For the same year, a vertical rise by US\$ 5 in the WTI benchmark price (the monthly daily average) would have meant an impact of approximately US\$ 39.5 million of increased fuel costs for the same period.

(ii) Cash flow interest-rate risk:

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

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

In order to reduce the risk of an eventual rise in interest rates, the Company has signed interest-rate swap and call option contracts in order to eliminate more than 82% of its exposure to interest-rate fluctuations. The Company is therefore exposed to a small portion of the fluctuations in the 90 days, 180 days and 360 days London Inter Bank Offer Rate (LIBOR).

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

Increase (decrease) in <u>libor 3 months</u>	Positions as of December 31, 2011 effect on pre-tax earnings <u>(millions of US\$)</u>	Positions as of December 31, 2010 effect on pre-tax earnings <u>(millions of US\$)</u>
+100 basis points	-3.06	-1.18
-100 basis points	+3.06	+1.18

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

Increase (decrease) futures curve in <u>libor 3 months</u>	Positions as of December 31, 2011 effect on equity <u>(millions of US\$)</u>	Positions as of December 31, 2010 effect on equity <u>(millions of US\$)</u>
+100 basis points	40.70	42.39
-100 basis points	(43.20)	(45.35)

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

In accordance with the requirements of IAS 39, during the year presented, the Company has not recorded amounts for ineffectiveness in the consolidated income statement.

(iii) Local exchange-rate risk:

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

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

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

(b) Credit risk

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

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

(i) Financial activities

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

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

The Company has no guarantees to mitigate this exposure.

(ii) Operational activities

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

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

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

Credit quality of financial assets

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

(c) Liquidity risk

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

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

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

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



Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2011

Class of Liability	Debtor Tax No.	Debtor	Debtor country	Debtor Tax No.	Creditor	Creditor country	Currency	Up to	More than	More than	More than	More than	Total	Amortization	Effective	Nominal	Nominal
								90 days	90 days	one to	three to	five			rate	value	rate
								ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$	ThUS \$		%	ThUS \$	%
Guaranteed obligations	89.862.200-2	Lan Airlines S.A.	Chile	0-E	ING	U.S.A.	US\$	4,025	12,076	32,192	32,213	60,438	140,944	Quarterly	5.69%	113,193	5.01%
		Lan Airlines S.A.	Chile	0-E	CREDITE AGRICOLE	France	US\$	21,249	61,560	67,744	33,826	7,228	191,607	Quarterly	4.05%	182,041	4.05%
		Lan Airlines S.A.	Chile	0-E	PEFCO	U.S.A.	US\$	15,633	46,900	125,060	106,833	124,408	418,834	Quarterly	5.18%	354,360	4.61%
		Lan Airlines S.A.	Chile	0-E	BNP PARIBAS	U.S.A.	US\$	19,616	59,263	159,420	161,548	252,865	652,712	Quarterly	4.27%	557,517	3.81%
		Lan Airlines S.A.	Chile	0-E	WELLS FARGO	U.S.A.	US\$	5,615	16,828	44,837	44,749	113,352	225,381	Quarterly	3.64%	188,942	3.53%
		Lan Airlines S.A.	Chile	0-E	CITIBANK	U.S.A.	US\$	13,585	41,065	110,232	111,306	290,463	566,651	Quarterly	2.94%	497,707	2.61%
		Lan Airlines S.A.	Chile	97.036.000-K	SANTANDER	Chile	US\$	5,436	16,577	44,721	45,461	143,675	255,870	Quarterly	1.14%	239,882	1.01%
		Lan Airlines S.A.	Chile	0-E	JP MORGAN	U.S.A.	US\$	4,692	14,329	38,755	39,580	143,763	241,119	Quarterly	1.09%	226,295	0.94%
		Lan Airlines S.A.	Chile	0-E	BTMU	U.S.A.	US\$	2,227	6,817	18,434	18,807	69,085	115,370	Quarterly	1.41%	105,863	1.26%
		Lan Airlines S.A.	Chile	0-E	APPLEBANK	U.S.A.	US\$	757	2,330	6,322	6,469	23,952	39,830	Quarterly	1.37%	36,541	1.22%
Financial leases	89.862.200-2	Lan Airlines S.A.	Chile	0-E	ING	U.S.A.	US\$	7,332	21,559	43,281	39,703	9,324	121,199	Quarterly	3.94%	110,576	3.73%
		Lan Airlines S.A.	Chile	0-E	CREDITE AGRICOLE	France	US\$	2,311	7,020	20,099	20,901	35,093	85,424	Quarterly	1.46%	79,428	1.46%
		Lan Airlines S.A.	Chile	0-E	CITIBANK	U.S.A.	US\$	1,809	6,140	19,663	-	-	27,612	Quarterly	1.85%	26,426	1.82%
		Lan Airlines S.A.	Chile	0-E	S.CHARTERED	U.S.A.	US\$	1,773	5,435	7,538	-	-	14,746	Quarterly	1.56%	14,481	1.56%
		Lan Airlines S.A.	Chile	0-E	PEFCO	U.S.A.	US\$	4,204	12,617	33,636	33,629	14,736	98,822	Quarterly	5.22%	85,948	4.68%
Bank loans	89.862.200-2	Lan Airlines S.A.	Chile	97.036.000-K	SANTANDER	Chile	US\$	-	12,704	-	-	-	12,704	Semiannual	2.35%	12,500	2.35%
		Lan Airlines S.A.	Chile	97.004.000-5	BANCO DE CHILE	Chile	US\$	292	30,291	-	-	-	30,583	Semiannual	1.91%	30,000	1.91%
		Lan Airlines S.A.	Chile	97.006.000-6	BCI	Chile	US\$	50,187	-	-	-	-	50,187	Quarterly	1.51%	50,000	1.51%
		Lan Airlines S.A.	Chile	97.030.000-7	ESTADO	Chile	US\$	-	876	45,532	-	-	46,408	Semiannual	1.82%	44,848	1.81%
		Lan Airlines S.A.	Chile	97.032.000-8	BBVA	Chile	US\$	-	61,297	-	-	-	61,297	Annual	2.21%	60,000	2.13%
Other loans	89.862.200-2	Lan Airlines S.A.	Chile	97.036.000-K	SANTANDER	Chile	US\$	1,145	2,314	203,779	-	-	207,238	-	2.55%	202,899	2.55%
		Lan Airlines S.A.	Chile	0-E	BOEING	U.S.A.	US\$	-	5,884	271,307	-	-	277,191	-	1.87%	269,965	1.87%
		Lan Airlines S.A.	Chile	-	OTHERS	-	US\$	-	-	31,081	31,006	-	62,087	Quarterly	2.43%	58,960	2.43%
Derivatives	89.862.200-2	Lan Airlines S.A.	Chile	-	OTHERS	-	US\$	10,191	28,940	70,303	41,382	8,620	159,436	-	-	154,410	-
Non-hedging derivatives	89.862.200-2	Lan Airlines S.A.	Chile	-	OTHERS	-	US\$	1,357	3,896	8,998	1,586	-	15,837	-	-	15,380	-
Accounts payable and other accounts payables	-	Lan Airlines S.A. and subsidiaries	Several	-	sundry	-	US\$	411,908	25,920	-	-	-	437,828	-	-	437,828	-
							CLP	15,408	-	-	-	-	15,408	-	-	15,408	-
							Others	78,245	-	-	-	-	78,245	-	-	78,245	-
Accounts payable, non-current	-	Lan Airlines S.A. and subsidiaries	Several	-	sundry	-	US\$	-	-	36,000	-	-	36,000	-	-	36,000	-
Accounts payable related parties	-	Lan Airlines S.A. and subsidiaries	Several	96.847.880-K	Lufthansa Lan Technical Training S.A.	-	US\$	147	-	-	-	-	147	-	-	147	-
			Several	96.921.070-3	Austral sociedad Concesionaria S.A.	-	CLP	2	-	-	-	-	2	-	-	2	-
			Several	78.591.370-1	Bethia S.A. and subsidiaries	-	CLP	116	-	-	-	-	116	-	-	116	-
			Several	Foreing	Inversora Aeronautica Argentina	-	US\$	102	-	-	-	-	102	-	-	102	-
Total								679,364	502,638	1,438,934	768,999	1,297,002	4,686,937			4,286,010	

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

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

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

At the end of 2010, the Company had provided US\$ 78.5 million in derivative margin guarantees, for cash and stand-by letters of credit. At the end of December 31, 2011, the Company had provided US\$ 117.2 million in guarantees for cash and stand-by letters of credit. The increase was due to the maturity and acquisition of fuel and interest rate contracts, rising fuel prices and falling interest rates.

3.2. Capital risk management

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

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

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

Currently the Company's strategy, which has not changed since 2007, has consisted of maintaining a leverage ratio of between 70% and 80% and an international credit rating of higher than BBB- (the minimum required for being considered investment grade). The leverage ratios as of December 31, 2011, and December 31, 2010, were as follows:

	As of December 31, <u>2011</u>	As of December 31, <u>2010</u>
	ThUS\$	ThUS\$
Total financial loans	3,788,272	3,259,666
Last twelve months Operating lease payment x 8	1,393,576	788,704
Less:		
Cash and marketable securities	<u>(472,499)</u>	<u>(737,093)</u>
Total net adjusted debt	<u>4,709,349</u>	<u>3,311,277</u>
Net Equity	1,445,324	1,296,814
Cash flow hedging reserve	140,556	107,050
Adjusted equity	<u>1,585,880</u>	<u>1,403,864</u>
Total adjusted debt and equity	<u><u>6,295,229</u></u>	<u><u>4,715,141</u></u>
Adjusted leverage	74.8%	70.2%

3.3. Estimates of fair value

At December 31, 2011, the Company maintained financial instruments that should be recorded at fair value. These include:

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

The following table shows the classification of financial instruments at fair value at December 31, 2011 depending on the level of information used in the assessment:

	Fair value	Fair value measurements using values		
	At December 31, <u>2011</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Assets				
Short-term mutual funds	156,334	156,334	-	-
Fair value of interest rate derivatives	73	-	73	-
Fair value of fuel derivatives	30,615	-	30,615	-
Fair value of foreign currency derivatives	631	-	631	-
Private investment funds	60,733	60,733	-	-
Liabilities				
Fair value of interest rate derivatives	159,436	-	159,436	-
Fair value of foreign currency derivatives	884	-	884	-
Interest rate derivatives not accounted for as hedging instruments	14,766	-	14,766	-

Additionally, at December 31, 2011, the Company has financial instruments which are not recorded at fair value. In order to meet the disclosure requirements of fair values, the Company has valued these instruments as shown in the table below:

	<u>As of December 31, 2011</u>		<u>As of December 31, 2010</u>	
	<u>Book</u>	<u>Fair</u>	<u>Book</u>	<u>Fair</u>
	<u>value</u>	<u>value</u>	<u>value</u>	<u>value</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalents				
Cash on hand	4,605	4,605	3,857	3,857
Bank balance	17,013	17,013	24,432	24,432
Time Deposits	196,455	196,455	406,143	406,143
Other financial assets				
Domestic and foreign bonds	37,359	40,250	47,184	50,294
Other financial assets	120,225	120,225	80,836	80,836
Trade and other accounts receivable				
non-current	544,897	544,897	489,233	489,233
Accounts receivable from related entities	838	838	50	50
Other financial liabilities	3,516,307	3,665,661	2,945,294	2,969,939
Trade and other accounts payables,	531,481	531,481	500,694	500,694
Accounts payable to related entities	367	367	184	184
Accounts payable, non-current	307,965	307,965	368,372	368,372

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

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

NOTE 4 - ACCOUNTING ESTIMATES AND JUDGMENTS

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

- (a) The evaluation of possible impairment losses for certain assets.
- (b) The useful lives and residual values of fixed and intangible assets.
- (c) The criteria employed in the valuation of certain assets.
- (d) Air tickets sold that are not actually used.
- (e) The calculation of deferred income at the year end, corresponding to the valuation of kilometers credited to holders of the Lan Pass loyalty card which have not yet been used.
- (f) The need for provisions and where required, the determination of their values.
- (g) The recoverability of deferred tax assets.

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

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

NOTE 5 – SEGMENTAL INFORMATION

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

An operating segment is defined as a component of an entity on which financial information is held separately and which is evaluated regularly by the senior management in making decisions with respect to the assignment of resources and evaluation of results.

The Company has determined that it has only one operating segment: air transportation.

	Air transport segment		
	For the year ended		
	December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	ThUS\$	ThUS\$	ThUS\$
Income from ordinary activities and other operating income	5,718,244	4,523,328	3,655,513
Interest income	14,453	14,946	18,183
Interest expense	(139,077)	(155,279)	(153,109)
Total net interest expense	<u>(124,624)</u>	<u>(140,333)</u>	<u>(134,926)</u>
Depreciation and amortization	(396,475)	(336,491)	(304,062)
Segment profit	320,197	419,702	231,126
Earnings on investments	458	132	315
Expenses for income tax	(61,789)	(81,107)	(44,487)
Assets of segment	7,648,659	6,785,897	5,771,972
Investments in associates	991	593	1,236
Purchase of non-monetary assets	1,394,640	1,048,394	555,279

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

	For the year ended		
	December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	ThUS\$	ThUS\$	ThUS\$
Peru	558,227	554,072	458,384
Argentina	616,270	496,546	404,795
USA	1,140,006	858,630	680,179
Europe	523,749	447,702	343,819
Colombia	369,102	85,309	76,574
Chile	1,423,956	1,239,350	1,004,291
Others (*)	1,086,934	841,719	687,471
Total (**)	<u>5,718,244</u>	<u>4,523,328</u>	<u>3,655,513</u>

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.

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

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

NOTE 6 – CASH AND CASH EQUIVALENTS

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Cash on hand	4,605	3,857
Bank balances	17,013	24,432
Time deposits	196,455	406,143
Mutual funds	<u>156,334</u>	<u>196,620</u>
Total	<u>374,407</u>	<u>631,052</u>

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

<u>Currency</u>	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
US Dollar	158,313	194,212
Chilean peso (*)	148,274	368,360
Euro	5,688	7,844
Argentine peso	20,020	11,230
Brazilian real	6,616	4,759
Colombian peso	7,668	10,231
Other currencies	<u>27,828</u>	<u>34,416</u>
Total	<u>374,407</u>	<u>631,052</u>

(*) The Company entered into currency derivative contracts (forward exchange controls) for ThUS\$ 110,339 at December 31, 2011 (ThUS\$ 169,357 at December 31, 2010), for conversion into dollars of investments in Chilean pesos, currency derivative contracts (cross currency swaps) for ThUS\$ 0 at December 31, 2011 (ThUS\$ 30,258 at December 31, 2010), for conversion into dollars of investment in Unidades de Fomento (“UF”).

In Venezuela, effective 2003, the authorities decreed that all remittances abroad should be approved by the Currency Management Commission (CADIVI). Despite having free availability of bolivars in Venezuela, the Company has certain restrictions for freely remitting these funds outside Venezuela. At December 31, 2011 the amount subject to such restrictions in dollar terms is ThUS\$ 23,914 (ThUS\$ 26,738 at December 31, 2010).

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

NOTE 7 - FINANCIAL INSTRUMENTS

7.1. Financial instruments by category

As of December 31, 2011

<u>Assets</u>	<u>Held to maturity</u>	<u>Loans and accounts receivable</u>	<u>Hedging derivatives</u>	<u>Held to trading</u>	<u>Designated as at fair value through profit and loss on initial recognition</u>	<u>Total</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalents	-	218,073	-	156,334	-	374,407
Other financial assets (*)	37,867	119,717	31,319	-	60,733	249,636
Trade and other current accounts receivable	-	537,406	-	-	-	537,406
Current accounts receivable from related parties	-	838	-	-	-	838
Non-current accounts receivable	-	7,491	-	-	-	7,491
Total	37,867	883,525	31,319	156,334	60,733	1,169,778

<u>Liabilities</u>	<u>Other Financial liabilities</u>	<u>Hedging derivatives</u>	<u>Held to trading</u>	<u>Total</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other financial liabilities	3,516,307	160,320	14,766	3,691,393
Trade and other accounts payables	531,481	-	-	531,481
Current accounts payable to related parties	367	-	-	367
Non-current accounts payable	307,965	-	-	307,965
Total	4,356,120	160,320	14,766	4,531,206

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

As of December 31, 2010

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

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

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

7.2. Financial instruments by currency

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
a) Assets		
Cash and cash equivalents	374,407	631,052
US Dollar	158,313	194,212
Chilean Peso	148,274	368,360
Euro	5,688	7,844
Argentine Peso	20,020	11,230
Brazilian Real	6,616	4,759
Colombian Peso	7,668	10,231
Others	27,828	34,416
Other financial Assets	249,636	267,038
US Dollar	241,008	255,808
Brazilian Real	3,066	6,731
Colombian Peso	4,175	2,917
Others	1,387	1,582
Trade and other current accounts receivable	537,406	481,350
US Dollar	354,972	361,570
Chilean Peso	63,818	28,606
Euro	8,266	8,429
Argentine Peso	24,879	6,702
Brazilian Real	35,467	31,329
Australian Dollar	5,567	5,588
Colombian Peso	34,583	27,156
Others	9,854	11,970
Non-current accounts receivable	7,491	7,883
US Dollar	9	9
Chilean Peso	7,422	7,864
Others	60	10
Current accounts receivable from related parties	838	50
US Dollar	29	29
Chilean Peso	809	21
Total financial assets	1,169,778	1,387,373
US Dollar	754,331	811,628
Chilean Peso	220,323	404,851
Euro	13,954	16,273
Argentine Peso	44,899	17,932
Brazilian Real	45,149	42,819
Australian Dollar	5,567	5,588
Colombian Peso	46,426	40,304
Others	39,129	47,978

b) Liabilities

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

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Trade accounts receivable	474,852	435,576
Other accounts receivable	90,570	75,734
Total trade and other accounts receivable	<u>565,422</u>	<u>511,310</u>
Less: Allowance for impairment loss	<u>(20,525)</u>	<u>(22,077)</u>
Total net trade and accounts receivable	<u>544,897</u>	<u>489,233</u>
Less: non-current portion – accounts receivable	<u>(7,491)</u>	<u>(7,883)</u>
Trade and other accounts receivable, current	<u><u>537,406</u></u>	<u><u>481,350</u></u>

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

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Up to 3 months	17,138	12,506
Between 3 and 6 months	<u>6,256</u>	<u>11,114</u>
Total	<u><u>23,394</u></u>	<u><u>23,620</u></u>

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Judicial and pre-judicial collection	9,626	10,586
Debtors under pre-judicial collection process	<u>4,306</u>	<u>5,259</u>
Total	<u><u>13,932</u></u>	<u><u>15,845</u></u>

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

Currency	As of	As of
	December 31, <u>2011</u>	December 31, <u>2010</u>
	ThUS\$	ThUS\$
US Dollar	354,981	361,579
Chilean Peso	71,240	36,470
Euro	8,266	8,429
Argentine Peso	24,879	6,702
Brazilian Real	35,467	31,329
Australian Dollar	5,567	5,588
Colombian peso	34,583	27,156
Other	9,914	11,980
Total	<u>544,897</u>	<u>489,233</u>

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

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

The movement in the allowance for impairment loss of trade accounts and other accounts receivables between January 01, 2010 and December 31, 2011 is as follows:

	<u>ThUS\$</u>
As of January 1, 2010	(23,817)
Write-offs	5,039
(Increase) decrease in allowance	(3,299)
Balance as of December 31, 2010	<u>(22,077)</u>
As of January 1, 2011	(22,077)
Write-offs	4,060
(Increase) decrease in allowance	(2,508)
Balance as of December 31, 2011	<u>(20,525)</u>

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

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

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

	As of December 31, 2011			As of December 31, 2010		
	<u>Gross exposure</u> ThUS\$	<u>Gross Impaired exposure</u> ThUS\$	<u>Exposure net of risk concentrations</u> ThUS\$	<u>Gross exposure</u> ThUS\$	<u>Gross Impaired exposure</u> ThUS\$	<u>Exposure net of risk concentrations</u> ThUS\$
Trade accounts receivable	474,852	(20,525)	454,327	435,576	(22,077)	413,499
Other accounts receivable	90,570	-	90,570	75,734	-	75,734

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

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

(a) Accounts Receivable

<u>Tax No.</u>	<u>Related party</u>	<u>Relationship</u>	<u>Country of origin</u>	<u>As of December 31, 2011</u>	<u>As of December 31, 2010</u>	<u>Currency</u>	<u>Transaction deadlines</u>	<u>Nature of transaction</u>
				ThUS\$	ThUS\$			
96.810.370-9	Inversiones Costa Verde Ltda y CPA	Controlling shareholder	Chile	19	-	CLP	30 to 45 Days	Monetary
96.778.310-2	Concesionaria Chucumata S.A.	Associate	Chile	-	4	CLP	30 to 45 Days	Monetary
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	-	2	CLP	30 to 45 Days	Monetary
78.591.370-1	Bethia S.A. y Filiales	Others related parties	Chile	758	-	CLP	30 to 45 Days	Monetary
87.752.000-5	Granja Marina Tornagaleones S.A.	Others related parties	Chile	32	15	CLP	30 to 45 Days	Monetary
96.812.280-0	San Alberto S.A. y Filiales	Others related parties	Chile	29	29	US\$	30 to 45 Days	Monetary
	Total current assets			<u>838</u>	<u>50</u>			

(b) Accounts payable

<u>Tax No.</u>	<u>Related party</u>	<u>Relationship</u>	<u>Country of origin</u>	<u>As of December 31, 2011</u> ThUS\$	<u>As of December 31, 2010</u> ThUS\$	<u>Currency</u>	<u>Transaction deadlines</u>	<u>Nature of transaction</u>
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	-	74	CLP	30 to 45 Days	Monetary
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	147	110	US\$	30 to 45 Days	Monetary
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	2	-	CLP	30 to 45 Days	Monetary
78.591.370-1	Bethia S.A. y Filiales	Other related parties	Chile	116	-	CLP	30 to 45 Days	Monetary
Foreign	Inversora Aeronáutica Argentina	Other related parties	Argentina	102	-	US\$	30 to 45 Days	Monetary
Total current liabilities				367	184			

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

NOTE 10 – INVENTORIES

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

	As of December 31, 2011 <u>ThUS\$</u>	As of December 31, 2010 <u>ThUS\$</u>
Technical stock	57,836	40,625
Non-technical stock	<u>14,951</u>	<u>12,568</u>
	<u>72,787</u>	<u>53,193</u>

The items included in this heading are spare parts and materials that will be used mainly in consumption in in-flight and maintenance services (provided to the Company and third parties), which are valued at average cost, net of provision for obsolescence that as of December 31, 2011 amounts to ThUS\$ 1,685 (ThUS\$ 3,075 as of December 31, 2010). The resulting amounts do not exceed the respective net realizable values.

As of December 31, 2011, the Company recorded ThUS\$ 41,213 (ThUS\$ 32,915 as of December 31, 2010) within the income statement, mainly due to in-flight consumption and maintenance, which forms part of cost of sales.

NOTE 11 – OTHER FINANCIAL ASSETS

The composition of other financial assets is as follows:

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Current		
(a) Other financial assets	196,484	165,712
(b) Hedging asset	<u>31,319</u>	<u>79,739</u>
Total Current	<u><u>227,803</u></u>	<u><u>245,451</u></u>
Non-current		
(a) Other financial assets	21,833	21,165
(b) Hedging assets	<u>-</u>	<u>422</u>
Total non-current	<u><u>21,833</u></u>	<u><u>21,587</u></u>

a) Other financial assets

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Current		
Private investment Funds	60,733	58,857
Domestic and Foreign bonds	37,359	47,184
Guarantees for margins of derivatives	79,171	39,868
Deposits in guarantee (aircraft)	11,657	12,030
Other guarantees given	<u>7,564</u>	<u>7,773</u>
Total current	<u><u>196,484</u></u>	<u><u>165,712</u></u>
Non-current		
Deposits in guarantee (aircraft)	15,498	15,000
Other guarantees given	5,827	5,658
Other investments	<u>508</u>	<u>507</u>
Total non-current	<u><u>21,833</u></u>	<u><u>21,165</u></u>
Total other financial assets	<u><u>218,317</u></u>	<u><u>186,877</u></u>

b) Hedging assets

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Current		
Interest accrued since last payment date of currency Swap	-	3,691
Cash-flow hedge of interest-rate risk	73	-
Cash-flow hedge of currency risk	631	30,234
Cash-flow hedge of fuel-price risk	30,615	45,814
Total current	<u>31,319</u>	<u>79,739</u>
Non-current		
Cash-flow hedge of interest-rate risk	-	422
Total non-current	-	422
Total hedging assets	<u>31,319</u>	<u>80,161</u>

Foreign currency derivatives include the fair value of Forward and Cross Currency Swaps and forward exchange contracts.

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

NOTE 12 – OTHER NON-FINANCIAL ASSETS

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Current		
a) Advance Payments	25,501	17,648
b) Other assets	<u>1,159</u>	<u>1,172</u>
Total current	<u><u>26,660</u></u>	<u><u>18,820</u></u>
Non-Current		
a) Advance Payments	11,189	8,752
b) Other assets	<u>46,974</u>	<u>23,756</u>
Total non-current	<u><u>58,163</u></u>	<u><u>32,508</u></u>

a) Advance payments

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Current		
Aircraft insurance and other	7,954	6,459
Aircraft leases	13,196	7,343
Handling and ground handling services	2,941	-
Others	<u>1,410</u>	<u>3,846</u>
Total current	<u><u>25,501</u></u>	<u><u>17,648</u></u>
Non-Current		
Aircraft leases	11,189	4,984
Handling and ground handling services	-	2,971
Others	<u>-</u>	<u>797</u>
Total non-current	<u><u>11,189</u></u>	<u><u>8,752</u></u>
Total advance payments	<u><u>36,690</u></u>	<u><u>26,400</u></u>

b) Other assets

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Current		
Others	1,159	1,172
Total current	<u>1,159</u>	<u>1,172</u>
Non-current		
Recoverable taxes	42,958	23,343
Others	4,016	413
Total non-current	<u>46,974</u>	<u>23,756</u>
Total other assets	<u><u>48,133</u></u>	<u><u>24,928</u></u>

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

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Engines	2,204	2,204
Inventories on consignment	527	748
Aircraft	1,537	1,537
Scrapped aircraft	365	970
Rotables	<u>28</u>	<u>38</u>
Total	<u><u>4,661</u></u>	<u><u>5,497</u></u>

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

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

Item balances are shown net of provision, which as of December 31, 2011 amounted to ThUS\$ 5,386 (ThUS\$ 5,212 at December 31, 2010).

The Company has no discontinued operations as of December 31, 2011.

NOTE 14 - INVESTMENTS IN SUBSIDIARIES

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

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

As of December 31, 2011

	<u>Assets</u>	<u>Liabilities</u>
	ThUS\$	ThUS\$
Current	493,662	618,360
Non-current	<u>1,498,840</u>	<u>917,171</u>
Total	<u><u>1,992,502</u></u>	<u><u>1,535,531</u></u>

As of December 31, 2010

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

For the year ended
December 31,

	<u>2011</u>	<u>2010</u>
	ThUS\$	ThUS\$
Total operating revenues	2,619,157	1,931,998
Total expenses	<u>(2,577,685)</u>	<u>(1,849,438)</u>
Total net income	<u><u>41,472</u></u>	<u><u>82,560</u></u>

Significant subsidiaries detailed as of December 31, 2011

<u>Name of significant subsidiary</u>	<u>Country of incorporation</u>	<u>Functional currency</u>	<u>% Ownership</u>	<u>Nature and scope of significant restrictions on transferring funds to controller</u>
Lan Perú S.A.	Perú	US\$	69.97858	Without significant restrictions
Lan Cargo S.A.	Chile	US\$	99.89803	Without significant restrictions
Lan Argentina S.A.	Argentina	ARS	94.99055	Without significant restrictions
Transporte Aéreo S.A.	Chile	US\$	99.89804	Without significant restrictions
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	Ecuador	US\$	71.94990	Without significant restrictions
Aerovías de Integración Regional, AIRES S.A.	Colombia	COP	98.21089	Without significant restrictions

Summary financial information of significant subsidiaries

<u>Name of significant subsidiary</u>	<u>Statement of financial position as of December 31, 2011</u>						<u>Results for the year ended December 31, 2011</u>	
	<u>Total Assets</u> ThUS\$	<u>Current Assets</u> ThUS\$	<u>Non-current Assets</u> ThUS\$	<u>Total Liabilities</u> ThUS\$	<u>Current Liabilities</u> ThUS\$	<u>Non-current Liabilities</u> ThUS\$	<u>Revenue</u> ThUS\$	<u>Net Income</u> ThUS\$
Lan Perú S.A.	139,888	124,485	15,403	128,979	128,025	954	916,861	920
Lan Cargo S.A.	765,829	188,937	576,892	343,799	122,450	221,349	258,298	57,140
Lan Argentina S.A.	136,579	108,561	28,018	114,037	112,555	1,482	438,137	(1,972)
Transporte Aéreo S.A.	348,943	237,627	111,316	116,663	26,332	90,331	370,697	26,146
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	71,598	42,369	29,229	61,102	58,726	2,376	278,039	2,303
Aerovías de Integración Regional, AIRES S.A.	134,983	76,936	58,047	80,271	70,112	10,159	282,493	(25,860)

Significant subsidiaries detailed as of December 31, 2010

<u>Name of significant subsidiary</u>	<u>Country of incorporation</u>	<u>Functional currency</u>	<u>% Ownership</u>	<u>Nature and scope of significant restrictions on transferring funds to controller</u>
Lan Perú S.A.	Perú	US\$	69.97858	Without significant restrictions
Lan Cargo S.A.	Chile	US\$	99.89803	Without significant restrictions
Lan Argentina S.A.	Argentina	ARS	94.99055	Without significant restrictions
Transporte Aéreo S.A.	Chile	US\$	99.89804	Without significant restrictions
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	Ecuador	US\$	71.94990	Without significant restrictions

Summary financial information of significant subsidiaries

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

NOTE 15 - EQUITY ACCOUNTED INVESTMENTS

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

As of December 31, 2011

	<u>Assets</u> ThUS\$	<u>Liabilities</u> ThUS\$
Current	2,649	721
Non-current	269	115
Total	2,918	836

As of December 31, 2010

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

	For the year ended December 31,	
	<u>2011</u> ThUS\$	<u>2010</u> ThUS\$
Total operating revenues	2,896	2,408
Total expenses	(1,902)	(2,162)
Sum of net income	994	246

As an investment in associates, the Company has shown its holdings in the following companies: Austral Sociedad Concesionaria S.A., Lufthansa Lan Technical Training S.A. and Concesionaria Chucumata S.A. The Company made no investments in associates during the year ended December 31, 2011.

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

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

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

The movement of investments in associates between January 1, 2010 and December 31, 2011 is as follows:

	<u>ThUS\$</u>
Opening balance as of January 1, 2010	<u>1,236</u>
Equity accounted earnings	132
Other reductions, investments in associated entities	(665)
Dividends received	<u>(110)</u>
Total changes in investments in associated entities	<u>(643)</u>
Balance as of December 31, 2010	<u><u>593</u></u>
Opening balance as of January 1, 2011	<u>593</u>
Equity accounted earnings	502
Dividends received	(79)
Other reductions, investments in associated entities	(25)
Total changes in investments in associated entities	<u>398</u>
Balance as of December 31, 2011	<u><u>991</u></u>

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

NOTE 16 - INTANGIBLE ASSETS OTHER THAN GOODWILL

The details of intangible assets are as follows:

<u>Classes of intangible assets (net)</u>	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Computer software	64,519	45,183
Other assets	404	566
Total	64,923	45,749
<u>Classes of intangible assets (gross)</u>	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Computer software	112,881	83,875
Other assets	808	808
Total	113,689	84,683

The movement in software and other assets between January 1, 2010 and December 31, 2011 is as follows:

	Computer software <u>Net</u> ThUS\$	Other assets <u>Net</u> ThUS\$	<u>Total</u> ThUS\$
Opening balance as of January 1, 2010	34,087	727	34,814
Additions	20,915	-	20,915
Acquisitions by business combination	154	-	154
Withdrawals	(779)	-	(779)
Amortization	(9,194)	(161)	(9,355)
Balance as of December 31, 2010	45,183	566	45,749
Opening balance as of January 1, 2011	45,183	566	45,749
Additions	29,190	-	29,190
Withdrawals	(184)	-	(184)
Amortization	(9,670)	(162)	(9,832)
Balance as of December 31, 2011	64,519	404	64,923

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

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

The amortization of each year is shown in the consolidated statement of income in administrative expenses. The accumulated amortization of computer programs as of December 31, 2011 amounts to ThUS\$ 48,362 (ThUS\$ 38,692 as of December 31, 2010). The accumulated amortization of other identifiable intangible assets as of December 31, 2011 amounts to ThUS\$ 404 (ThUS\$ 242 as of December 31, 2010).

NOTE 17 – GOODWILL

The goodwill represents the excess of cost of acquisition over the fair value of the participation of the Company in the identifiable net assets of the subsidiary at the acquisition date. Goodwill at December 31, 2011 amounted to ThUS\$ 163,777 (ThUS\$ 157,994 at December 31, 2010)

At December 31, 2011, the Company performed an impairment test based on the value in use and no impairment was identified. The testing is done at least once per year.

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

The movement of goodwill from January 1, 2010 to December 31, 2011, is as follows:

	<u>ThUS\$</u>
Opening balance as of January 1, 2010	63,793
Additions (1)	94,224
Increase (decrease) due to exchange rate differences	(23)
Closing balance as of December 31, 2010	<u>157,994</u>
Opening balance as of January 1, 2011	157,994
Additions (2)	6,736
Amendment initial recognition (3)	(820)
Increase (decrease) due to exchange rate differences	(133)
Closing balance as of December 31, 2011	<u>163,777</u>

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

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

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

NOTE 18 - PROPERTY, PLANT AND EQUIPMENT

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

	Gross Book Value		Acumulated depreciation		Net Book Value	
	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Construction in progress	1,087,563	715,603	-	-	1,087,563	715,603
Land	35,673	35,538	-	-	35,673	35,538
Buildings	101,123	101,181	(23,185)	(21,060)	77,938	80,121
Plant and equipment	5,380,663	4,816,723	(1,238,678)	(1,153,587)	4,141,985	3,663,136
Information technology equipment	89,678	83,711	(67,087)	(65,112)	22,591	18,599
Fixed installations and accessories	64,936	52,954	(29,838)	(25,951)	35,098	27,003
Motor vehicles	3,714	3,269	(2,077)	(1,979)	1,637	1,290
Leasehold improvements	94,485	87,168	(62,986)	(43,048)	31,499	44,120
Other property, plants and equipment	832,772	646,236	(338,774)	(283,216)	493,998	363,020
Total	7,690,607	6,542,383	(1,762,625)	(1,593,953)	5,927,982	4,948,430

The movement in the different categories of property, plant and equipment from January 1, 2010 to December 31, 2011 is shown below:

(a) As of December 31, 2010

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

(b) As of December 31, 2011

	Construction in progress ThUS\$	Land ThUS\$	Buildings Net ThUS\$	Plant and equipment Net ThUS\$	Information technology equipment Net ThUS\$	Fixed installations & accessories Net ThUS\$	Motor vehicles Net ThUS\$	Leasehold improvements Net ThUS\$	Other property, plant and equipment Net ThUS\$	Property, Plant and equipment Net ThUS\$
Opening balance as of January 1, 2011	715,603	35,538	80,121	3,663,136	18,599	27,003	1,290	44,120	363,020	4,948,430
Additions	29,898	-	1,111	1,028,568	11,885	6,663	543	6,555	19,072	1,104,295
Acquisitions through business combination	-	-	-	-	-	-	-	-	16	16
Disposals	-	-	(2,681)	(109,936)	(8)	-	(6)	-	(537)	(113,168)
Transfers (to) from non-current assets (or disposal groups) classified as Held for Sale	(127)	-	-	(112)	(1,195)	(588)	(1)	-	(115)	(2,138)
Retirements	(150)	-	(4)	(4,817)	(85)	(23)	(17)	-	(332)	(5,428)
Depreciation	-	-	(3,302)	(265,062)	(6,354)	(3,602)	(215)	(19,938)	(30,608)	(329,081)
Increases (decreases) due to exchanges differences	(852)	-	(95)	(771)	(63)	(54)	18	-	(95)	(1,912)
Other increases (decreases)	343,191	135	2,788	(169,021)	(188)	5,699	25	762	143,577	326,968
Changes, total	371,960	135	(2,183)	478,849	3,992	8,095	347	(12,621)	130,978	979,552
Closing balance as of December 31, 2011	1,087,563	35,673	77,938	4,141,985	22,591	35,098	1,637	31,499	493,998	5,927,982



(c) Composition of the fleet

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

Aircraft	Model	As of December 31, <u>2011</u>	As of December 31, <u>2010</u>
Boeing 767	300ER	21	18
Boeing 767	300F	8	8
Boeing 767	200ER (*)	1	1
Airbus A318	100	10	15
Airbus A319	100	24	20
Airbus A320	200	33	24
Airbus A340	300	<u>4</u>	<u>4</u>
Total		<u>101</u>	<u>90</u>

(*) Leased to Aerovías de México S.A.

Operating leases:

Aircraft	Model	As of December 31, <u>2011</u>	As of December 31, <u>2010</u>
Boeing 767	300ER	10	10
Boeing 767	300F	4	3
Boeing 777	Freighter	2	2
Airbus A320	200	9	5
Airbus A340	300	1	1
Boeing 737	700	9	9
Bombardier	Dhc8-200	10	11
Bombardier	Dhc8-400	<u>4</u>	<u>4</u>
Total		<u>49</u>	<u>45</u>
Total fleet		<u>150</u>	<u>135</u>

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

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

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

The depreciation charged to income in the period ended December 31, 2011, which is included in the consolidated statement of income, amounts to ThUS\$ 329,081 (ThUS\$ 296,613 for the period ended December 31, 2010). Depreciation charges for the year are recognized in Cost of Sales and Administrative Expenses in the consolidated statement of income.

e) Additional information regarding property, plant and equipment:

i) Property, plant and equipment pledged as guarantee:

In the year ended December 31, 2011 direct guarantees were added for sixteen aircraft, nine of them corresponding to the Airbus A320-200 fleet, four to the Airbus A319-100 fleet and three to Boeing B767-300 fleet. Moreover, in the second quarter of 2011 the Company sold three aircraft Airbus A318-100 fleet and in the third quarter two more of the same aircraft A318-100 fleet. Additionally, during the first quarter 2011, the Company sold its participation in the permanent establishments Cernicalo Leasing LLC and Petrel Leasing LLC. Therefore the Company eliminated direct guarantees associated with five aircraft Airbus A318-100 and three aircraft Boeing 767-300 (two freighter and one passenger aircrafts).

Description of property, plant and equipment pledged as guarantee:

Creditor of guarantee	Assets committed	Fleet	As of December 31, 2011		As of December 31, 2010	
			Existing Debt ThUS\$	Book Value ThUS\$	Existing Debt ThUS\$	Book Value ThUS\$
Wilmington Trust Company	Aircraft and engines	Boeing 767	1,032,921	1,305,915	1,043,290	1,304,699
		Boeing 777	13,750	24,664	18,088	25,915
BNP Paribas	Aircraft and engines	Airbus A318	187,705	239,530	299,422	359,944
		Airbus A319	390,614	521,829	297,320	370,476
		Airbus A320	695,308	855,214	407,275	478,082
Credite Agricole (*)	Aircraft and engines	Airbus A319	93,019	158,355	108,803	178,342
		Airbus A320	34,530	149,486	58,236	172,426
		Airbus A340	54,491	215,978	89,378	234,892
Total direct guarantee			<u>2,502,338</u>	<u>3,470,971</u>	<u>2,321,812</u>	<u>3,124,776</u>

(*) Calyon creditor of guarantee renamed Credite Agricole

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

Additionally, there are indirect guarantees related to assets recorded in property, plant and equipment whose total debt at December 31, 2011 amounted to ThUS \$ 316,859 (ThUS \$ 227,218 at December 31, 2010). The book value of assets with indirect guarantees as of December 31, 2011 amounts to ThUS\$ 504,355 (ThUS\$ 328,838 as of December 31, 2010).

ii) Commitments and others

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Gross book value of fully depreciated property, plant and equipment still in use	43,626	57,612
Commitments for the acquisition of aircraft	14,500,000	12,350,000

In December 2009, the Company signed a purchase commitment with Airbus for the purchase of 30 aircraft of the A320 family with deliveries between 2011 and 2016. Later, in December 2010 the Company made another commitment to the manufacturer for the purchase of 50 A320 family aircraft with deliveries between 2012 and 2016. Additionally, in June 2011, the Company signed a contract for 20 additional aircraft of the A320 NEO family with deliveries between 2017 and 2018.

With regards to the above, as of December 31, 2011, and as a result of different aircraft purchase contracts signed with Airbus S.A.S., there remain 90 Airbus aircraft of the A320 family to be delivered between 2012 and 2018. The approximate amount is ThUS\$ 7,000,000, according to the manufacturer's price list. Additionally, the Company has active purchase options for 4 A320 NEO aircraft.

In addition, purchase contracts were signed with The Boeing Company in February, May and December 2011 for 3, 5 and 2 B767-300 aircraft, respectively.

As of December 31, 2011 and as a result of different aircraft contracts signed with The Boeing Company, 13 B767-300 aircraft remain to be delivered between 2012 and 2013, 2 B77-Freighter aircraft for delivery in 2012 and 26 B787 Dreamliner, aircraft with delivery dates from 2012. The approximate amount is ThUS\$ 7,500,000, according to the manufacturer's price list. In addition, the Company has purchase options over 1 B777- Freighter aircraft and 15 B787 Dreamliner aircraft.

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

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

		For the year ended December 31,	
		<u>2011</u>	<u>2010</u>
Average rate of capitalization of capitalized interest costs	%	3.51	4.31
Costs of capitalized interest	ThUS\$	33,342	18,400



iv) Financial leases

The detail of the main financial leases is as follows:

Lessor	Aircraft	Model	As of December 31, <u>2011</u>	As of December 31, <u>2010</u>
Bluebird Leasing LLC	Boeing 767	300F	2	2
Eagle Leasing LLC	Boeing 767	300ER	1	2
Seagull Leasing LLC	Boeing 767	300F	1	1
Cernicalo Leasing LLC	Boeing 767	300F	2	-
Petrel Leasing LLC	Boeing 767	300ER	1	-
Linnnet Leasing Limited	Airbus A320	200	4	4
Total			<u>11</u>	<u>9</u>

Leasing contracts where the Company acts as the lessee of aircrafts establish a 12 year term and quarterly payments of obligations.

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

Fixed assets acquired under financial leases are classified as Other property, plant and equipment. As of December 31, 2011, the Company had eleven aircraft as financial leases (nine aircraft as of December 31, 2010).

In the year ended December 31, 2011, due to the sale of its participation in the permanent establishments Cernicalo Leasing LLC and Petrel Leasing LLC, the Company increased its number of aircraft on lease by three Boeing 767-300 (two freighter and one passenger aircrafts). Therefore, these aircraft were reclassified from the Plant and equipment category to the category other property plant and equipment. Additionally, in November 2011 the Company exercised a purchase option for a B767-300 freighter belongs to the Eagle Leasing LLC, which was reclassified from Other property, plant and equipment to Plant and equipment.

The book value of assets under financial leases as of December 31, 2011 amounts to ThUS\$ 464,082 (ThUS\$ 328,838 as of December 31, 2010).



The minimum payments under financial leases are as follows:

As of December 31, 2011

	<u>Gross Value</u> ThUS\$	<u>Interest</u> ThUS\$	<u>Present Value</u> ThUS\$
No later than one year	78,369	(7,622)	70,747
Between one and five years	207,365	(18,657)	188,708
Over five years	59,152	(2,078)	57,074
Total	<u>344,886</u>	<u>(28,357)</u>	<u>316,529</u>

As of December 31, 2010

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

NOTE 19 – INCOME TAXES

Deferred tax assets and liabilities are offset if there is a legal right to offset assets and liabilities for income taxes relating to the same tax authority.

The balances of deferred taxes are as follows:

Concept	Assets		Liabilities	
	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Depreciation	(547)	(415)	338,741	290,254
Amortization	14,255	12,286	36,667	29,606
Provisions	7,036	8,128	48,681	23,017
Post-employment benefit obligations	865	622	(924)	(982)
Revaluation of financial instruments	-	-	(28,788)	(21,926)
Tax losses	35,300	13,229	-	-
Others	3,239	4,234	(24,752)	(7,957)
Total	<u>60,148</u>	<u>38,084</u>	<u>369,625</u>	<u>312,012</u>

Movements of deferred tax assets and liabilities from January 1, 2010 to December 31, 2011 are as follows:

(a) From January 1 to December 31, 2010

	<u>Beginning balance asset (liability)</u> ThUS\$	<u>Recognized in consolidated income</u> ThUS\$	<u>Recognized in comprehensive income</u> ThUS\$	<u>Incorporation by business combinations</u> ThUS\$	<u>Others</u> ThUS\$	<u>Ending balance asset (liability)</u> ThUS\$
Depreciation	(222,188)	(68,481)	-	-	-	(290,669)
Amortization	(22,453)	(5,948)	-	11,081	-	(17,320)
Provisions	(2,102)	(17,968)	-	5,181	-	(14,889)
Post-employment benefit obligations	1,183	(196)	-	617	-	1,604
Revaluation of financial instruments	18,891	-	3,035	-	-	21,926
Tax losses	5,013	(1,303)	-	9,519	-	13,229
Others	(8,311)	16,645	(120)	2,545	1,432	12,191
Total	<u>(229,967)</u>	<u>(77,251)</u>	<u>2,915</u>	<u>28,943</u>	<u>1,432</u>	<u>(273,928)</u>

(b) From January 1 to December 31, 2011

	Beginning balance <u>asset (liability)</u> ThUS\$	Recognized in consolidated <u>income</u> ThUS\$	Recognized in comprehensive <u>income</u> ThUS\$	Incorporation by business <u>combinations</u> ThUS\$	<u>Reclassification</u> ThUS\$	<u>Others</u> ThUS\$	<u>Sale of investment</u> ThUS\$	Ending balance <u>asset (liability)</u> ThUS\$
Depreciation	(290,669)	(48,614)	-	-	-	-	(5)	(339,288)
Amortization	(17,320)	(8,903)	-	3,811	-	-	-	(22,412)
Provisions	(14,889)	(26,368)	-	-	-	-	(388)	(41,645)
Post-employment benefit obligations	1,604	185	-	-	-	-	-	1,789
Revaluation of financial instruments	21,926	-	6,862	-	-	-	-	28,788
Tax losses	13,229	28,716	-	-	(6,645)	-	-	35,300
Others	12,191	16,542	1,846	-	-	(2,521)	(67)	27,991
Total	<u>(273,928)</u>	<u>(38,442)</u>	<u>8,708</u>	<u>3,811</u>	<u>(6,645)</u>	<u>(2,521)</u>	<u>(460)</u>	<u>(309,477)</u>

Deferred tax assets not recognized:	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Temporary differences	2,152	2,152
Tax losses	35	1,662
Total Deferred tax assets not recognized	<u>2,187</u>	<u>3,814</u>

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of ThUS\$ 35 (ThUS\$ 1,662 at December 31, 2010) in respect to losses amounting to ThUS\$ 103 (ThUS\$ 5,992 at December 31, 2010) that can be carried against future taxable income.

Expense (income) for deferred and current income taxes for the years ended at December 31, 2011 and December 31, 2010, respectively, are as follows:

	For the year ended December 31,	
	<u>2011</u> ThUS\$	<u>2010</u> ThUS\$
Expense for current income tax		
Current tax expense	19,470	8,890
Adjustment to previous year's current tax	3,877	(3,153)
Other current tax expense (income)	-	(1,881)
Total current tax expense, net	<u>23,347</u>	<u>3,856</u>
Expense for deferred income taxes		
Deferred expense (income) for taxes related to the creation and reversal of temporary differences	40,051	75,284
Reduction (increase) in value of deferred tax assets	<u>(1,609)</u>	<u>1,967</u>
Total deferred tax expense, net	<u>38,442</u>	<u>77,251</u>
Income tax expense	<u>61,789</u>	<u>81,107</u>

Composition of income tax expense (income):

	For the year ended	
	December 31,	
	<u>2011</u>	<u>2010</u>
	ThUS\$	ThUS\$
Current tax expense, net, foreign	4,486	1,121
Current tax expense, net, Chile	18,861	2,735
Total current tax expense, net	<u>23,347</u>	<u>3,856</u>
Deferred tax expense, net, foreign	(20,876)	3,724
Deferred tax expense, net, Chile	59,318	73,527
Deferred tax expense, net, total	<u>38,442</u>	<u>77,251</u>
Income tax expense	<u>61,789</u>	<u>81,107</u>

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

	For the year ended	
	December 31,	
	<u>2011</u>	<u>2010</u>
	ThUS\$	ThUS\$
Tax expense using the legal rate	<u>76,410</u>	<u>85,138</u>
Tax effect of legal rate change	(10,571)	-
Tax effect of rates in other jurisdictions	1,916	1,491
Tax effect of non-taxable operating revenues	(11,094)	(4,089)
Tax effect of disallowable expenses	5,087	849
Tax effect of current period tax losses not recognized	-	1,967
Other increases (decreases)	41	(4,249)
Total adjustments to tax expense using the legal rate	<u>(14,621)</u>	<u>(4,031)</u>
Tax expense using the effective rate	<u>61,789</u>	<u>81,107</u>

Reconciliation of legal tax rate to effective tax rate:

	For the year ended	
	December 31,	
	<u>2011</u>	<u>2010</u>
	%	%
Legal tax rate	<u>20.00</u>	<u>17.00</u>
Effect of tax rates for legal rate change	(2.77)	-
Effect of tax rates in other jurisdictions	0.50	0.30
Effect of tax rate on non-taxable operating revenues	(2.89)	(0.82)
Effect of tax rate on disallowable expenses	1.33	0.17
Effect of tax rate on use of not-previously recognized tax losses	-	0.39
Other increase (decrease)	<u>0.01</u>	<u>(0.84)</u>
Total adjustment to the legal tax rate	<u>(3.82)</u>	<u>(0.80)</u>
Total effective tax rate	<u><u>16.18</u></u>	<u><u>16.20</u></u>

Deferred taxes related to items charged to net equity:

	For the year ended	
	December 31,	
	<u>2011</u>	<u>2010</u>
	ThUS\$	ThUS\$
Aggregate deferred taxation of components of other comprehensive income	8,708	2,915
Aggregate deferred taxation related to items charged to net equity	<u>(355)</u>	<u>(599)</u>
Total deferred taxes related to items charged to net equity	<u><u>8,353</u></u>	<u><u>2,316</u></u>

Deferred tax effects of the components of other comprehensive income:

As of December 31, 2011			
	Amount before	Income tax	Amount
	<u>Taxes</u>	expense	after
	ThUS\$	<u>(income)</u>	<u>Taxes</u>
	ThUS\$	ThUS\$	ThUS\$
Cash-flow hedges	40,368	(6,862)	33,506
Translation adjustment	10,864	(1,846)	9,018
		<u>(8,708)</u>	

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

NOTE 20 – OTHER FINANCIAL LIABILITIES

The composition of other financial liabilities is as follows:

	As of December 31, 2011 <u>ThUS\$</u>	As of December 31, 2010 <u>ThUS\$</u>
Current		
(a) Bank loans	537,334	495,261
(b) Other financial liabilities	4,907	5,321
(c) Hedge liabilities	<u>40,016</u>	<u>42,042</u>
Total Current	<u>582,257</u>	<u>542,624</u>
Non-current		
(a) Bank loans	2,978,973	2,450,033
(b) Other financial liabilities	9,859	14,427
(c) Hedge liabilities	<u>120,304</u>	<u>97,888</u>
Total Non-current	<u>3,109,136</u>	<u>2,562,348</u>

a) Interest bearing loans

Obligations with credit institutions and debt instruments:

	As of December 31, 2011 <u>ThUS\$</u>	As of December 31, 2010 <u>ThUS\$</u>
Current		
Bank loans	153,765	151,417
Guaranteed obligations	310,217	283,637
Financial leases	70,747	54,297
Other loans	<u>2,605</u>	<u>5,910</u>
Total current	<u>537,334</u>	<u>495,261</u>
Non-current		
Bank loans	247,725	146,884
Guaranteed obligations	2,159,055	2,023,666
Financial leases	245,782	173,274
Other loans	<u>326,411</u>	<u>106,209</u>
Total non-current	<u>2,978,973</u>	<u>2,450,033</u>
Total obligations with financial institutions	<u>3,516,307</u>	<u>2,945,294</u>

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

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
US Dollar	3,516,307	2,753,788
Chilean Peso (*)	-	187,101
Colombian Peso	-	4,405
Total	<u>3,516,307</u>	<u>2,945,294</u>

(*) At December 2010, the Company maintained cross currency swaps, securing the payment of ThUS\$ 128,056 of debt in dollars. At December 2011, these contracts were closed because the loans in Chilean pesos were paid and one of them converted to U.S. dollar.

b) Other financial liabilities

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Current		
Interest rate derivative not recognized as a hedge	<u>4,907</u>	<u>5,321</u>
Total current	<u>4,907</u>	<u>5,321</u>
Non-current		
Interest rate derivative not recognized as a hedge	<u>9,859</u>	<u>14,427</u>
Total non-current	<u>9,859</u>	<u>14,427</u>
Total other financial liabilities	<u>14,766</u>	<u>19,748</u>

c) Hedging liabilities

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Current		
Interest from the last date of interest rate swap	5,027	3,826
Fair value interest rate derivatives	34,105	24,522
Fair value of foreign currency derivatives	<u>884</u>	<u>13,694</u>
Total current	<u>40,016</u>	<u>42,042</u>
Non-current		
Fair value interest rate derivatives	120,304	90,666
Fair value of foreign currency derivatives	<u>-</u>	<u>7,222</u>
Total non-current	<u>120,304</u>	<u>97,888</u>
Total hedging liabilities	<u><u>160,320</u></u>	<u><u>139,930</u></u>

The foreign currency derivatives correspond to Cross Currency Swaps and forward exchange contracts.

Hedging operation

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Forward starting swaps (FSS) (1)	(19,703)	(54,670)
Interest rate options (2)	73	422
Interest rate swaps (3)	(139,733)	(64,344)
Cross currency swaps (CCIRS) (4)	-	26,703
Fuel collars (5)	19,016	17,782
Fuel swap (6)	11,599	28,032
Currency forward (7)	(253)	(13,694)

- (1) Covers the significant variations in cash flows associated with market risk implicit in the changes in the 3-month LIBOR interest rate for long-term loans incurred in the acquisition of aircraft to be produced from the future contract date. These contracts are recorded as cash flow hedges.
- (2) Covers the significant variations in cash flows associated with market risk implicit in the changes in the 3-month LIBOR interest rate for long-term loans incurred in the acquisition of aircraft. These contracts are recorded as cash flow hedges.
- (3) Covers the significant variations in cash flows associated with market risk implicit in the increases in the 3, 6 and 12 months LIBOR interest rates for long-term loans incurred in the acquisition of aircraft and bank loans. These contracts are recorded as cash flow hedges.
- (4) Covers the significant variations in cash flows associated with market risk implicit in the changes in the TAB 180 days interest rate and the US dollar-Chilean peso exchange rate. These contracts are recorded as cash flow hedges.
- (5) Covers significant variations in cash flows associated with market risk implicit in the changes in the price of future fuel purchases.
- (6) Covers the significant variations in cash flows associated with market risk implicit in the changes in the price of future fuel purchases.
- (7) Covers investments denominated in Chilean pesos to changes in the US Dollar - Chilean Peso exchange rate, with the aim of ensuring investment in dollars.

During the years presented, the Company only maintains cash flow hedges. In the case of fuel hedges, the cash flows subject to said hedges will impact results between 1 to 9 months from the consolidated statement of financial position date, whereas in the case of interest rate hedging, the hedges will impact results over the life of the related loans, which are valid for 12 years. With respect to interest and currency hedges, the impact on results will occur continuously throughout the life of the contract (3 years), while cash flows will occur quarterly. Finally, the hedges on

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

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

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

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

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

	For the year ended	
	December 31,	
	<u>2011</u>	<u>2010</u>
	ThUS\$	ThUS\$
Debit (credit) recognized in comprehensive income during the year	(40,368)	(17,855)
Debit (credit) transferred from net equity to income during the year	62	(35,010)

NOTE 21 - TRADE AND OTHER ACCOUNTS PAYABLES

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Current		
(a) Trade and other accounts payable	531,481	500,694
(b) Accrued liabilities at the reporting date	113,605	144,877
Total trade and other accounts payables	<u>645,086</u>	<u>645,571</u>

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Trade creditors	410,533	389,568
Leasing obligations	18,849	26,474
Other accounts payable (*)	102,099	84,652
Total	<u>531,481</u>	<u>500,694</u>

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

Trade and other accounts payables by concept:

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Aircraft fuel	134,088	104,404
Boarding Fee	80,253	72,864
Landing and other aviation fees	41,900	43,941
Suppliers' technical purchases	36,387	29,594
Handling and ground handling	34,743	39,915
Other personnel expenses	32,833	22,445
Professional services and advisory	29,870	21,275
Marketing	22,183	21,041
Aircraft and engines leasing	18,849	26,474
U.S.A Department of Justice (*)	18,387	18,387
In-flight services	12,929	11,761
Maintenance	11,252	8,188
Crew	9,780	28,658
Aviation insurance	6,274	5,931
Communication	5,881	3,146
Others	35,872	42,670
Total trade and other accounts payables	<u>531,481</u>	<u>500,694</u>

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

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Aircraft and engine maintenance	11,178	26,133
Accounts payable to personnel	38,391	52,441
Accrued personnel expenses	46,034	40,974
Others accrued liabilities	18,002	25,329
Total accrued liabilities	<u>113,605</u>	<u>144,877</u>

NOTE 22 - OTHER PROVISIONS

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Current		
Provision legal claims (1)	<u>7,363</u>	<u>753</u>
Total other provisions, current	<u>7,363</u>	<u>753</u>
Non-current		
Provision legal claims (1)	11,710	21,204
Provision for European Commission investigation (2)	<u>10,675</u>	<u>10,916</u>
Total other provisions, non-current	<u>22,385</u>	<u>32,120</u>
Total other provisions	<u>29,748</u>	<u>32,873</u>

(1) The amount represents a provisions for certain legal claims made against the Company by former employees, regulatory agencies and others. The charge for the provision is shown in the consolidated statement of income in Administrative expenses. It is expected that the current balance as of December 31, 2011 will be applied during the next 12 months.

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

The movement of provisions between January 1, 2010 and December 31, 2011 is as follows:

	Legal <u>claims</u> ThUS\$	European Commission <u>Investigation</u> ThUS\$	<u>Total</u> ThUS\$
Opening balance as of January 1, 2010	2,804	25,000	27,804
Increase in provisions	2,872	-	2,872
Acquisition through business combination	17,174	-	17,174
Provision used	(681)	-	(681)
Reversal of unused provision	-	(14,084)	(14,084)
Exchange difference	(212)	-	(212)
Balance as of December 31, 2010	<u>21,957</u>	<u>10,916</u>	<u>32,873</u>

	Legal <u>claims</u> ThUS\$	European Commission <u>Investigation</u> ThUS\$	<u>Total</u> ThUS\$
Opening balance as of January 1, 2011	21,957	10,916	32,873
Increase in provisions	12,085	-	12,085
Provision used	(3,592)	-	(3,592)
Reversal of unused provision	(11,518)	-	(11,518)
Exchange difference	141	(241)	(100)
Balance as of December 31, 2011	<u>19,073</u>	<u>10,675</u>	<u>29,748</u>

European Commission Provision:

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

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

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

(d) On January 24, 2011, Lan Airlines S.A. and Lan Cargo S.A. appealed the decision before the Court of Justice of the European Union. At December 31, 2011, the provision reached the amount of ThUS\$ 10,675 (ThUS\$ 10,916 at December 30, 2010)

NOTE 23 – OTHER CURRENT NON-FINANCIAL LIABILITIES

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Deferred revenues	969,873	810,524
Dividends payable	85,318	125,435
Other sundry liabilities	<u>2,446</u>	<u>3,192</u>
Total other non-financial liabilities, current	<u><u>1,057,637</u></u>	<u><u>939,151</u></u>

NOTE 24 - EMPLOYEE BENEFITS

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Pension payments	3,559	3,164
Termination payments	280	1,161
Other obligations	<u>9,293</u>	<u>5,332</u>
Total provisions for employee benefits, non-current	<u>13,132</u>	<u>9,657</u>

(a) The movement in payments for termination indemnities and other obligations between January 1, 2010 and December 31, 2011 is as follows:

	<u>ThUS\$</u>
Opening balance as of January 1, 2010	5,555
Increase (decrease) current service provision	4,825
Benefits paid	<u>(723)</u>
Balance as of December 31, 2010	<u>9,657</u>
Opening balance as of January 1, 2011	9,657
Increase (decrease) current service provision	5,482
Benefits paid	<u>(2,007)</u>
Balance as of December 31, 2011	<u>13,132</u>

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

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Profit-sharing and bonuses	<u>38,391</u>	<u>52,441</u>

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

(c) Employment expenses are detailed below:

	For the year ended December 31,		
	<u>2011</u> ThUS\$	<u>2010</u> ThUS\$	<u>2009</u> ThUS\$
Salaries and wages	764,396	587,148	476,404
Short-term employee benefits	85,681	73,335	58,530
Termination benefits	18,207	11,751	17,408
Other personnel expenses	<u>144,219</u>	<u>121,030</u>	<u>84,329</u>
Total	<u>1,012,503</u>	<u>793,264</u>	<u>636,671</u>

NOTE 25 –NON-CURRENT ACCOUNTS PAYABLE

Non-current accounts payable as of December 31, 2011 and December 31, 2010 are as follows:

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Fleet financing (JOL)	271,965	314,372
Other accounts payable (*)	36,000	54,000
Aircraft and engine maintenance	38,540	47,607
Provision for vacations and bonuses	7,982	7,949
Other sundry liabilities	443	1,753
Total non-current liabilities	<u>354,930</u>	<u>425,681</u>

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

NOTE 26 - EQUITY

(a) Capital

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

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

The capital of the Company at December 31, 2011 amounts to ThUS\$ 473,907, divided into 340,326,431 common stock of a same series (ThUS\$ 453,444 divided into 338,790,909 shares as of December 31, 2010), no par value. There are no special series of shares and no privileges. The form of its stock certificates and their issuance, exchange, disablement, loss, replacement and other similar circumstances, as well as the transfer of the shares, is governed by the provisions of Corporations Law and its regulations.

(b) Subscribed and paid shares

At December 31, 2011, the total number of shares authorized is 488,355,882 shares no par value, according to the capital increase approved at the Extraordinary Shareholders' Meeting of December 21, 2011 by 147,355,882 ordinary shares no par value. Of this increase, 142,555,882 shares, will be allocated to the proposed merger with companies Sister Holdco S.A. and Holdco II S.A.; and 4,800,000 shares will be allocated to compensation plans for employees of the Company and its subsidiaries. At the end of this year, of the total shares subscribed, before the capital increase mentioned, 340,326,431 shares have been fully paid (includes 7,000 shares paid on 30 December 2011 and registered in the Register of Shareholders in January 2012), leaving 673,569 shares reserved for issuance under option contracts. Between January 1 and December 31, 2011, options for 1,535,522 shares have been exercised.

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

(c) Other equity interests

The movement of other equity interest between January 1, 2010 and December 31, 2011 is as follows:

	Stock option <u>plans</u>	Other <u>reserves</u>	<u>Total</u>
	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2010	2,477	13	2,490
Stock option plans	3,523	-	3,523
Deferred tax	(599)	-	(599)
Legal reserves	-	49	49
Balance as of December 31, 2010	<u>5,401</u>	<u>62</u>	<u>5,463</u>

	Stock option <u>plans</u>	Other <u>reserves</u>	<u>Total</u>
	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2011	5,401	62	5,463
Stock option plans	2,084	-	2,084
Deferred tax	(355)	-	(355)
Transactions with minority interests	-	(1,801)	(1,801)
Capitalization share issuance and placement costs (1)	-	2,672	2,672
Legal reserves	-	429	429
Balance as of December 31, 2011	<u>7,130</u>	<u>1,362</u>	<u>8,492</u>

(1) Capitalization share issuance and placement costs caused by the capital increase carried out in 2007, as set out extraordinary share holders meeting held on December 21, 2011.

(c.1) Reserves for stock option plans

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

(c.2) Other sundry reserves

The balance of other sundry reserves comprises the following:

	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Reserve for the adjustment of the value of fixed assets (1)	2,620	2,620
Transactions with minority interests (2)	(1,801)	-
Share issuance and placement costs (3)	-	(2,672)
Others	543	114
Total	<u>1,362</u>	<u>62</u>

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

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

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

(d) Other reserves

The movement of other reserves between January 1, 2010 and December 31, 2011 is as follows:

	Currency translation reserve ThUS\$	Cash flow hedging reserve ThUS\$	Total ThUS\$
Opening balance as of January 1, 2010	(4,924)	(92,230)	(97,154)
Derivatives valuation gains (losses)	-	(17,855)	(17,855)
Deferred tax	(137)	3,035	2,898
Currency translation differences	804	-	804
Balance as of December 31, 2010	<u>(4,257)</u>	<u>(107,050)</u>	<u>(111,307)</u>
Opening balance as of January 1, 2011	(4,257)	(107,050)	(111,307)
Derivatives valuation gains (losses)	-	(40,368)	(40,368)
Deferred tax	1,855	6,862	8,717
Currency translation differences	(10,915)	-	(10,915)
Balance as of December 31, 2011	<u>(13,317)</u>	<u>(140,556)</u>	<u>(153,873)</u>

(d.1) Currency translation reserve

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

(d.2) Cash flow hedging reserve

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

(e) Retained earnings

The movement of retained earnings between January 1, 2010 and December 31, 2011 is as follows:

	<u>ThUS\$</u>
Opening balance as of January 1, 2010	740,047
Result for the year	419,702
Other decreases	(129)
Dividends	(210,406)
	<hr/>
Balance as of December 31, 2010	949,214
	<hr/> <hr/>
Opening balance as of January 1, 2011	949,214
Result for the year	320,197
Other decreases	(632)
Dividends	(151,981)
	<hr/>
Balance as of December 31, 2011	1,116,798
	<hr/> <hr/>

(f) Dividends per share

As of December 31, 2011

<u>Description</u>	Final dividend <u>2010</u>	Interim dividend <u>2011</u>	Interim dividend <u>2011</u>
Date of dividend	4/29/2011	8/30/2011	12/20/2011
Amount of the dividend (ThUS\$)	10,386	56,595	85,000
Number of shares among which the dividend is distributed	339,310,509	339,358,209	340,164,105
Dividend per share (US\$)	0.03061	0.16677	0.24988

As of December 31, 2010

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

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

At December 31, 2011 interim dividends were declared for 44.2% of earnings for this year.

NOTE 27 - REVENUE

The detail of revenues is as follows:

	For the year ended		
	December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	ThUS\$	ThUS\$	ThUS\$
Passengers	4,008,910	3,109,797	2,623,608
Cargo	<u>1,576,530</u>	<u>1,280,705</u>	<u>895,554</u>
Total	<u>5,585,440</u>	<u>4,390,502</u>	<u>3,519,162</u>

NOTE 28 - COSTS AND EXPENSES BY NATURE

a) Costs and operating expenses

The main operating costs and administrative expenses are detailed below:

	For the year ended		
	December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	ThUS\$	ThUS\$	ThUS\$
Other rentals and landing fees	671,614	595,214	490,921
Aircraft fuel	1,750,052	1,161,927	959,608
Comissions	209,255	173,397	143,900
Other operating expenses	646,051	506,730	387,106
Aircraft rentals	174,197	98,588	83,712
Aircraft maintenance	182,358	120,642	121,037
Passenger services	136,049	114,221	92,796
Total	<u>3,769,576</u>	<u>2,770,719</u>	<u>2,279,080</u>

b) Depreciation and amortization

Depreciation and amortization are detailed below:

	For the year ended		
	December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	ThUS\$	ThUS\$	ThUS\$
Depreciation (*)	386,644	327,136	295,894
Amortization	9,831	9,355	8,168
Total	<u>396,475</u>	<u>336,491</u>	<u>304,062</u>

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

c) Personnel expenses

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

d) Financial costs

The detail of financial costs is as follows:

	For the year ended		
	December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	ThUS\$	ThUS\$	ThUS\$
Bank loan interest	99,093	117,405	113,827
Financial leases	10,617	5,880	4,406
Other financial instruments	29,367	31,994	34,876
Total	<u>139,077</u>	<u>155,279</u>	<u>153,109</u>

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

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

The gains (losses) on sales of non-current assets not classified as Held for Sale as of December 31, 2011 and 2010 are as follows:

	For the year ended December 31,		
	<u>2011</u> ThUS\$	<u>2010</u> ThUS\$	<u>2009</u> ThUS\$
Property, plant and equipment	(172)	1,413	4,278
Investments in companies, associates and joint businesses	-	-	(2)
Total	<u>(172)</u>	<u>1,413</u>	<u>4,276</u>

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

NOTE 30 - OTHER INCOME, BY FUNCTION

Other income by function is as follows:

	For the year ended		
		December 31,	
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	ThUS\$	ThUS\$	ThUS\$
Duty free	16,874	11,983	9,593
Aircraft leasing	12,701	13,130	20,696
Logistics and courier	10,958	36,778	33,132
Customs and warehousing	24,677	24,673	18,682
Tours	43,952	28,216	31,088
Other miscellaneous income	23,642	18,046	23,160
Total	<u>132,804</u>	<u>132,826</u>	<u>136,351</u>

NOTE 31 – FOREIGN CURRENCY AND EXCHANGE RATE DIFFERENCES

a) Foreign currency

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

<u>Current assets</u>	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Cash and cash equivalents	216,094	436,840
Chilean peso	148,274	368,360
Euro	5,688	7,844
Argentine peso	20,020	11,230
Brazilian real	6,616	4,759
Colombian peso	7,668	10,231
Other currency	27,828	34,416
Other current financial assets	4,352	6,726
Brazilian real	1,127	4,740
Colombian peso	2,009	947
Other currency	1,216	1,039
Other current non-financial assets	3,881	2,692
Chilean peso	1,561	1,247
Argentine peso	1,781	419
Brazilian real	52	96
Colombian peso	117	299
Other currency	370	631
Trade and other current accounts receivable	182,434	119,780
Chilean peso	63,818	28,606
Euro	8,266	8,429
Argentine peso	24,879	6,702
Brazilian real	35,467	31,329
Australian dollar	5,567	5,588
Colombian peso	34,583	27,156
Other currency	9,854	11,970
Current accounts receivable from related entities	809	21
Chilean peso	809	21

<u>Current assets</u>	As of December 31, 2011 <hr/> ThUS\$	As of December 31, 2010 <hr/> ThUS\$
Current tax assets	67,668	62,455
Chilean peso	15,817	16,805
Argentine peso	20,236	14,477
Brazilian real	8,475	6,735
Mexican peso	18,457	17,477
Colombian peso	2,658	2,615
Other currency	2,025	4,346
Total current assets	475,238	628,514
Chilean peso	230,279	415,039
Euro	13,954	16,273
Argentine peso	66,916	32,828
Brazilian real	51,737	47,659
Mexican peso	18,457	17,477
Australian dollar	5,567	5,588
Colombian peso	47,035	41,248
Other currency	41,293	52,402

<u>Non-current assets</u>	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Other non-current financial assets	4,276	4,504
Brazilian real	1,939	1,991
Colombian peso	2,166	1,970
Other currency	171	543
Other non-current non-financial assets	18,081	1,681
Argentine peso	17,951	1,681
Colombian peso	130	-
Non-current accounts receivable	7,482	7,874
Chilean peso	7,422	7,864
Other currency	60	10
Investment recorded using the method of participation	990	593
Chilean peso	990	593
Goodwill	100,529	94,747
Argentine peso	487	523
Colombian peso	100,042	94,224
Deferred tax assets	50,272	28,943
Colombian peso	45,173	28,943
Other currency	5,099	-
Total non-current assets	181,630	138,342
Chilean peso	8,412	8,457
Argentine peso	18,438	2,204
Brazilian real	1,939	1,991
Colombian peso	147,511	125,137
Other currency	5,330	553

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

<u>Current liabilities</u>	<u>Up to 90 days</u>		<u>91 days to 1 year</u>	
	As of	As of	As of	As of
	December 31, <u>2011</u>	December 31, <u>2010</u>	December 31, <u>2011</u>	December 31, <u>2010</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other current financial liabilities	-	46,043	-	112,672
Chilean peso	-	41,638	-	112,672
Colombian peso	-	4,405	-	-
Trade and other accounts payables	298,551	240,419	21,082	14,012
Chilean peso	77,141	52,779	10,284	9,559
Euro	10,921	9,438	697	14
Argentine peso	35,542	43,214	-	3,725
Brazilian real	32,898	22,633	9	-
Colombian peso	53,988	44,725	10,019	-
Other currency	88,061	67,630	73	714
Current accounts payable from related	118	74	-	-
Chilean peso	118	74	-	-
Current tax liabilities	10,168	9,700	4,384	2,621
Chilean peso	3,678	3,007	748	1,064
Argentine peso	2,164	240	2,303	1,202
Brazilian real	1,724	1,994	334	-
Colombian peso	942	3,125	999	17
Other currency	1,660	1,334	-	338
Other current non-financial liabilities	32,393	27,729	2,527	1,071
Brazilian real	-	-	235	1,041
Colombian peso	32,036	27,477	1,789	-
Other currency	357	252	503	30
Total current liabilities	341,230	323,965	27,993	130,376
Chilean peso	80,937	97,498	11,032	123,295
Euro	10,921	9,438	697	14
Argentine peso	37,706	43,454	2,303	4,927
Brazilian real	34,622	24,627	578	1,041
Colombian peso	86,966	79,732	12,807	17
Other currency	90,078	69,216	576	1,082

<u>Non-current liabilities</u>	More than 1 to 3 years		More than 3 to 5 years		More than 5 years	
	As of	As of	As of	As of	As of	As of
	December 31, <u>2011</u> ThUS\$	December 31, <u>2010</u> ThUS\$	December 31, <u>2011</u> ThUS\$	December 31, <u>2010</u> ThUS\$	December 31, <u>2011</u> ThUS\$	December 31, <u>2010</u> ThUS\$
Other non-current financial liabilities	-	61,477	-	-	-	-
Chilean peso	-	61,477	-	-	-	-
Non-current accounts payable	7,665	7,696	76	71	10	5
Chilean peso	6,684	6,721	76	71	10	5
Other currency	981	975	-	-	-	-
Other long-term provisions	21,175	-	-	1,707	-	-
Brazilian real	466	-	-	1,401	-	-
Colombian peso	5,728	-	-	153	-	-
Other currency	14,981	-	-	153	-	-
Non-current provisions for employee benefits	5,528	3,153	-	-	-	698
Argentine peso	1,097	-	-	-	-	698
Colombian peso	4,431	3,153	-	-	-	-
Total non-current liabilities	34,368	72,326	76	3,026	10	703
Chilean peso	6,684	68,198	76	71	10	5
Argentine peso	1,097	-	-	-	-	698
Brazilian real	466	-	-	1,401	-	-
Colombian peso	10,159	3,153	-	1,401	-	-
Other currency	15,962	975	-	153	-	-

<u>General summary of foreign currency:</u>	As of December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
Total assets	656,868	766,856
Chilean peso	238,691	423,496
Euro	13,954	16,273
Argentine peso	85,354	35,032
Brazilian real	53,676	49,650
Mexican peso	18,457	17,477
Australian dollar	5,567	5,588
Colombian peso	194,546	166,385
Other currency	46,623	52,955
 Total liabilities	 403,677	 528,995
Chilean peso	98,739	289,067
Euro	11,618	9,452
Argentine peso	41,106	49,079
Brazilian real	35,666	27,069
Colombian peso	109,932	82,902
Other currency	106,616	71,426
 Net position	 253,191	 237,861
Chilean peso	139,952	134,429
Euro	2,336	6,821
Argentine peso	44,248	(14,047)
Brazilian real	18,010	22,581
Mexican peso	18,457	17,477
Australian dollar	5,567	5,588
Colombian peso	84,614	83,483
Other currency	(59,993)	(18,471)

b) Exchange differences

Exchange rate differences recognized in results, other than those relating to financial instruments at fair value through profit and loss, accumulated at December 31, 2011 and 2010 generated a loss of ThUS\$ 256 and a gain of ThUS\$ 13,792, respectively.

Exchange rate differences shown in equity as translation reserves for the year ended December 31, 2011 and 2010 represented a loss of ThUS\$ 10,864 and a gain of ThUS\$ 708, respectively.

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

	As of December 31, <u>2011</u>	As of December 31, <u>2010</u>
Chilean peso	519.20	468.01
Argentine peso	4.30	3.97
Brazilian real	1.87	1.66
Peruvian Sol	2.69	2.81
Australian dollar	0.98	0.99
Strong Bolivar	4.30	4.30
Boliviano	6.86	6.94
Uruguayan peso	19.80	19.80
Mexican peso	13.96	12.38
Colombian peso	1,936.00	1,905.10
New Zealand dollar	1.28	1.30
Euro	0.77	0.75

NOTE 32 - EARNINGS PER SHARE

	For the year ended December 31,	
	<u>2011</u>	<u>2010</u>
Basic earnings		
Earnings attributable to controlling company's equity holders (ThUS\$)	320,197	419,702
Weighted average number of shares, basic	339,424,598	338,790,909
Basic earnings per share (US\$)	0.94335	1.23882
	For the year ended December 31,	
	<u>2011</u>	<u>2010</u>
Diluted earnings		
Earnings attributable to controlling company's equity holders (ThUS\$)	320,197	419,702
Weighted average number of shares, basic	339,424,598	338,790,909
Adjustment diluted weighted average shares Stock options	<u>271,380</u>	<u>954,544</u>
Weighted average number of shares, diluted	<u>339,695,978</u>	<u>339,745,453</u>
Diluted earnings per share (US\$)	0.94260	1.23534

NOTE 33 - CONTINGENCIES

a) Lawsuits

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

<u>Company</u>	<u>Court</u>	<u>Case No.</u>	<u>Origin</u>	<u>Stage and level of proceeding</u>	<u>Amounts involved</u> ThUS\$
Atlantic Aviation Investments LLC (AAI)	Supreme Court of the State of New York County of New York	07-6022920	Atlantic Aviation Investments LLC. ("AAI"), an indirect subsidiary of Lan Airlines S.A. constituted under the laws of the state of Delaware, sued on August 29, 2007 Varig Logística S.A. ("Variglog") for the non-payment of four loans under loan agreements governed by the law of New York. These agreements provide for the acceleration of the loans in the event of sale of the original debtor, VRG Linhas Aéreas S.A.	Stage of execution in Switzerland of judgment condemning Variglog to repay the principal, interest and costs in favor of AAI. An embargo is held over the bank account of Variglog in Switzerland by AAI. Variglog is in the process of judicial recovery in Brazil and requested on Switzerland to recognize the judgment that declared the state of judicial recovery (*)	17,100 plus interest and costs
Atlantic Aviation Investments LLC	Supreme Court of the State of New York, County of New York	602286-09	Atlantic Aviation Investments LLC. ("AAI") sued on July 24, 2009 Matlin Patterson Global Advisers LLC, Matlin Patterson Global Opportunities Partners II LP, Matlin Patterson Global Opportunities Partners (Cayman) II LP and Volo Logistics LLC (a) as representative for Variglog, for failure to pay the four loans indicated in the previous note; and (b) for a default on their obligations of guarantors and other obligations under the Memorandum of Understanding signed by the parties on September 29, 2006.	The court dismissed in part and upheld in part the motion to dismiss counterclaims brought by defendants in the case. Both parties appealed this decision. AAI filed a request for summary Judgement (short trial) that the court ruled favorably. The defendants appealed from this decision that was granted suspensive effect (*)	17,100 plus interest costs and damages

(*) See Note 38

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

<u>Company</u>	<u>Court</u>	<u>Case No.</u>	<u>Origin</u>	<u>Stage and level of proceeding</u>	<u>Amounts involved</u> ThUS\$
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A.	District Tax Court No. 2 (Guayaquil)	09504-2010-0114	Against the regional director of the Guayaquil Internal Revenue Service to determine tax credit decreased for the year 2006.	Practiced evidence	4,565
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A.	District Tax Court No. 2 (Guayaquil)	09503-2010-0172	Against the regional director of the Guayaquil Internal Revenue Service for non-payment of advance income tax, 2010.	Calling for evidence	696
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A.	District Tax Court No. 2 (Guayaquil)	6886-4499-06	Against the regional director of the Guayaquil Internal Revenue Service for rectification of tax return for 2003.	Sentence pending.	Undetermined
Aerovías de Integración Regional S.A. AIRES S.A.	Section One, Subsection A, the Administrative Tribunal of Cundinamarca		AEROVÍAS DE INTEGRACION REGIONAL S.A AIRES S.A. seeks that Act 043 Session of October 20, 2008 of Grupo Evaluador de Proyectos Aerocomerciales GEPA be declared invalid. This relates to the decision of the Director of the UAEAC and Enrique Olaya Herrera airport in Medellin to order the suspension of operations of the company to and from that airport.	On June 17, 2010 a decree was issued by which evidence was presented, the status of which was notified on June 22 of that year. On March 8, 2011 the preliminary stages were completed. On July 6, 2011 per state order, Aerocivil was ordered to pay the fees of the expert witness. An appeal was registered against this judgement on July 22.	ThUS\$ 2,033 The estimated amount of damages that were caused to AIRES SA as a result of the suspension of operations at the Enrique Olaya Herrera airport in Medellin.

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

<u>Company</u>	<u>Court</u>	<u>Cause No.</u>	<u>Origin</u>	<u>Stage and level of proceeding</u>	<u>Amounts involved</u> ThUS\$
Aerolinhas Brasileiras S.A.	Secretary of Finance of State of Río de Janeiro	2003	The administrative authority of Río de Janeiro, Brazil, notified breach action or fine for alleged non-payment of ICMS (VAT) on import of Boeing-767 aircraft registered No. PR-ABB.	Pending resolution of the review group to annul the fine.	3,000
Lan Cargo S.A.	Civil Court of Asunción, Paraguay	78-362	Request of indemnification for damages brought by the prior general agent in Paraguay.	Pending appeal of the decision to reject one of the exceptions to lack of overt action, made by lawyers for the defendant.	437
Lan Airlines S.A. y Lan Cargo S.A.	European commission and Canada	-	Investigation of possible breaches of free competition of cargo airlines, especially the fuel surcharge. On December 26, 2007, the Director General for Competition of the European Commission notified Lan Cargo S.A. and Lan Airlines S.A. of the instruction of a process against twenty-five cargo airlines, including Lan Cargo S.A., for alleged breaches of free competition in the European air cargo market, especially the intended fixing of a surcharge for fuel and cargo. Dated November 09, 2010 the Direction General for Competition of the European Commission notified Lan Cargo S.A. and Lan Airlines S.A. the imposition of fines in the amount of ThUS\$ 10,675. This fine is being appealed by Lan Cargo SA and Lan Airlines S.A. We can not predict the outcome of the appeal process.	On 14 April 2008, the Company answered the European Commission's notification. The appeal was presented on January 24, 2011.	10,675
Lan Airlines S.A. and Lan Cargo S.A.	Competition Bureau Canada	-	Investigation for possible infractions of competition from airlines cargo flights, especially fuel surcharges.	Investigation pending.	Undetermined

<u>Company</u>	<u>Court</u>	<u>Case No.</u>	<u>Origin</u>	<u>Stage and level of proceeding</u>	<u>Amounts involved ThUS\$</u>
Lan Cargo S.A. and Lan Airlines S.A.	Canada- Superior Court of Quebec, Supreme Court of British Columbia, Superior Court of Ontario	-	For class actions, as a result of the investigation for possible breaches of competition from airlines cargo flights, especially fuel surcharges. They have filed three lawsuits in Canada (Quebec, British Columbia and Ontario).	Case is in the process of discovery and class certification tests.	850
Lan Cargo S.A. and Lan Airlines S.A.	In the High Court of Justice Chancery Division (England) and Directie Juridische Zaken Afdeling Ceveil Recht (Netherlands).	-	Lawsuit filed against European Airlines by users of freight services in private prosecutions as a consequence of the investigation into alleged breaches of free competition of cargo airlines, especially fuel surcharges. Lan Airlines S.A. and Lan Cargo S.A. have been third-party defendants in such prosecutions in England and the Netherlands.	Case is in the process of discovery tests.	Undetermined
Lan Logistics, Corp.	Federal Court, Florida, U.S.A.	-	In mid June 2008 a demand was presented for purchase option right for sale of LanBox.	Failed against Lanlogistics, Corp. for \$ 5 million plus interest, which is appealing to the court of appeals.	Undetermined
Aerovías de Integración Regional S.A. AIRES S.A.	Civil Court of the Circuit of Bogota	-	On December 10th 2008, HK-4491 aircraft was at the Bucaramanga airport and after starting engine n°2 as the starting procedure of engine n°1 began; there was a failure in the startup system and pressurization of the aircraft. The complainant, Mrs. Milena Paez, claims there is a civil contractual liability since, due to hearing loss in her right ear which affected her family, professional, and community life, the airline failed in its obligation to bring the passenger safely to her destination.	Aires S.A. was served the first week of December 2011 on the petition and is in time to answer, the due date being January 23rd 2012	Action against Aires S.A. with an initial aspiration of ThUS\$ 1,768 that is ThCOP 1,899,650 (equivalent 3,550 SMMLV plus the corresponding accrued interest since December 2008, title that generates an additional quantity of ThCOP 1,500,000 equivalent to 2,800 SMMLV).

<u>Company</u>	<u>Court</u>	<u>Case No.</u>	<u>Origin</u>	<u>Stage and level of proceeding</u>	<u>Amounts involved</u> ThUS\$
Aerolinhas Brasileiras S.A.	Conselho Administrativo de Defesa Econômica, Brasil	-	Investigation of alleged breaches of free competition of cargo airlines, especially fuel surcharges.	Investigation pending. CADE and Federal Attorney not yet issued final decisions.	Undetermined
Lan Airlines S.A. "Brazil"	Instituto de Defesa do Consumidor de Sao Paulo	-	The Department of Consumer Protection and Defense ("PROCON") has applied a fine to Lan Airlines S.A. in the amount of MR\$ 1,688 equivalent to approximately ThUS\$ 905. This penalty relates to the cancellation of flights to Chile as a product of the 2010 earthquake, holding that Lan Airlines S.A. did not act in accordance with the rules applicable to the facilities and offered no compensation to passengers who could not travel as a result of this extraordinary circumstance.	Fine imposed by the consumer entity Sao Paulo.	905
Lan Perú S.A.	Administrative Tribunal of Peru	2011	LAP (Lima Airport concession) is questioning before an administrative tribunal's decision to the administrative authority Ositran, which in due course LAP stated that it had to give certain amounts uncollected by Lan Peru for the use of hoses in the Lima Airport.	First instance.	2.109
Lan Cargo S.A	Tribunal of Arbitration, Frankfurt/Germany		Aerohandling Airport Assistance GmbH (Handling company in Frankfurt/ Airport) is claiming additional payment for Lan Cargo S.A. services offered over the years 2007 to 2010.	Single instance.	820

Considering the stage of process for each of the cases mentioned above and/or the improbable event of obtaining an adverse sentence, as of December 31, 2011 the Company has estimated that is not necessary to make a provision for any case, with the exception of the significant matter relating to the European Commission which was reported to the SVS. A provision of US\$ 11 million has been recorded for the decision issued by the European Commission on November 9, 2010.

On May 6 2011, the Directors of Lan Cargo S.A. and Aerolinhas Brasileiras S.A. approved a judicial agreement with the defenders of the civil class action case that was in process before the United States District Court for the Eastern District of New York. From the agreement, Lan Cargo S.A. and Aerolinhas Brasileiras S.A. committed to pay the amount of US\$ 59.7 million and US\$ 6.3 million, respectively, payments that were already made as of December 31, 2011. This agreement terminates the companies' obligations with regards to all plaintiffs who will not choose to file a suit in an individual capacity against the companies. The terms of the judgment have not yet been set for the plaintiffs who are considering opting for a separate suit.

NOTE 34 - COMMITMENTS

(a) Loan covenants

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

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

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

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

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

At December 31, 2011, the Company is in compliance with these covenants.

(b) Commitments under operating leases as lessee

Details of the main operating leases are as follows:

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

During 2011, 7 of 8 Boeing 767 aircraft leased to “International Lease Finance Corp. (ILFC), were transferred by the lessor to seven different special purpose entities. Further, in December 2011, NorthStar AvLease Ltd. transferred a Bombardier Dhc8-200 aircraft to Aircraft Solutions Lux V S.À.R.L. (AVMAX)

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 December 31, <u>2011</u> ThUS\$	As of December 31, <u>2010</u> ThUS\$
No later than one year	169,842	151,781
Between one and five years	443,256	440,632
Over five years	92,264	107,593
Total	<u>705,362</u>	<u>700,006</u>

The minimum lease payments charged to income are the following:

	For the year ended December 31,		
	<u>2011</u> ThUS\$	<u>2010</u> ThUS\$	<u>2009</u> ThUS\$
Minimum operating lease payments (*)	168,369	93,219	81,425
Total	<u>168,369</u>	<u>93,219</u>	<u>81,425</u>

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

In January 2011 the Company added to the fleet three aircraft, a Boeing 767-300F with a contract term of five years, one Airbus A320-200 for a period of seven years and one Airbus A319-100 for a period of four months which was returned in May 2011. In July 2011 the Company added two Airbus A320-200 aircrafts for a period of eight years, while in August and September 2011, the Company received an Airbus A320-200 aircraft for a period of eight years. On the other hand, in September 2011 an Bombardier Dhc8-200 aircraft was returned due to termination of the lease term.

(*) At December 31, 2011, includes an amount of ThUS\$ 44,011 as a result of the incorporation of AIRES S.A. as a subsidiary as of December 2010.

The operating lease agreements signed by the Company and its subsidiaries state that maintenance of the aircraft should be done according to the manufacturer’s technical instructions and within the

margins agreed in the leasing agreements, a cost that must be assumed by the lessee. The lessee should also contract insurance for each aircraft to cover associated risks and the amounts of these assets. Regarding rental payments, these are unrestricted and may not be netted against other accounts receivable or payable between the lessor and lessee.

At December 31, 2011 the Company has existing letters of credit relations to operating leasing as follows:

<u>Acreeedor Garantía</u>	<u>Nombre deudor</u>	<u>Tipo</u>	<u>Valor MUS\$</u>	<u>Fecha de liberación</u>
Air Canada	Lan Airlines S.A.	One letters of credit	1,800	Jun 30, 2012
Celestial Aviation Trading 16 Ltd	Lan Cargo S.A.	Two letters of credit	3,500	Apr 25, 2012
Celestial Aviation Trading 35 Ltd	Lan Airlines S.A.	One letters of credit	2,500	Jun 13, 2012
CIT Aerospace International	Lan Airlines S.A.	Two letters of credit	3,240	May 10, 2012
GE Capital Aviation Services Ltd	Lan Cargo S.A.	Eigth letters of credit	23,682	Apr 25, 2012
International Lease Finance Corp.	Lan Airlines S.A.	Eigth letters of credit	3,880	Aug 25, 2012
Orix Aviation System Limited	Lan Airlines S.A.	Two letters of credit	6,520	May 5, 2012
TAF Mercury	Lan Airlines S.A.	One letters of credit	4,000	Dec 11, 2012
TAF Venus	Lan Airlines S.A.	One letters of credit	4,000	Dec 11, 2012
			<u>53,122</u>	

(c) Other commitments

At December 31, 2011 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 ThUS\$</u>	<u>Release date</u>
Deutsche Bank A.G.	Lan Airlines S.A.	Two letters of credit	20,000	Jan 31, 2012
The Royal Bank of Scotland plc	Lan Airlines S.A.	Two letters of credit	18,000	Jan 8, 2012
Dirección General de Aviación Civil de Chile	Lan Airlines S.A.	Forty-five certificates of deposits	7,282	Jan 31, 2012
Washington International Insurance	Lan Airlines S.A.	Six letters of credit	2,990	Apr 6, 2012
Dirección Seccional de Aduanas de Bogotá	Línea Aérea Carguera de Colombia S.A.	Two warranty insurance policies	2,702	Apr 7, 2012
Metropolitan Dade County	Lan Airlines S.A.	Five letters of credit	1,675	May 31, 2012
			<u>52,649</u>	

NOTE 35 – TRANSACTIONS WITH RELATED PARTIES

a) Transactions with related parties for the year ended December 31, 2011

<u>Tax No.</u>	<u>Related party</u>	<u>Relationship</u>	<u>Country of origin</u>	<u>Other information on related party</u>	<u>Transaction</u>	<u>Currency</u>	<u>Amount of transactions</u> ThUS\$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	Controlling shareholder	Chile	Investments	Property rental granted	CLP	71
					Passenger services provided	CLP	19
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Property rental granted	CLP	122
					Payments on behalf received	CLP	(19)
					Training received	CLP	(633)
					Payments on behalf received	US\$	(82)
					Training received	US\$	(512)
78.591.370-1	Bethia S.A. y Filiales (1)	Other related parties	Chile	Investments	Property rental granted	CLP	546
					Professional advice granted	CLP	300
					Services provided air cargo transport	CLP	1.381
					Other service received	CLP	(109)
					Payments on behalf received	CLP	(345)
					Sale of subsidiaries	CLP	53.386
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Fish farming	Passenger services provided	CLP	199
Foreign	Inversora Aeronáutica Argentina	Other related parties	Argentina	Investments	Property rental granted	US\$	(412)
					Payments on behalf provided	US\$	811
96.625.340-1	Inversiones Mineras del Cantabrico S.A.	Other related parties	Chile	Investments	Payments on behalf received	US\$	(811)

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

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

<u>Tax No.</u>	<u>Related party</u>	<u>Relationship</u>	<u>Country of origin</u>	<u>Other information on related party</u>	<u>Transaction</u>	<u>Currency</u>	<u>Amount of transactions</u> ThUS\$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	Controlling shareholder	Chile	Investments	Property rental granted	CLP	77
					Passenger services provided	CLP	13
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Property rental granted	CLP	17
					Assignment of debt granted	CLP	18
					Payments on behalf received	CLP	(16)
					Training received	CLP	(356)
					Payments on behalf received	US\$	(95)
					Training received	US\$	(363)
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	Concessionaire	Landing and other aviation rates received	CLP	(35)
					Basic consumptions received	CLP	(8)
					Aeronautical concession received	CLP	(153)
					Dividend distribution	CLP	73
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Fish farming	Passenger services provided	CLP	63
96.669.520-K	Red de Televisión Chilevisión S.A.	Other related parties	Chile	Television	Passenger services provided	CLP	65
					Publicity services received	CLP	(100)
96.894.180-1	Bancard Inversiones	Other related parties	Chile	Professional advice	Professional advice received	CLP	(7)
Foreign	Inversora Aeronáutica Argentina	Other related parties	Argentina	Investments	Property rental granted	US\$	(271)
					Other services provided	US\$	13

c) Compensation of key management

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

	For the year ended	
	December 31,	
	<u>2011</u>	<u>2010</u>
	ThUS\$	ThUS\$
Remuneration	9,696	7,505
Management fees	185	150
Corrections of value and non-monetary benefits	665	352
Short-term benefits	5,011	4,680
Share-based payments	2,084	3,523
Total	<u>17,641</u>	<u>16,210</u>

NOTE 36 - SHARE-BASED PAYMENTS

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

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

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

<u>Percentage</u>	<u>Period</u>
30%	From October 29, 2010 until March 31, 2012
70%	From October 30, 2011 until March 31, 2012

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

All options expire on March 31, 2012.

	<u>Number of share options</u>
Stock options under a share-based payment agreement balance as of January 1, 2011	2,209,091
Stock options granted	-
Stock options annulled	-
Stock options exercised	(1,535,522)
Stock options under a share-based payment agreement balance as of December 31, 2011	<u><u>673,569</u></u>

Entry data for option valuation model used for stock options granted during the year.

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

NOTE 37 - THE ENVIRONMENT

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

NOTE 38 – SUBSEQUENT EVENTS

The consolidated financial statements of Lan Airlines S.A. and Subsidiaries as of December 31, 2011 have been approved in extraordinary session of the Board February 14, 2012, which was attended by the following directors:

1. Jorge Awad Mehech,
2. Darío Calderón González,
3. Juan José Cueto Plaza,
4. Juan José Cueto Sierra,
5. Ramón Eblen Kadis, and
6. Carlos Alberto Heller Solari.

Judgement against Variglog

On February 2, 2012, Variglog made a filing before the Brazilian court expressing that it was unable to abide by the terms of the judicial reorganization. Variglog shall therefore present a new plan which shall be approved or rejected by the creditors at a Meeting. Up to the date hereof, there is no a fixed date in which Variglog shall present the new plan.

Judgement against Matlin Patterson

On February 7, 2012, the Appellate Court of New York in a unanimous decision confirmed the judgment of the lower court in favor of AAI. With such decision, the staying effect ordered by the Appellate Court on July 28, 2011 ceases and AAI will reassume the procedure before the lower court for determination of damages. In principle, Matlin Patterson may not appeal to the decision of the Appellate Court unless it obtains a special permission from the New York Court of Appeals, the highest court in the State.

Except as mentioned above, subsequent to December 31, 2011 until the date of issuance of these financial statements, the Company has no knowledge of any other subsequent events that may significantly affect the balances or their interpretation.

NOTE 39 – BUSINESS COMBINATIONS

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

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

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

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

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

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

Summary statement of financial position at acquisition date:

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

Goodwill determination:

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

(b) AEROASIS S.A.

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

AEROASIS S.A. is a corporation incorporated under the laws of the Republic of Colombia through Public Deed No. 1206 dated May 2, 2006.

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

Summary statement of financial position at acquisition date:

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

Goodwill determination:

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

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