



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

SEPTEMBER 30, 2016

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

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LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

	<u>Note</u>	As of September 30, <u>2016</u> ThUS\$ Unaudited	As of December 31, <u>2015</u> ThUS\$
Current assets			
Cash and cash equivalents	6 - 7	708,376	753,497
Other financial assets	7 - 11	697,739	651,348
Other non-financial assets	12	289,036	330,016
Trade and other accounts receivable	7 - 8	916,124	796,974
Accounts receivable from related entities	7 - 9	498	183
Inventories	10	222,814	224,908
Tax assets	18	<u>74,572</u>	<u>64,015</u>
Total current assets other than non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners		<u>2,909,159</u>	<u>2,820,941</u>
Non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners			
	13	<u>40,786</u>	<u>1,960</u>
Total current assets		<u>2,949,945</u>	<u>2,822,901</u>
Non-current assets			
Other financial assets	7 - 11	104,777	89,458
Other non-financial assets	12	331,539	235,463
Accounts receivable	7 - 8	8,940	10,715
Intangible assets other than goodwill	15	1,606,451	1,321,425
Goodwill	16	2,723,629	2,280,575
Property, plant and equipment	17	10,899,582	10,938,657
Tax assets	18	25,629	25,629
Deferred tax assets	18	<u>389,666</u>	<u>376,595</u>
Total non-current assets		<u>16,090,213</u>	<u>15,278,517</u>
Total assets		<u><u>19,040,158</u></u>	<u><u>18,101,418</u></u>

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

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES AND EQUITY

	Note	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$
<b>LIABILITIES</b>			
Current liabilities			
Other financial liabilities	7 - 19	1,877,987	1,644,235
Trade and other accounts payables	7 - 20	1,539,219	1,483,957
Accounts payable to related entities	7 - 9	232	447
Other provisions	21	2,465	2,922
Tax liabilities	18	31,735	19,378
Other non-financial liabilities	22	2,602,206	2,490,033
Total current liabilities		<u>6,053,844</u>	<u>5,640,972</u>
Non-current liabilities			
Other financial liabilities	7 - 19	7,234,727	7,532,385
Accounts payable	7 - 24	387,208	417,050
Other provisions	21	515,747	424,497
Deferred tax liabilities	18	958,744	811,565
Employee benefits	23	77,677	65,271
Other non-financial liabilities	22	271,127	272,130
Total non-current liabilities		<u>9,445,230</u>	<u>9,522,898</u>
Total liabilities		<u>15,499,074</u>	<u>15,163,870</u>
<b>EQUITY</b>			
Share capital	25	2,541,068	2,545,705
Retained earnings	25	328,070	317,950
Treasury Shares	25	(178)	(178)
Other reserves		583,047	(6,942)
Parent's ownership interest		3,452,007	2,856,535
Non-controlling interest	14	89,077	81,013
Total equity		<u>3,541,084</u>	<u>2,937,548</u>
Total liabilities and equity		<u>19,040,158</u>	<u>18,101,418</u>

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

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

	Note	For the 9 months ended September 30,		For the 3 months ended September 30,	
		2016	2015	2016	2015
		ThUS\$	ThUS\$	ThUS\$	ThUS\$
<u>Unaudited</u>					
Revenue	26	6,566,882	7,428,919	2,365,901	2,423,464
Cost of sales		(5,154,915)	(5,868,748)	(1,824,809)	(1,905,681)
Gross margin		1,411,967	1,560,171	541,092	517,783
Other income	28	390,894	289,899	153,625	91,358
Distribution costs		(552,057)	(588,130)	(195,557)	(199,224)
Administrative expenses		(557,655)	(658,154)	(230,827)	(192,383)
Other expenses		(321,222)	(247,846)	(116,016)	(97,136)
Other gains/(losses)		(3,202)	10,254	9,219	10,636
Income from operation activities		368,725	366,194	161,536	131,034
Financial income		53,147	64,590	21,729	32,706
Financial costs	27	(310,563)	(313,492)	(103,931)	(107,909)
Share of profit of investments accounted for using the equity method		-	37	-	-
Foreign exchange gains/(losses)	29	132,814	(410,755)	(10,594)	(241,533)
Result of indexation units		309	485	25	9
Income (loss) before taxes		244,432	(292,941)	68,765	(185,693)
Income (loss) tax expense / benefit	18	(197,340)	119,157	(52,441)	82,204
<b>NET INCOME (LOSS) FOR THE PERIOD</b>		<u>47,092</u>	<u>(173,784)</u>	<u>16,324</u>	<u>(103,489)</u>
Income (loss) attributable to owners of the parent		14,875	(203,018)	4,742	(113,344)
Income (loss) attributable to non-controlling interest	14	32,217	29,234	11,582	9,855
Net income (loss) for the year		<u>47,092</u>	<u>(173,784)</u>	<u>16,324</u>	<u>(103,489)</u>
<b>EARNINGS PER SHARE</b>					
Basic earnings (losses) per share (US\$)	30	0.02727	(0.37214)	0.00869	(0.20776)
Diluted earnings (losses) per share (US\$)	30	0.02727	(0.37214)	0.00869	(0.20776)

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

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the 9 months ended		For the 3 months ended	
		September 30,		September 30,	
		2016	2015	2016	2015
		ThUS\$	ThUS\$	ThUS\$	ThUS\$
		Unaudited			
NET INCOME (LOSS)		47,092	(173,784)	16,324	(103,489)
Components of other comprehensive income that will not be reclassified to income before taxes					
Other comprehensive income, before taxes, gain (losses) by remeasurements of post employment benefit obligations	25	(1,418)	-	(149)	-
Total other comprehensive income that will not be reclassified to income before taxes		(1,418)	-	(149)	-
Components of other comprehensive income that will be reclassified to income before taxes					
Currency translation differences					
Gains (losses) on currency translation, before tax	29	516,548	(1,437,025)	(32,514)	(776,941)
Other comprehensive income, before taxes, currency translation differences		516,548	(1,437,025)	(32,514)	(776,941)
Cash flow hedges					
Gains (losses) on cash flow hedges before taxes	19	101,123	110,051	39,586	(22,452)
Other comprehensive income (losses), before taxes, cash flow hedges		101,123	110,051	39,586	(22,452)
Total other comprehensive income that will be reclassified to income before taxes		617,671	(1,326,974)	7,072	(799,393)
Other components of other comprehensive income (loss), before taxes		616,253	(1,326,974)	6,923	(799,393)
Income tax relating to other comprehensive income that will not be reclassified to income					
Income tax relating to new measurements on defined benefit plans	18	427	-	44	-
Accumulate income tax relating to other comprehensive income that will not be reclassified to income		427	-	44	-
Income tax relating to other comprehensive income that will be reclassified to income					
Income tax related to cash flow hedges in other comprehensive income		(27,608)	(28,143)	(10,668)	8,252
Income taxes related to components of other comprehensive income that will be reclassified to income		(27,608)	(28,143)	(10,668)	8,252
Total Other comprehensive income		589,072	(1,355,117)	(3,701)	(791,141)
Total comprehensive income (loss)		636,164	(1,528,901)	12,623	(894,630)
Comprehensive income (loss) attributable to owners of the parent		596,431	(1,537,542)	2,368	(889,310)
Comprehensive income (loss) attributable to non-controlling interests		39,733	8,641	10,255	(5,320)
TOTAL COMPREHENSIVE INCOME (LOSS)		636,164	(1,528,901)	12,623	(894,630)

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

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	Attributable to owners of the parent												
	Change in other reserves											Total equity	
	Share capital	Treasury shares	Currency translation reserve	Cash flow hedging reserve	Actuarial gains or losses on defined benefit plans reserve	Shares based payments reserve	Other sundry reserve	Total other reserve	Retained earnings	Parent's ownership interest	Non-controlling interest		
ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$		
Equity as of January 1, 2016	2,545,705	(178)	(2,576,041)	(90,510)	(10,717)	35,647	2,634,679	(6,942)	317,950	2,856,535	81,013	2,937,548	
Total increase (decrease) in equity													
Comprehensive income													
Gain (losses)	25	-	-	-	-	-	-	-	14,875	14,875	32,217	47,092	
Other comprehensive income		-	509,728	72,819	(991)	-	-	581,556	-	581,556	7,516	589,072	
Total comprehensive income		-	509,728	72,819	(991)	-	-	581,556	14,875	596,431	39,733	636,164	
Transactions with shareholders													
Dividends	25	-	-	-	-	-	-	-	(4,463)	(4,463)	-	(4,463)	
Increase (decrease) through transfers and other changes, equity	25-34	(4,637)	-	-	-	2,740	5,693	8,433	(292)	3,504	(31,669)	(28,165)	
Total transactions with shareholders		(4,637)	-	-	-	2,740	5,693	8,433	(4,755)	(959)	(31,669)	(32,628)	
Closing balance as of													
September 30, 2016 (Unaudited)		2,541,068	(178)	(2,066,313)	(17,691)	(11,708)	38,387	2,640,372	583,047	328,070	3,452,007	89,077	3,541,084

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



LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	Attributable to owners of the parent											
	Change in other reserves							Retained earnings	Parent's ownership interest	Non-controlling interest	Total equity	
	Share capital	Treasury shares	Currency translation reserve	Cash flow hedging reserve	Shares based payments reserve	Other sundry reserve	Total other reserve					
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	
Equity as of January 1, 2015	2,545,705	(178)	(1,193,871)	(151,340)	29,642	2,635,748	1,320,179	536,190	4,401,896	101,799	4,503,695	
Total increase (decrease) in equity												
Comprehensive income												
Gain (losses)	25	-	-	-	-	-	-	(203,018)	(203,018)	29,234	(173,784)	
Other comprehensive income		-	(1,418,037)	83,513	-	-	(1,334,524)	-	(1,334,524)	(20,593)	(1,355,117)	
Total comprehensive income		-	(1,418,037)	83,513	-	-	(1,334,524)	(203,018)	(1,537,542)	8,641	(1,528,901)	
Transactions with shareholders												
Increase (decrease) through												
transfers and other changes, equity	25-34	-	-	-	-	3,809	4,250	8,059	1,564	9,623	(31,762)	(22,139)
Total transactions with shareholders		-	-	-	-	3,809	4,250	8,059	1,564	9,623	(31,762)	(22,139)
Closing balance as of												
September 30, 2015 (Unaudited)		2,545,705	(178)	(2,611,908)	(67,827)	33,451	2,639,998	(6,286)	334,736	2,873,977	78,678	2,952,655

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

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT – METHOD

	Note	For the periods ended	
		September 30,	
		2016	2015
		ThUS\$	ThUS\$
		Unaudited	
Cash flows from operating activities			
Cash collection from operating activities			
Proceeds from sales of goods and services		7,284,896	8,546,230
Other cash receipts from operating activities		50,859	69,853
Payments for operating activities			
Payments to suppliers for goods and services		(4,895,792)	(5,316,193)
Payments to and on behalf of employees		(1,525,978)	(1,669,876)
Other payments for operating activities		(130,113)	(231,010)
Interest received		8,228	34,465
Income taxes refunded (paid)		(47,483)	(30,077)
Other cash inflows (outflows)	35	(126,740)	(191,865)
Net cash flows from operating activities		<u>617,877</u>	<u>1,211,527</u>
Cash flows used in investing activities			
Other cash receipts from sales of equity or debt instruments of other entities		2,291,190	273,390
Other payments to acquire equity or debt instruments of other entities		(2,167,634)	(348,301)
Amounts raised from sale of property, plant and equipment		73,096	45,016
Purchases of property, plant and equipment		(522,454)	(886,475)
Amounts raised from sale of intangible assets		4	104
Purchases of intangible assets		(61,454)	(13,357)
Other cash inflows (outflows)	35	(3,308)	15,301
Net cash flow from (used in) investing activities		<u>(390,560)</u>	<u>(914,322)</u>
Cash flows from (used in) financing activities			
Payments to acquire or redeem the shares of the entity		-	-
Amounts raised from long-term loans		1,655,987	1,161,306
Amounts raised from short-term loans		230,000	115,000
Loans repayments		(1,501,913)	(949,875)
Payments of finance lease liabilities		(229,927)	(241,778)
Dividends paid		(30,687)	(25,683)
Interest paid		(282,312)	(237,148)
Other cash inflows (outflows)	35	(170,667)	(33,600)
Net cash flows from (used in) financing activities		<u>(329,519)</u>	<u>(211,778)</u>
Net increase (decrease) in cash and cash equivalents before effect of exchanges rate change		(102,202)	85,427
Effects of variation in the exchange rate on cash and cash equivalents		57,081	(51,897)
Net increase (decrease) in cash and cash equivalents		(45,121)	33,530
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	35	<u>753,497</u>	<u>989,396</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	35	<u><u>708,376</u></u>	<u><u>1,022,926</u></u>

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

## LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016 (UNAUDITED)

#### NOTE 1 - GENERAL INFORMATION

LATAM Airlines Group S.A. (the “Company”) is a public company registered with the Chilean Superintendency of Securities and Insurance (SVS), under No.306, whose shares are quoted in Chile on the Stock Brokers - Stock Exchange (Valparaíso) - the Chilean Electronic Stock Exchange and the Santiago Stock Exchange; it is also quoted in the United States of America on the New York Stock Exchange (“NYSE”) in New York in the form of American Depositary Receipts (“ADRs”).

Its principal business is passenger and cargo air transportation, both in the domestic markets of Chile, Peru, Argentina, Colombia, Ecuador and Brazil and in a developed series of regional and international routes in America, Europe and Oceania. These businesses are performed directly or through its subsidiaries in different countries. In addition, the Company has subsidiaries operating in the freight business in Mexico, Brazil and Colombia.

The Company is located in Santiago, Chile, at Avenida Américo Vespucio Sur No. 901, commune of Renca.

Corporate Governance practices of the Company are set in accordance with Securities Market Law the Corporations Law and its regulations, and the regulations of the SVS and the laws and regulations of the United States of America and the U.S. Securities and Exchange Commission (“SEC”) of that country, with respect to the issuance of ADRs.

On July 2, 2016, LATAM received the approval by Comissão de Valores Mobiliários (“CVM”) for a discontinuation of Brazilian LATAM depository receipts-BDRS level III (“BDRs”), supported by common shares of the company and, consequently, our registration of the foreign issuer. On May 24, 2016, LATAM reported as an Essential Fact the maturity date May 23, 2016 deadline for holders of BDRs to express their option to keep the shares and the blockade by BM&FBOVESPA with the same date of the respective balances of shares of the holders of BDRs who chose to adhere to the procedure for sale of shares through the procedure called Sale Facility and assigned for this purpose a theoretical value of sales in the Santiago Stock Exchange. On June 9, 2016, LATAM Airlines Group S.A. reported that BTG Pactual Chile S.A. Stockbrokers (“BTG Pactual Chile”), a Chilean institution contracted by the Company, made the sale on the Santiago Stock Exchange of the shares of the respective holders who adhered to Sale Facility procedure.

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

The majority shareholder of the Company is the Cueto Group, which through Costa Verde Aeronáutica S.A., Costa Verde Aeronáutica SpA, Costa Verde Aeronáutica Tres SpA, Inversiones Nueva Costa Verde Aeronáutica Limitada, Inversiones Priesca Dos y Cía. Ltda., Inversiones Caravia Dos y Cía. Ltda., Inversiones El Fano Dos y Cía. Ltda., Inversiones La Espasa Dos S.A., Inversiones Puerto Claro Dos Limitada, Inversiones La Espasa Dos y Cía. Ltda., Inversiones Puerto Claro Dos y Cía. Limitada and Inversiones Mineras del Cantábrico S.A. owns 31.47% of the shares issued by the Company, and therefore is the controlling shareholder of the Company in accordance with the provisions of the letter b) of Article 97 and Article 99 of the Securities Market Law, given that there is a decisive influence on its administration.

As of September 30, 2016, the Company had a total of 1,587 registered shareholders. At that date approximately 4.89 % of the Company's share capital was in the form of ADRs.

For the period ended September 30, 2016, the Company had an average of 49,031 employees, ending this period with a total of 46,862 employees, spread over 8,342 Administrative employees, 5,032 in Maintenance, 15,987 in Operations, 9,022 in Cabin Crew, 3,937 in Controls Crew, and 4,542 in Sales.

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

a) Participation rate

Tax No.	Company	Country of origin	Functional Currency	As September 30, 2016			As December 31, 2015		
				Direct	Indirect	Total	Direct	Indirect	Total
				%	%	%	%	%	%
				Unaudited					
96.518.860-6	Lantours Division Servicios Terrestres S.A. and Subsidiary	Chile	US\$	99.9900	0.0100	100.0000	99.9900	0.0100	100.0000
96.763.900-1	Inmobiliaria Aeronáutica S.A.	Chile	US\$	99.0100	0.9900	100.0000	99.0100	0.9900	100.0000
96.969.680-0	Lan Pax Group S.A. and Subsidiaries	Chile	US\$	99.8361	0.1639	100.0000	99.8361	0.1639	100.0000
Foreign	Lan Perú S.A.	Peru	US\$	49.0000	21.0000	70.0000	49.0000	21.0000	70.0000
Foreign	Lan Chile Investments Limited and Subsidiary	Cayman Inland	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
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
Foreign	Laser Cargo S.R.L.	Argentina	ARS	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Lan Cargo Overseas Limited and Subsidiaries	Bahamas	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.969.690-8	Lan Cargo Inversiones S.A. and Subsidiary	Chile	US\$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.575.810-0	Inversiones Lan S.A. and Subsidiaries	Chile	US\$	99.7100	0.2900	100.0000	99.7100	0.2900	100.0000
59.068.920-3	Technical Training LATAM S.A.	Chile	CLP	99.8300	0.1700	100.0000	99.8300	0.1700	100.0000
Foreign	TAM S.A. and Subsidiaries (*)	Brazil	BRL	63.0901	36.9099	100.0000	63.0901	36.9099	100.0000

(\*) As of September 30, 2016, indirect ownership participation on TAM S.A and subsidiaries is from Holdco I S.A., LATAM is entitled to 99,9983% of the economic rights in TAM. Additionally LATAM Airlines owns 226 voting shares, equivalent as of 19,42% of total of voting shares. Additionally on March 29, 2016, LATAM Airlines Group S.A. has changed 675 series B shares by 675 series A shares, according to the provisional measure No. 714 of the Brazilian government.

Thus LATAM Airlines Group S.A. is owns 901 shares with voting rights of Holdco I S.A., equivalent to 49% of total shares with voting rights of that company.

b) Statement of financial position

Tax No.	Company	Statement of financial position						Net Income	
		As of September 30, 2016			As of December 31, 2015			For the periods ended September 30,	
		Assets	Liabilities	Equity	Assets	Liabilities	Equity	2016	2015
		ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	Gain/(loss)	
Unaudited						Unaudited			
96.518.860-6	Lantours Division Servicios Terrestres S.A. and Subsidiary	4,259	2,025	2,234	5,613	5,522	91	2,143	2,543
96.763.900-1	Inmobiliaria Aeronáutica S.A.	37,339	12,069	25,270	39,302	14,832	24,470	800	1,339
96.969.680-0	Lan Pax Group S.A. and Subsidiaries (*)	452,861	1,016,984	(555,945)	519,588	1,049,232	(521,907)	(40,342)	(21,433)
Foreign	Lan Perú S.A.	337,474	322,264	15,210	255,691	240,938	14,753	1,847	(1,793)
Foreign	Lan Chile Investments Limited and Subsidiary (*)	2,014	-	2,014	2,015	13	2,002	12	(1)
93.383.000-4	Lan Cargo S.A.	448,372	201,337	247,035	483,033	217,037	265,966	(19,086)	(56,973)
Foreign	Connecta Corporation	32,565	26,222	6,343	37,070	38,298	(1,228)	7,571	(8,845)
Foreign	Prime Airport Services Inc. and Subsidiary (*)	8,334	13,086	(4,752)	6,683	11,180	(4,497)	(255)	305
96.951.280-7	Transporte Aéreo S.A.	321,072	109,321	211,751	331,117	122,666	208,451	3,177	8,395
Foreign	Aircraft International Leasing Limited	-	-	-	-	4	(4)	-	-
96.631.520-2	Fast Air Almacenes de Carga S.A.	8,030	2,674	5,356	8,985	4,641	4,344	557	(4)
Foreign	Laser Cargo S.R.L.	22	54	(32)	27	39	(12)	-	(1)
Foreign	Lan Cargo Overseas Limited and Subsidiaries (*)	62,293	41,712	17,166	62,406	43,759	15,563	1,605	69
96.969.690-8	Lan Cargo Inversiones S.A. and Subsidiary (*)	65,776	80,174	(12,905)	54,179	68,220	(12,601)	(309)	3,207
96.575.810-0	Inversiones Lan S.A. and Subsidiaries (*)	10,547	6,975	3,524	16,512	14,676	1,828	1,608	2,823
59.068.920-3	Technical Training LATAM S.A.	2,529	580	1,949	1,527	266	1,261	522	427
Foreign	TAM S.A. and Subsidiaries (*)	5,442,326	4,845,623	514,883	4,711,316	4,199,223	437,953	22,345	(171,609)

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

Additionally, we have proceeded to consolidate the following special purpose entities: 1. JOL (Japanese Operating Lease) created in order to finance the purchase of certain aircraft; 2. Chercán Leasing Limited created to finance the pre-delivery payments on aircraft; 3. Guanay Finance Limited created to issue a bond collateralized with future credit card receivables; 4. Private investment funds and 5. Avoceta Leasing Limited created to finance the pre-delivery payments on aircraft. These companies have been consolidated as required by IFRS 10.

All the entities controlled have been included in the consolidation.

Changes in the scope of consolidation between January 1, 2015 and September 30, 2016, are detailed below:

(1) Incorporation or acquisition of companies

- At September, Inversiones LAN S.A., subsidiary of LATAM Airlines Group S.A., acquired 4,767 shares of Aerovías de Integración Regional Aires S.A. a non-controlling shareholder, equivalent to 0.0914%, consequently, the indirect participation of LATAM Airlines Group S.A. increases to 99.19061%
- On January 2016 it was registered at the Public Registry of Commerce, the Increase in Share Capital and statutory modification for the purpose of creating a new class of shares of Lan Argentina S.A., subsidiary of Lan Pax Group S.A., for a total of 90,000,000 Class "C" shares registered non-endorsable and non-voting. Lan Pax Group S.A. participated in this capital increase, changing its ownership to 4.87%, consequently, the indirect participation of LATAM Airlines Group S.A. increases to 95.85660%
- On October 2015, Rampas Airport Services S.A., subsidiary of Lan Pax Group S.A. increases its capital and paid in the amount of MUS \$ 6,000 by issuing new shares, changing the property of the company as follows: Lan Pax Group S.A. increased its share to 99.99738%, Inversiones Lan S.A. decreased its stake to 0.00002% and Aerolane Líneas Aéreas Nacionales del Ecuador S.A. acquires stake for 0.0026%.

(2) Dissolution of companies

- In July 2015, the Company Ladeco Cargo S.A. subsidiary of Lan Cargo S.A. was dissolved.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Preparation

The interim consolidated financial statements of LATAM Airlines Group S.A. for the period ended September 30, 2016, have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") incorporated therein and with the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRIC).

Law No. 20,780 issued on September 29, 2014, introduced modifications to the income tax system in Chile and other tax matters. On October 17, 2014 the Chilean Superintendence of Securities and Insurance (the "SVS") issued Circular No. 856, which established that the effects of the change in the income tax rates on deferred tax assets and liabilities must be recognized directly within "Retained earnings" instead of the income statement as required by IAS 12. In order to comply with

IAS 12, the financial statements for the period ended December 31, 2014 are different from those presented to the SVS as the modifications introduced by Law No. 20,780 and Circular No. 856 have been recognized within the income statement.

As from the year 2016, the differences between the financial statements presented to the Chilean regulator and those prepared to comply with IAS 12 no longer exist so no adjustment is necessary.

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

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

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

(a) Accounting pronouncements with implementation effective from January 1, 2016:

(i) Standards and amendments	Date of issue	Mandatory Application: Annual periods beginning on or after
Amendment to IFRS 11: Joint arrangements.	May 2014	01/01/2016
Amendment IAS 1: Presentation of Financial Statements.	December 2014	01/01/2016
Amendment to IFRS 10: Consolidated financial statements, IFRS 12: Disclosure of Interests in other entities and IAS 28: Investments in associates and joint ventures.	December 2014	01/01/2016
Amendment to IAS 16: Property, plant and equipment, and IAS 38: Intangible assets.	May 2014	01/01/2016
Amendment to IAS 27: Separate financial statements.	August 2014	01/01/2016

(ii) Improvements	Date of issue	Mandatory Application: Annual periods beginning on or after
Improvements to International Financial Reporting Standards (2012-2014 cycle): IFRS 5 Non-current assets held for sale and discontinued operations; IFRS 7 Financial instruments: Disclosures; IAS 19 Employee benefits and IAS 34 Interim financial reporting.	September 2014	01/01/2016

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

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

(i) Standards and amendments	Date of issue	Mandatory Application: Annual periods beginning on or after
Amendment to IFRS 4: Insurance Contracts.	September 2016	01/01/2018
Amendment to IAS 7: Statement of Cash Flows.	January 2016	01/01/2017
Amendment to IAS 12: Income Taxes.	January 2016	01/01/2017
IFRS 9: Financial instruments.	December 2009	01/01/2018
IFRS 15: Revenue from contracts with customers (1).	May 2014	01/01/2018
Amendment to IFRS 9: Financial instruments.	November 2013	01/01/2018
Amendment to IFRS 15: Revenue from contracts with customers.	April 2016	01/01/2018
Amendment to IFRS 2: Share-based payments	June 2016	01/01/2018
IFRS 16: Leases (2).	January 2016	01/01/2019
Amendment to IFRS 10: Consolidated financial statements and IAS 28 Investments in associates and joint ventures.	September 2014	To be determined



The Company's management believes that the adoption of the standards, amendments and interpretations described above but not yet effective would not have had a significant impact on the Company's consolidated financial statements in the year of their first application, except for IFRS 15 and IFRS 16, which are still under evaluation.

- (1) IFRS 15 Revenue from Contracts with Customers supersedes actual standard for revenue recognition that actually uses the Company, as IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standards supersedes IFRS 15 supersedes, IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers; and SIC-31 Revenue - Barter Transactions Involving Advertising Services.
- (2) The IFRS 16 Leases add important changes in the accounting for lessees by introducing a similar treatment to financial leases for all operating leases with a term of more than 12 months. This mean, in general terms, that an asset should be recognized for the right to use the underlying leased assets and a liability representing its present value of payments associate to the agreement. Monthly leases payments will be replace by the asset depreciation and a financial cost in the income statement.

LATAM Airlines Group S.A. and subsidiaries are still assessing these standard to determinate the effect on their Financial Statements, covenants and other financial indicators.

## 2.2. Basis of Consolidation

### (a) Subsidiaries

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

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

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

(b) Transactions with non-controlling interests

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

(c) Sales of subsidiaries

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

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

(d) Investees or associates

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

### 2.3. Foreign currency transactions

(a) Presentation and functional currencies

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

(b) Transactions and balances

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

## (c) Group entities

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

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

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

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

## 2.4. Property, plant and equipment

The land of LATAM Airlines Group S.A. and Subsidiaries is recognized at cost less any accumulated impairment loss. The rest of the Property, plant and equipment are registered, initially and subsequently, at historic cost less the corresponding depreciation and any impairment loss.

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

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

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

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

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

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

## 2.5. Intangible assets other than goodwill

### (a) Brands, Airport slots and Loyalty program

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

Airport slots – Air transport CGU

Loyalty program – Coalition and loyalty program Multiplus CGU

Brand – Air transport CGU

(See Note 16)

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

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

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

### (b) Computer software

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

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

## 2.6. Goodwill

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

## 2.7. Borrowing costs

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

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

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

## 2.9. Financial assets

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

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

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

### (b) Loans and receivables

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

The regular purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value,

and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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

At the date of each consolidated statement of financial position, the Company assesses if there is objective evidence that a financial asset or group of financial assets may have suffered an impairment loss.

## 2.10. Derivative financial instruments and hedging activities

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

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

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

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

- (a) Fair value hedges

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

- (b) Cash flow hedges

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

income under Other gains (losses). Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

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

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

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

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

(c) Derivatives not booked as a hedge

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

## 2.11. Inventories

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

## 2.12. Trade and other accounts receivable

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

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

of income in Cost of sales. When an account receivable is written off, it is charged to the allowance account for accounts receivable.

#### 2.13. Cash and cash equivalents

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

#### 2.14. Capital

The common shares are classified as net equity.

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

#### 2.15. Trade and other accounts payables

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

#### 2.16. Interest-bearing loans

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

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

#### 2.17. Current and deferred taxes

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

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

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



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

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

## 2.18. Employee benefits

### (a) Personnel vacations

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

### (b) Share-based compensation

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

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

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

### (d) Incentives

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

## 2.19. Provisions

Provisions are recognized when:

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

## 2.20. Revenue recognition

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

- (a) Rendering of services
  - (i) Passenger and cargo transport

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

Consistent with the foregoing, the Company presents the deferred revenues, generated by anticipated sale of flight tickets and freight services, in heading Other non - financial liabilities in the Statement of Financial Position.

- (ii) Frequent flyer program

The Company currently has a frequent flyer programs, whose objective is customer loyalty through the delivery of kilometers or points fly whenever the programs holders make certain flights, use the services of entities registered with the program or make purchases with an associated credit card. The kilometers or points earned can be exchanged for flight tickets or other services of associated entities.

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

- (iii) Other revenues

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

- (b) Dividend income

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

## 2.21. Leases

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

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

Every lease payment is separated between the liability component and the financial expenses so as to obtain a constant interest rate over the outstanding amount of the debt. The corresponding

leasing obligations, net of financial charges, are included in Other financial liabilities. The element of interest in the financial cost is charged to the consolidated statement of income over the lease period so that it produces a constant periodic rate of interest on the remaining balance of the liability for each year. The asset acquired under a financial lease is depreciated over its useful life and is included in Property, plant and equipment.

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

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

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

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

2.23. Maintenance

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

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

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

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

2.24. Environmental costs

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

## NOTE 3 - FINANCIAL RISK MANAGEMENT

### 3.1. Financial risk factors

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

#### (a) Market risk

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

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

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

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

##### Exposition:

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

##### Mitigation:

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

##### Fuel Hedging Results:

During the period ended at September 30, 2016, the Company recognized losses of US\$ 52.5 million on fuel derivative. During the same period of 2015, the Company recognized losses of US\$ 198.9 million for the same reason.

At September 30, 2016, the market value of its fuel positions amounted to US\$ 3.3 million (positive). At December 31, 2015, this market value was US\$ 56.4 million (negative).

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

Positions as of September 30, 2016 (*) (Unaudited)	Maturities			
	Q416	Q117	Q217	Total
Percentage of the hedge of expected consumption value	48%	20%	15%	28%

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

Positions as of December 31, 2015 (*)	Maturities				
	Q116	Q216	Q316	Q416	Total
Percentage of the hedge of expected consumption value	63%	27%	27%	11%	32%

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

### Sensitivity analysis

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

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

The following table shows the sensitivity analysis of the financial instruments according to reasonable changes in the fuel price and their effect on equity. The term of the projection was defined until the end of the last current fuel hedge contract, being the last business day of the last quarter of 2017.

The calculations were made considering a parallel movement of US\$ 5 per barrel in the curve of the BRENT and JET crude futures benchmark price at the end of September 2016 and the end of December, 2015.

Benchmark price (US\$ per barrel)	Positions as of September 30, 2016	Positions as of December 31, 2015
	effect on equity (millions of US\$)	effect on equity (millions of US\$)
	(Unaudited)	
+5	+8.97	+5.41
-5	- 8.78	-2.78

Given the fuel hedge structure during the first three quarters of 2016, which considers a hedge-free portion, a vertical fall by 5 dollars in the JET benchmark price (the monthly daily average), would have meant an impact of approximately US\$ 91.7 million in the cost of total fuel consumption for the same period. For the first three quarters of 2016, a vertical rise by 5 dollars in the JET benchmark price (the monthly daily average) would have meant an impact of approximately US\$ 91.2 million of increased fuel costs.

(ii) Foreign exchange rate risk:

Exposition:

The functional and presentation currency of the Financial Statements of the Parent Company is the United States dollar, so the risk of Transactional exchange rate and Conversion arises mainly from its own operating activities of the business, strategic and accounting of the Company are denominated in a different currency than the functional currency.

LATAM Subsidiaries are also exposed to currency risk that impacts the consolidated results of the Company.

Most currency exposure of LATAM comes from the concentration of business in Brazil, which are mostly denominated in Brazilian Real (BRL), being actively managed by the company.

Additionally, the company manages the economic exposure to operating revenues in Euro (EUR), Pound Sterling (GBP), Australian Dollar (AUD), Colombian Peso (COP) and Chilean Peso (CLP).

In lower concentrations the Company is therefore exposed to fluctuations in others currencies, such as: Argentine Peso, Paraguayan Guaraní, Mexican Peso, Peruvian Sol and New Zealand Dollar.

Mitigation:

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

FX Hedging Results:

With the aim of reducing exposure to exchange rate risk on operating cash flows in 2016 and 2017, and secure the operating margin, LATAM and TAM conduct hedging through FX derivatives.

At September 30, 2016, the market value of its FX positions amounted to US\$ 4.8 million (negative). At end of December 2015 the market value was of US\$ 8.0 million (positive).

During the period ended at September 30, 2016 the Company recognized losses of US\$ 37.9 million on hedging FX. During the same period of 2015 the Company recognized gains of US\$ 12.9 million on hedging FX.

At end of September 2016, the Company has contracted FX derivatives for US\$ 150 million to BRL, US\$ 40 million to EUR, US\$ 30 million to GBP, US\$ 20 million to AUD, US\$ 21 million to COP and US\$ 15 million to CLP. At end of December 2015, the Company had contracted FX for US\$ 270 million to BRL, US\$ 30 million to EUR and US\$ 15 million to GBP. For AUD, COP and CLP there were no current positions.

Sensitivity analysis:

A depreciation of exchange rate R\$/ US\$, US\$/EUR, US\$/GBP, US\$/AUD, COP\$/US\$ and CLP\$/US\$ affects negatively the Company for a rise of its costs in US\$, however, it also affects positively the value of contracted derivate positions.

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

The following table presents the sensitivity of derivative FX Forward instruments agrees with reasonable changes to exchange rate and its effect on equity. The projection term was defined until the end of the last current contract hedge, being the last business day of the last quarter of 2016:

Appreciation (depreciation)* of R\$/EUR/GBP/AUD/CLP/COP	Effect at September 30, 2016 Millions of US\$	Effect at December 31, 2015 Millions of US\$
	(Unaudited)	
-10%	-7.10	-21.28
+10%	+10.70	+16.71

In the case of TAM S.A. which operates with the Brazilian Real as its functional currency, a large proportion of the company's assets liabilities are expressed in United States Dollars. Therefore, this subsidiary's profit and loss varies when its financial assets and liabilities, and its accounts receivable listed in dollars are converted to Brazilian Reals. This impact on profit and loss is consolidated in the Company.

In order to reduce the volatility on the financial statements of the Company caused by rises and falls in the R\$/US\$ exchange rate, the Company has conducted transactions for to reduce the net US\$ liabilities held by TAM S.A.

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

Appreciation (depreciation)* of R\$/US\$	Effect at September 30, 2016 Millons of US\$	Effect at September 30, 2015 Millons of US\$
	(Unaudited)	
-10%	+140.0	+54.9
+10%	-140.0	-54.9

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

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

The profit or losses caused by changes in the fair value of hedging instruments are segregated between intrinsic value and temporary value. The intrinsic value is the actual percentage of cash flow covered, initially shown in equity and later transferred to income, while the hedge transaction

is recorded in income. The temporary value corresponds to the ineffective portion of cash flow hedge which is recognized in the financial results of the Company (Note 19).

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

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

Appreciation (depreciation) of R\$/US\$	Effect at September 30, 2016 Millions of US\$	Effect at December 31, 2015 Millions of US\$
	(Unaudited)	
-10%	+354.36	+296.41
+10%	-289.93	-242.52

(iii) Interest -rate risk:

Exposition:

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

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

Mitigation:

In order to reduce the risk of an eventual rise in interest rates, the Company has signed interest-rate swap and call option contracts. Currently a 63% (71% at December 31, 2015) of the debt is fixed to fluctuations in interest rate.

Rate Hedging Results:

At September 30, 2016, the market value of the positions of interest rate derivatives amounted to US\$ 24.0 million (negative). At end of December 2015 this market value was US\$ 39.8 million (negative).



Sensitivity analysis:

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

Increase (decrease) futures curve in libor 3 months	Positions as of September 30, 2016 effect on profit or loss before tax (millions of US\$)	Positions as of September 30, 2015 effect on profit or loss before tax (millions of US\$)
	(Unaudited)	
+100 basis points	-33.92	-26.98
-100 basis points	+33.92	+26.98

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

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

Increase (decrease) futures curve in libor 3 months	Positions as of September 30, 2016 effect on equity (millions of US\$)	Positions as of December 31, 2015 effect on equity (millions of US\$)
	(Unaudited)	
+100 basis points	+5.04	+8.71
-100 basis points	-5.18	-9.02

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

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

## (b) Credit risk

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

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

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

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

(i) Financial activities

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

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

The Company has no guarantees to mitigate this exposure.

(ii) Operational activities

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

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

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

(ii) Credit quality of financial assets

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

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

(c) Liquidity risk

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

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

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

The liquid funds balance as of September 30, 2016 is US\$1,359 million (US\$ 1,361 million at December 31, 2015), invested in short term instruments through financial high credit rating levels entities.

In addition to the liquid funds, the Company has access to short term credit line. As of September 30, 2016, LATAM has working capital credit lines with multiple banks.

Class of liability for the analysis of liquidity risk ordered by date of maturity as of September 30, 2016 (Unaudited)  
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2 Chile.

Tax No.	Creditor	Creditor country	Currency	Up to	More than	More than	More than	More than	Total	Nominal value	Amortization	Effective rate	Nominal rate	
				90 days	90 days to one year	one to three years	three to five years	five years						ThUS\$
Loans to exporters														
97.032.000-8	BBVA	Chile	US\$	100,417	-	-	-	-	100,417	100,000	At Expiration	1.65	1.65	
97.036.000-K	SANTANDER	Chile	US\$	-	30,193	-	-	-	30,193	30,000	At Expiration	2.39	2.39	
97.030.000-7	ESTADO	Chile	US\$	40,161	-	-	-	-	40,161	40,000	At Expiration	1.65	1.65	
97.003.000-K	BANCO DO BRASIL	Chile	US\$	-	71,969	-	-	-	71,969	70,000	At Expiration	2.82	2.82	
97.951.000-4	HSBC	Chile	US\$	12,041	-	-	-	-	12,041	12,000	At Expiration	1.35	1.35	
Bank loans														
97.023.000-9	CORPBANCA	Chile	UF	21,287	62,529	78,723	22,410	-	184,949	174,747	Quarterly	4.10	4.10	
0-E	BLADEX	U.S.A.	US\$	6,122	6,021	32,514	7,679	-	52,336	47,500	Semiannual	4.80	4.80	
0-E	DVB BANK SE	U.S.A.	US\$	126	291	28,911	-	-	29,328	28,911	Quarterly	1.77	1.77	
97.036.000-K	SANTANDER	Chile	US\$	1,579	3,898	228,223	-	-	233,700	225,117	Quarterly	3.65	3.65	
Obligations with the public														
0-E	BANK OF NEW YORK	E.E.U.U.	US\$	18,125	18,125	72,500	536,250	-	645,000	500,000	At Expiration	7.77	7.25	
Guaranteed obligations														
0-E	CREDIT AGRICOLE	Francia	US\$	17,127	38,891	324,354	39,118	5,563	425,053	399,776	Quarterly	2.44	2.29	
0-E	BNP PARIBAS	U.S.A.	US\$	15,468	47,975	129,792	124,931	282,038	600,204	524,645	Trimestral	2.74	2.70	
0-E	WELLS FARGO	U.S.A.	US\$	35,834	107,645	287,462	288,060	447,050	1,166,051	1,087,654	Trimestral	2.35	1.66	
0-E	WILMINGTON TRUST COMPANY	U.S.A.	US\$	27,690	78,923	206,971	202,183	757,505	1,273,272	984,563	Quarterly	4.25	4.25	
0-E	CITIBANK	U.S.A.	US\$	20,060	60,522	162,969	165,401	204,813	613,765	565,542	Quarterly	2.63	1.88	
97.036.000-K	SANTANDER	Chile	US\$	5,809	17,515	47,124	47,768	32,437	150,653	143,885	Quarterly	1.88	1.34	
0-E	BTMU	U.S.A.	US\$	3,126	9,452	25,488	25,928	30,493	94,487	88,757	Quarterly	2.19	1.59	
0-E	APPLE BANK	U.S.A.	US\$	1,534	4,651	12,559	12,795	15,447	46,986	44,114	Quarterly	2.14	1.54	
0-E	US BANK	U.S.A.	US\$	18,586	55,646	147,517	146,212	248,928	616,889	547,341	Quarterly	3.99	2.81	
0-E	DEUTSCHE BANK	U.S.A.	US\$	6,103	18,439	33,582	31,596	52,044	141,764	122,197	Quarterly	3.76	3.76	
0-E	NATIXIS	France	US\$	14,570	44,136	118,800	95,734	216,625	489,865	434,702	Quarterly	2.51	2.48	
0-E	HSBC	U.S.A.	US\$	825	2,484	6,651	6,692	10,121	26,773	24,561	Quarterly	2.88	2.07	
0-E	PK AirFinance	U.S.A.	US\$	2,248	6,892	19,605	24,414	6,933	60,092	56,769	Monthly	2.23	2.23	
0-E	KFW IPEX-BANK	Germany	US\$	2,486	7,535	18,991	11,471	-	40,483	38,449	Quarterly	2.36	2.36	
0-E	AIRBUS FINANCIAL	E.E.U.U.	US\$	1,973	5,927	15,974	9,774	-	33,648	31,981	Mensual	2.73	2.73	
0-E	INVESTEC	England	US\$	1,808	5,648	15,116	15,210	15,317	53,099	44,000	Semestral	5.47	5.47	
Otras obligaciones garantizadas														
0-E	CITIBANK	U.S.A.	US\$	2,097	6,305	325,669	-	-	334,071	313,000	At Expiration	3.35	2.85	
0-E	DVB Bank SE	U.S.A.	US\$	6,153	-	-	-	-	6,153	6,113	Quarterly	2.61	2.61	
Financial leases														
0-E	ING	U.S.A.	US\$	7,567	17,671	35,932	16,158	-	77,328	70,374	Quarterly	5.53	4.89	
0-E	CREDIT AGRICOLE	France	US\$	1,770	5,408	1,832	-	-	9,010	8,889	Quarterly	1.66	1.66	
0-E	CITIBANK	U.S.A.	US\$	6,083	18,250	48,667	20,346	-	93,346	83,122	Quarterly	6.40	5.67	
0-E	PEFCO	U.S.A.	US\$	17,558	52,673	78,692	7,779	-	156,702	146,600	Quarterly	5.38	4.78	
0-E	BNP PARIBAS	U.S.A.	US\$	11,505	34,725	67,440	16,261	-	129,931	122,825	Quarterly	4.12	3.68	
0-E	WELLS FARGO	U.S.A.	US\$	5,590	16,759	44,627	44,528	7,438	118,942	107,961	Quarterly	3.98	3.54	
0-E	DVB BANK SE	U.S.A.	US\$	4,770	14,305	-	-	-	19,075	18,779	Quarterly	2.48	2.48	
Other loans														
0-E	CITIBANK (*)	U.S.A.	US\$	26,905	76,711	207,042	130,186	-	440,844	391,738	Quarterly	6.00	6.00	
Hedging derivatives														
-	OTROS	-	US\$	7,816	17,460	12,428	(942)	100	36,861	-	-	-	-	
Total				472,919	965,574	2,836,155	2,047,942	2,332,852	8,655,441	7,636,612				

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

Class of liability for the analysis of liquidity risk ordered by date of maturity as of September 30, 2016 (Unaudited)  
Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Up to	More than	More than	More than	More than	Total	Nominal	Amortization	Effective	Nominal
				90 days	90 days to one year	one to three years	three to five years	five years		value		rate	rate
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$		%	%
Bank loans													
0-E	NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ	Holand	US\$	179	493	1,315	1,314	219	3,520	3,002	Monthly	6.01	6.01
0-E	CITIBANK	U.S.A.	US\$	1,516	204,678	-	-	-	206,194	200,000	At Expiration	3.25	3.00
Obligation with the public													
0-E	THE BANK OF NEW YORK	U.S.A.	US\$	32,000	332,000	83,750	583,750	-	1,031,500	800,000	At Expiration	8.17	8.00
Financial leases													
0-E	AFS INVESTMENT IX LLC	U.S.A.	US\$	2,743	7,699	20,523	11,113	-	42,078	37,505	Monthly	1.25	1.25
0-E	DVB BANK SE	U.S.A.	US\$	121	284	-	-	-	405	401	Monthly	2.35	2.35
0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A.	US\$	-	-	-	-	-	-	-	Monthly	2.14	2.14
0-E	KFW IPEX-BANK	Germany	US\$	597	1,754	386	-	-	2,737	2,701	Monthly/Quarterly	2.64	2.64
0-E	NATIXIS	France	US\$	2,645	9,088	22,879	42,658	41,966	119,236	108,553	Quarterly/Semiannual	4.74	4.74
0-E	PK AIRFINANCE US, INC.	U.S.A.	US\$	19,212	-	-	-	-	19,212	19,164	Monthly	2.60	2.60
0-E	WACAPOU LEASING S.A.	Luxemburg	US\$	831	2,379	6,441	6,536	2,098	18,285	16,691	Quarterly	2.85	2.85
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	11,928	32,053	85,934	182,320	-	312,235	287,788	Quarterly	4.03	3.97
0-E	BANCO IBM S.A	Brazil	BRL	368	1,176	402	-	-	1,946	1,296	Monthly	14.13	14.13
0-E	HP FINANCIAL SERVICE	Brazil	BRL	226	226	-	-	-	452	440	Monthly	10.02	10.02
0-E	SOCIÉTÉ GÉNÉRALE	France	BRL	142	453	340	-	-	935	624	Monthly	14.13	14.13
Total				76,361	601,333	221,970	827,691	44,283	1,771,638	1,490,877			

Class of liability for the analysis of liquidity risk ordered by date of maturity as of September 30, 2016 (Unaudited)  
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Up to	More than	More than	More than	More than	Total	Nominal	Amortization	Effective	Nominal
				90 days	90 days to one year	one to three years	three to five years	five years		value		rate	rate
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$		%	%
Trade and other accounts payables													
-	OTHERS	VARIOS	US\$	361,265	24,938	-	-	-	386,203	386,203	-	-	-
			CLP	38,559	-	-	-	-	38,559	38,559	-	-	-
			BRL	354,461	-	-	-	-	354,461	354,461	-	-	-
			Others currencies	253,028	11,489	-	-	-	264,517	264,517	-	-	-
Accounts payable to related parties currents													
78.997.060-2	Viajes Falabella Ltda.	Chile	CLP	126	-	-	-	-	126	126	-	-	-
0-E	Consultoría Administrativa Profesional S.A. de C.V.	Mexico	MXN	76	-	-	-	-	76	76	-	-	-
65.216.000-K	Comunidad Mujer	Chile	CLP	14	-	-	-	-	14	14	-	-	-
0-E	TAM Aviação Executiva e Taxi Aéreo S.A.	Brazil	BRL	10	-	-	-	-	10	10	-	-	-
78.591.370-1	Bethia S.A. y Filiales	Chile	CLP	5	-	-	-	-	5	5	-	-	-
0-E	Inversora Aeronáutica Argentina	Argentina	US\$	1	-	-	-	-	1	1	-	-	-
Total				1,007,545	36,427	-	-	-	1,043,972	1,043,972			
Total consolidated				1,556,825	1,603,334	3,058,125	2,875,633	2,377,135	11,471,052	10,171,461			

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2015  
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2 Chile.

Tax No.	Creditor	Creditor country	Currency	Up to	More than	More than	More than	More than	Total	Nominal value	Amortization	Effective rate %	Nominal rate %
				90 days	90 days to one year	one to three years	three to five years	five years					
Loans to exporters													
97.032.000-8	BBVA	Chile	US\$	100.253	-	-	-	-	100.253	100.000	At Expiration	1,00	1,00
97.036.000-K	SANTANDER	Chile	US\$	100.363	-	-	-	-	100.363	100.000	At Expiration	1,44	1,44
97.030.000-7	ESTADO	Chile	US\$	55.172	-	-	-	-	55.172	55.000	At Expiration	1,05	1,05
97.004.000-5	BANCO DE CHILE	Chile	US\$	50.059	-	-	-	-	50.059	50.000	At Expiration	1,42	1,42
97.003.000-K	BANCO DO BRASIL	Chile	US\$	70.133	-	-	-	-	70.133	70.000	At Expiration	1,18	1,18
97.951.000-4	HSBC	Chile	US\$	12.020	-	-	-	-	12.020	12.000	At Expiration	0,66	0,66
Bank loans													
97.023.000-9	CORPBANCA	Chile	UF	19.873	58.407	112.252	35.953	-	226.485	211.135	Quarterly	4,18	4,18
0-E	BANCO BLADEX	U.S.A.	US\$	-	9.702	30.526	15.514	-	55.742	50.000	Semiannual	4,58	4,58
0-E	DVB BANK SE	U.S.A.	US\$	146	430	154.061	-	-	154.637	153.514	Quarterly	1,67	1,67
97.036.000-K	SANTANDER	Chile	US\$	1.053	-	226.712	-	-	227.765	226.712	Quarterly	2,24	2,24
Obligations with the public													
0-E	BANK OF NEW YORK	U.S.A.	US\$	-	36.250	72.500	554.375	-	663.125	500.000	At Expiration	7,77	7,25
Guaranteed obligations													
0-E	CREDIT AGRICOLE	Francia	US\$	31.813	92.167	210.541	55.381	12.677	402.579	389.027	Quarterly	1,83	1,66
0-E	BNP PARIBAS	U.S.A.	US\$	9.899	29.975	82.094	83.427	148.904	354.299	319.397	Quarterly	2,29	2,22
0-E	WELLS FARGO	U.S.A.	US\$	35.636	106.990	285.967	286.959	554.616	1.270.168	1.180.751	Quarterly	2,27	1,57
0-E	WILMINGTON TRUST	U.S.A.	US\$	6.110	69.232	135.334	133.363	539.019	883.058	675.696	Quarterly	4,25	4,25
0-E	CITIBANK	U.S.A.	US\$	19.478	58.741	158.957	162.459	266.273	665.908	617.002	Quarterly	2,40	1,64
97.036.000-K	SANTANDER	Chile	US\$	5.585	16.848	45.653	46.740	50.124	164.950	159.669	Quarterly	1,47	0,93
0-E	BTMU	U.S.A.	US\$	2.992	9.035	24.541	25.214	39.930	101.712	96.954	Quarterly	1,82	1,22
0-E	APPLE BANK	U.S.A.	US\$	1.471	4.445	12.079	12.431	20.099	50.525	48.142	Quarterly	1,72	1,12
0-E	US BANK	U.S.A.	US\$	18.643	55.824	147.994	146.709	303.600	672.770	591.039	Quarterly	3,99	2,81
0-E	DEUTSCHE BANK	U.S.A.	US\$	5.923	17.881	39.185	30.729	63.268	156.986	136.698	Quarterly	3,40	3,40
0-E	NATIXIS	France	US\$	13.740	41.730	115.026	100.617	249.194	520.307	469.423	Quarterly	2,08	2,05
0-E	HSBC	U.S.A.	US\$	1.590	4.790	12.908	13.112	25.175	57.575	53.583	Quarterly	2,40	1,59
0-E	PK AirFinance	U.S.A.	US\$	2.172	6.675	18.928	20.812	18.104	66.691	62.514	Monthly	2,04	2,04
0-E	KFW IPEX-BANK	Germany	US\$	728	2.232	5.684	4.131	1.658	14.433	13.593	Quarterly	2,45	2,45
Other guaranteed obligations													
0-E	DVB BANK SE	U.S.A.	US\$	8.225	24.695	-	-	-	32.920	32.492	Quarterly	2,32	2,32
Financial leases													
0-E	ING	U.S.A.	US\$	9.214	26.054	41.527	28.234	-	105.029	94.998	Quarterly	5,13	4,57
0-E	CREDIT AGRICOLE	France	US\$	1.711	5.236	7.216	-	-	14.163	13.955	Quarterly	1,28	1,28
0-E	CITIBANK	U.S.A.	US\$	6.083	18.250	48.667	38.596	-	111.596	97.383	Quarterly	6,40	5,67
0-E	PEFCO	U.S.A.	US\$	17.556	52.674	115.934	23.211	-	209.375	192.914	Quarterly	5,37	4,77
0-E	BNP PARIBAS	U.S.A.	US\$	11.368	34.292	86.206	31.782	-	163.648	153.107	Quarterly	4,08	3,64
0-E	WELLS FARGO	U.S.A.	US\$	5.594	16.768	44.663	44.565	24.125	135.715	121.628	Quarterly	3,98	3,54
0-E	DVB BANK SE	U.S.A.	US\$	4.732	14.225	14.269	-	-	33.226	32.567	Quarterly	2,06	2,06
0-E	BANC OF AMERICA	U.S.A.	US\$	703	2.756	-	-	-	3.459	2.770	Monthly	1,41	1,41
Other loans													
0-E	BOEING	U.S.A.	US\$	655	533	151.362	-	-	152.550	151.362	At Expiration	1,80	1,80
0-E	CITIBANK (*)	U.S.A.	US\$	25.820	77.850	207.190	206.749	-	517.609	450.000	Quarterly	6,00	6,00
Hedging derivatives													
-	OTROS	-	US\$	12.232	33.061	40.986	3.688	16	89.983	85.653	-	-	-
Total				668.745	927.748	2.648.962	2.104.751	2.316.782	8.666.988	7.770.678			

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

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2015  
 Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Up to	More than	More than	More than	More than	Total	Nominal	Amortization	Effective	Nominal
				90	90 days	one	three	five		value		rate	rate
				days	to one	to three	to five	five	ThUS\$	ThUS\$		%	%
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			
Bank loans													
0-E	NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ	Holland	US\$	181	493	1.315	1.314	712	4.015	3.353	Monthly	6,01	6,01
Obligation with the public													
0-E	BANK OF NEW YORK	U.S.A.	US\$	440	65.321	397.785	86.590	521.727	1.071.863	800.000	At Expiration	8,17	8,00
Financial leases													
0-E	AFS INVESTMENT IX LLC	U.S.A.	US\$	2.771	7.700	20.527	18.808	-	49.806	43.505	Monthly	1,25	1,25
0-E	AIRBUS FINANCIAL	U.S.A.	US\$	3.715	11.054	21.830	15.730	-	52.329	49.995	Monthly	1,43	1,43
0-E	CREDIT AGRICOLE -CIB	France	US\$	4.542	-	-	-	-	4.542	4.500	Quarterly/Semiannual	3,25	3,25
0-E	DVB BANK SE	U.S.A.	US\$	123	361	284	-	-	768	755	Monthly	1,64	1,64
0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A.	US\$	3.834	11.437	9.050	-	-	24.321	23.761	Monthly	1,25	1,25
0-E	KFW IPEX-BANK	Germany	US\$	3.345	6.879	15.973	12.429	-	38.626	36.899	Monthly/Quarterly	1,72	1,72
0-E	NATIXIS	France	US\$	4.338	7.812	22.635	23.030	70.925	128.740	115.020	Quarterly/Semiannual	3,85	3,85
0-E	PK AIRFINANCE US, INC.	U.S.A.	US\$	1.428	21.992	-	-	-	23.420	23.045	Monthly	1,75	1,75
0-E	WACAPOU LEASING S.A.	Luxemburg	US\$	520	1.386	3.198	14.567	-	19.671	18.368	Quarterly	2,00	2,00
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	11.993	31.874	85.695	214.612	-	344.174	312.486	Quarterly	3,63	3,55
0-E	BANCO IBM S.A	Brazil	BRL	267	846	1.230	-	-	2.343	1.728	Monthly	14,14	14,14
0-E	HP FINANCIAL SERVICE	Brazil	BRL	188	564	188	-	-	940	882	Monthly	10,02	10,02
0-E	SOCIÉTÉ GÉNÉRALE	France	BRL	104	330	626	-	-	1.060	775	Monthly	14,14	14,14
Total				37.789	168.049	580.336	387.080	593.364	1.766.618	1.435.072			



Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2015  
 Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Up to	More than	More than	More than	More than	Total	Nominal	Amortization	Effective	Nominal
				90 days	90 days to one year	one to three years	three to five years	five years		value		rate	rate
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$		%	%
Trade and other accounts payables													
-	OTHERS	OTHERS	US\$	442.320	14.369	-	-	-	456.689	456.689	-	-	-
			CLP	39.823	114	-	-	-	39.937	39.937	-	-	-
			BRL	301.569	16	-	-	-	301.585	301.585	-	-	-
			Others currencies	218.347	9.016	-	-	-	227.363	227.363	-	-	-
Accounts payable to related parties currents													
65.216.000-K	COMUNIDAD MUJER	Chile	CLP	10	-	-	-	-	10	10	-	-	-
78.591.370-1	BETHIA S.A. Y FILIALES	Chile	CLP	5	-	-	-	-	5	5	-	-	-
78.997.060-2	Viajes Falabella Ltda.	Chile	CLP	68	-	-	-	-	68	68	-	-	-
0-E	Consultoría Administrativa Profesional	Mexico	MXN	342	-	-	-	-	342	342	-	-	-
0-E	INVERSORA AERONÁUTICA ARGENTINA	Argentina	US\$	22	-	-	-	-	22	22	-	-	-
Total				1.002.506	23.515	-	-	-	1.026.021	1.026.021			
Total consolidado				1.709.040	1.119.312	3.229.298	2.491.831	2.910.146	11.459.627	10.231.771			

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

At the end of 2015, the Company provided US\$ 49.6 million in derivative margin guarantees, for cash and stand-by letters of credit. At September 30, 2016, the Company had provided US\$ 38.85 million in guarantees for Cash and cash equivalent and stand-by letters of credit. The decrease was due at: i) maturity of hedge contracts, ii) acquire of new fuel purchase contracts, and iii) changes in fuel prices, exchange rate and interest rates.

### 3.2. Capital risk management

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

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

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

The Company international credit rating is the consequence of the Company capacity to face its long terms financing commitments. As of September 30, 2016 the Company has an international long term credit rating of BB- with negative outlook by Standard & Poor's, a B+ rating with negative outlook by Fitch Ratings and a B1 rating with stable outlook by Moody's.

### 3.3. Estimates of fair value.

At September 30, 2016, the Company maintained financial instruments that should be recorded at fair value. These are grouped into two categories:

#### 1. Hedge Instruments:

This category includes the following instruments:

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

## 2. Financial Investments:

This category includes the following instruments:

- Investments in short-term Mutual Funds (cash equivalent),
- Private investment funds.

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

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

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

	As of September 30, 2016				As of December 31, 2015			
	Fair value measurements using values considered as				Fair value measurements using values considered as			
	Fair value	Level I	Level II	Level III	Fair value	Level I	Level II	Level III
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited							
<b>Assets</b>								
Cash and cash equivalents	37,735	37,735	-	-	26,600	26,600	-	-
Short-term mutual funds	37,735	37,735	-	-	26,600	26,600	-	-
Other financial assets, current	663,289	650,659	12,630	-	624,200	607,622	16,578	-
Fair value of fuel derivatives	10,252	-	10,252	-	6,293	-	6,293	-
Fair value of foreign currency derivatives	2,286	-	2,286	-	9,888	-	9,888	-
Interest accrued since the last payment date of Cross Currency Swap	92	-	92	-	397	-	397	-
Private investment funds	593,493	593,493	-	-	448,810	448,810	-	-
Domestic and foreign bonds	57,166	57,166	-	-	158,812	158,812	-	-
Other investments	-	-	-	-	-	-	-	-
<b>Liabilities</b>								
Other financial liabilities, current	37,255	-	37,255	-	134,089	-	134,089	-
Fair value of interest rate derivatives	13,546	-	13,546	-	33,518	-	33,518	-
Fair value of fuel derivatives	2,743	-	2,743	-	39,818	-	39,818	-
Fair value of foreign currency derivatives	18,147	-	18,147	-	56,424	-	56,424	-
Interest accrued since the last payment date of Currency Swap	2,819	-	2,819	-	4,329	-	4,329	-
Interest rate derivatives not recognized as a hedge	-	-	-	-	-	-	-	-
Other financial liabilities, non current	9,742	-	12,102	-	16,128	-	16,128	-
Fair value of interest rate derivatives	9,742	-	12,102	-	16,128	-	16,128	-

Additionally, at September 30, 2016, the Company has financial instruments which are not recorded at fair value. In order to meet the disclosure requirements of fair values, the Company has valued these instruments as shown in the table below:

	As of September 30, 2016		As of December 31, 2015	
	Book	Fair	Book	Fair
	value	value	value	value
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Cash and cash equivalents	670,641	670,641	726,897	726,897
Cash on hand	7,647	7,647	10,656	10,656
Bank balance	341,165	341,165	302,696	302,696
Overnight	257,262	257,262	267,764	267,764
Time deposits	64,567	64,567	145,781	145,781
Other financial assets, current	34,450	34,450	27,148	27,148
Other financial assets	34,450	34,450	27,148	27,148
Trade and other accounts receivable current	916,124	916,124	796,974	796,974
Accounts receivable from related entities	498	498	183	183
Other financial assets, non current	104,777	104,777	89,458	89,458
Accounts receivable	8,940	8,940	10,715	10,715
Other financial liabilities, current	1,840,732	2,053,296	1,510,146	1,873,552
Trade and other accounts payables	1,539,219	1,539,219	1,483,957	1,483,957
Accounts payable to related entities	232	232	447	447
Other financial liabilities, non current	7,224,985	7,615,509	7,516,257	7,382,221
Accounts payable, non-current	387,208	387,208	417,050	417,050

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

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

## NOTE 4 - ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

As of September 30, 2016 goodwill amounted to ThUS\$ 2,723,629 (ThUS\$ 2,280,575 at December 31, 2015), while intangible assets with an indefinite useful life comprised airport slots for ThUS\$ 982,740 (ThUS\$ 816,987 at December 31, 2015), and Trademarks and Loyalty Program for ThUS\$ 391,289 (ThUS\$ 325,293 at December 31, 2015).

At least once per year the Company verifies whether goodwill and intangible assets with an indefinite useful life have suffered any losses through impairment. For the purposes of this evaluation, the Company has identified two cash-generating units (CGUs): “Air transport” and “Multiplus loyalty and coalition program.” The book value of goodwill assigned to each CGU as of September 30, 2016, amounted to ThUS\$ 2,187,760 and ThUS\$ 535,869 (ThUS\$ 1,835,088 and ThUS\$ 445,487 at December 31, 2015), which included intangible assets with undefined useful life:

	Air Transport CGU		30,	Coalition and loyalty Program Multiplus CGU	
	As of September 30, 2016	As of December 31, 2015		As of September 2016	As of December 31, 2015
	ThUS\$ Unaudited	ThUS\$		ThUS\$ Unaudited	ThUS\$
Airport Slots	982,740	816,987		-	-
Trade marks	63,730	52,981		-	-
Loyalty program	-	-		327,559	272,312

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

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

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

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

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

(c) Recoverability of deferred tax assets

Deferred taxes are calculated in accordance with the liability method, applied over temporary differences that arise between the fiscal based of assets and liabilities, and their book value. Deferred tax assets for tax losses are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company makes tax and financial projections to evaluate the realization of deferred tax asset over the course of time. Additionally, these projections are ensured to be consistent with those used to measure other long term assets. As of September 30, 2016 the company recognized deferred tax assets amounting to ThUS\$ 389,666 (ThUS\$ 376,595 at December 31, 2015), and had ceased to recognize deferred tax assets for tax losses amounting to ThUS\$ 65,363 (ThUS\$ 15,513 at December 31, 2015) (Note 18).

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

The Company advance sales of tickets as deferred revenue. Revenue from ticket sales is recognized in the income statement when the service is provided or when the tickets expires unused, reducing the corresponding deferred revenue. The Company evaluates monthly the probability that tickets expiry unused, based on the history of used tickets. Changes in the exchange probability would have an impact our revenue in the year in which the change occurs and in future years. As of September 30, 2016, deferred revenue associated with air tickets sold amounted to ThUS\$ 1,391,604 (ThUS\$ 1,223,886 as of December 31, 2015). An hypothetical change of 1% in passenger behavior regarding to the ticket usage, - that is, if during the next 6 months after sells probability of used were 89% rather than 90%, as we consider, it would lead to a change in the expiry period from 6 to 7 months, which, as of September 30, 2016, would have an impact of up to ThUS\$ 25,000.

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

As of September 30, 2016 and December 31, 2015, the Company operated the following loyalty programs: LATAM Pass, LATAM Fidelidade and Multiplus, with the objective of enhancing customer loyalty by offering points or kilometers (see Note 22).

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

Deferred revenue from loyalty programs at the closing date corresponds to the valuation of points and kilometers granted to loyalty program members, pending of use, and the probability to be redeemed.

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

As of September 30, 2016, deferred revenue associated with the LATAM Pass loyalty program amounted to ThUS\$ 896,798 (ThUS\$ 973,264 at December 31, 2015). As of September 30, 2016 a hypothetical change of 1% in the probability of usage would result in an impact of approximately ThUS\$ 29,427 and ThUS\$ 25,475 at the same period of 2015. Meanwhile, deferred revenue associated with the LATAM Fidelidade and Multiplus loyalty programs amounted to ThUS\$ 442,826 (ThUS\$ 452,264 at December 31, 2015). As of September 30, 2016 a hypothetical change of 2% in the probability of usage would result in an impact of approximately ThUS\$ 11,351 and ThUS\$ 10,112 at the same period of 2015.

The fair value of kilometers is determined by the Company based in its best estimate of the price at which they have been sold in the past. As of September 30, 2016 a hypothetical change of 1% in the fair value of the unused kilometers would result in an impact of approximately ThUS\$ 8,900 and ThUS\$ 9,200 at the same period of 2015.

(f) Provisions needs, and their valuation when required

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

(g) Investment in subsidiary (TAM)

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

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



necessary of the operation of the airlines require votes in favor by the controlling shareholders of both LATAM and TAM.

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

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

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

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

#### NOTE 5 - SEGMENTAL INFORMATION

The Company has determined that it has two operating segments: the air transportation business and the coalition and loyalty program Multiplus.

The Air transport segment corresponds to the route network for air transport and it is based on the way that the business is run and managed, according to the centralized nature of its operations, the ability to open and close routes and reallocate resources (aircraft, crew, staff, etc.) within the network, which is a functional relationship between all of them, making them inseparable. This segment definition is the most common level used by the global airline industry.

The segment of loyalty coalition called Multiplus, unlike LATAM Pass and LATAM Fidelidade, is a frequent flyer programs which operate as a unilateral system of loyalty that offers a flexible coalition system, interrelated among its members, with 15.6 million of members, along with being a regulated entity with a separately business and not directly related to air transport.

(a) For the 9 months ended

	Air transportation		Coalition and loyalty program Multiplus		Eliminations		Consolidated	
	At September 30,		At September 30,		At September 30,		At September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited							
Income from ordinary activities from external customers (*)	6,272,248	7,060,894	294,635	368,025	-	-	6,566,883	7,428,919
LAN passenger	3,051,064	3,169,485	-	-	-	-	3,051,064	3,169,485
TAM passenger	2,419,613	2,896,861	294,635	368,025	-	-	2,714,248	3,264,886
Freight	801,571	994,548	-	-	-	-	801,571	994,548
Income from ordinary activities from transactions with other operating segments	294,635	368,025	46,963	49,758	(341,598)	(417,783)	-	-
Other operating income	258,687	172,980	132,209	116,919	-	-	390,896	289,899
Interest income	17,450	23,632	44,036	51,388	(8,339)	(10,430)	53,147	64,590
Interest expense	(318,902)	(323,922)	-	-	8,339	10,430	(310,563)	(313,492)
Total net interest expense	(301,452)	(300,290)	44,036	51,388	-	-	(257,416)	(248,902)
Depreciation and amortization	(706,175)	(692,616)	(7,588)	(12,969)	-	-	(713,763)	(705,585)
Material non-cash items other than depreciation and amortization	78,623	(446,299)	(214)	1,129	-	-	78,409	(445,170)
Disposal of fixed assets and inventory losses	(33,526)	(25,559)	-	-	-	-	(33,526)	(25,559)
Doubtful accounts	(21,492)	(8,270)	304	(1,071)	-	-	(21,188)	(9,341)
Exchange differences	133,295	(412,955)	(481)	2,200	-	-	132,814	(410,755)
Result of indexation units	346	485	(37)	-	-	-	309	485
Income (loss) attributable to owners of the parents	(99,045)	(304,705)	113,920	101,687	-	-	14,875	(203,018)
Participation of the entity in the income of associates	-	37	-	-	-	-	-	37
Expenses for income tax	(142,885)	174,044	(54,455)	(54,887)	-	-	(197,340)	119,157
Segment profit / (loss)	(66,828)	(275,471)	113,920	101,687	-	-	47,092	(173,784)
Assets of segment	17,695,949	16,839,969	1,458,767	1,145,684	(114,558)	(10,626)	19,040,158	17,975,027
Amount of non-current asset additions	1,157,355	831,672	-	-	-	-	1,157,355	831,672
Property, plant and equipment	1,094,269	800,165	-	-	-	-	1,094,269	800,165
Intangibles other than goodwill	63,086	31,507	-	-	-	-	63,086	31,507
Segment liabilities	14,913,843	14,629,948	620,844	426,398	(35,613)	(33,974)	15,499,074	15,022,372
Purchase of non-monetary assets of segment	678,466	899,832	-	-	-	-	678,466	899,832

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

(b) For the 3 months ended

	Air transportation At September 30,		Coalition and loyalty program Multiplus At September 30,		Eliminations At September 30,		Consolidated At September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited							
Income from ordinary activities from external customers (*)	2,263,520	2,310,076	102,382	113,388	-	-	2,365,902	2,423,464
LAN passenger	1,061,258	1,058,136	-	-	-	-	1,061,258	1,058,136
TAM passenger	936,668	942,159	102,382	113,388	-	-	1,039,050	1,055,547
Freight	265,594	309,781	-	-	-	-	265,594	309,781
Income from ordinary activities from transactions with other operating segments	102,382	113,388	18,352	14,049	(120,734)	(127,437)	-	-
Other operating income	107,163	58,477	46,464	32,881	-	-	153,627	91,358
Interest income	9,519	9,147	16,368	25,598	(4,158)	(2,039)	21,729	32,706
Interest expense	(108,089)	(109,948)	-	-	4,158	2,039	(103,931)	(107,909)
Total net interest expense	(98,570)	(100,801)	16,368	25,598	-	-	(82,202)	(75,203)
Depreciation and amortization	(240,869)	(227,701)	(2,737)	(5,351)	-	-	(243,606)	(233,052)
Material non-cash items other than depreciation and amortization	(25,835)	(251,660)	207	(129)	-	-	(25,628)	(251,789)
Disposal of fixed assets and inventory losses	(13,376)	(7,146)	-	-	-	-	(13,376)	(7,146)
Doubtful accounts	(1,611)	(2,009)	(72)	(1,110)	-	-	(1,683)	(3,119)
Exchange differences	(10,876)	(242,514)	282	981	-	-	(10,594)	(241,533)
Result of indexation units	28	9	(3)	-	-	-	25	9
Income (loss) attributable to owners of the parents	(36,076)	(146,375)	40,818	33,031	-	-	4,742	(113,344)
Expenses for income tax	(32,274)	102,653	(20,167)	(20,449)	-	-	(52,441)	82,204
Segment profit / (loss)	(24,494)	(136,520)	40,818	33,031	-	-	16,324	(103,489)
Assets of segment	17,695,949	16,839,969	1,458,767	1,145,684	(114,558)	(10,626)	19,040,158	17,975,027
Amount of non-current asset additions	320,658	505,142	-	-	-	-	320,658	505,142
Property, plant and equipment	260,555	491,317	-	-	-	-	260,555	491,317
Intangibles other than goodwill	60,103	13,825	-	-	-	-	60,103	13,825
Segment liabilities	14,913,843	14,629,948	620,844	426,398	(35,613)	(33,974)	15,499,074	15,022,372
Purchase of non-monetary assets of segment	240,861	399,116	-	-	-	-	240,861	399,116

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

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

	For the 9 months ended		For the 3 months ended	
	At September 30,		At September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Peru	457,375	502,093	169,785	179,655
Argentina	779,596	720,921	274,049	254,579
U.S.A.	698,432	768,812	245,443	245,855
Europe	516,830	520,162	181,470	173,102
Colombia	245,561	263,191	89,994	78,977
Brazil	2,112,749	2,761,112	813,527	869,570
Ecuador	150,497	181,765	49,341	59,125
Chili	1,120,763	1,185,981	371,045	388,118
Asia Pacific and rest of Latin America	485,079	524,882	171,247	174,483
Income from ordinary activities	<u>6,566,882</u>	<u>7,428,919</u>	<u>2,365,901</u>	<u>2,423,464</u>
Other operating income	<u>390,894</u>	<u>289,899</u>	<u>153,625</u>	<u>91,358</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.

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

#### NOTE 6 - CASH AND CASH EQUIVALENTS

	As of	As of
	September 30, <u>2016</u>	December 31, <u>2015</u>
	ThUS\$	ThUS\$
	Unaudited	
Cash on hand	7,647	10,656
Bank balances	341,165	302,696
Overnight	<u>257,262</u>	<u>267,764</u>
Total Cash	<u>606,074</u>	<u>581,116</u>
Cash equivalents		
Time deposits	64,567	145,781
Mutual funds	37,735	26,600
Total cash equivalents	<u>102,302</u>	<u>172,381</u>
Total cash and cash equivalents	<u><u>708,376</u></u>	<u><u>753,497</u></u>

Cash and cash equivalents are denominated in the following currencies:

<u>Currency</u>	As of September 30, <u>2016</u> ThUS\$ Unaudited	As of December 31, <u>2015</u> ThUS\$
Argentine peso	7,728	18,733
Brazilian real	234,045	106,219
Chilean peso	38,572	17,978
Colombian peso	6,360	14,601
Euro	8,059	10,663
US Dollar	389,939	564,214
Strong bolivar (*)	175	2,986
Other currencies	23,498	18,103
Total	<u>708,376</u>	<u>753,497</u>

(\*) At December 31, 2015, the Company reflected an exchange rate loss of ThUS\$ 40,968 consequence change in the SICAD rate of Venezuela (13.5 VEF/US\$) at the SIMADI rate equivalent to 198.70 VEF/US\$. As of September 30, 2016, the DICOM rate, which replaces SIMADI (February 2016), and to this date is 658.89 VEF/US\$, Applied to cash and cash equivalents in VEF, represented ThUS\$ 175 (ThUS\$ 2,986 at December 31, 2015)

## NOTE 7 - FINANCIAL INSTRUMENTS

## 7.1. Financial instruments by category

As of September 30, 2016 (Unaudited)

<u>Assets</u>	Loans and receivables	Hedge derivatives	Held for trading	Initial designation as fair value through profit and loss	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalents	670,641	-	-	37,735	708,376
Other financial assets, current (*)	34,450	12,630	57,166	593,493	697,739
Trade and others					
accounts receivable, current	916,124	-	-	-	916,124
Accounts receivable from related entities, current	498	-	-	-	498
Other financial assets, non current (*)	104,183	-	594	-	104,777
Accounts receivable, non current	8,940	-	-	-	8,940
Total	<u>1,734,836</u>	<u>12,630</u>	<u>57,760</u>	<u>631,228</u>	<u>2,436,454</u>
<u>Liabilities</u>			Other financial liabilities	Held Hedge derivatives	Total
			ThUS\$	ThUS\$	ThUS\$
Other liabilities, current			1,840,732	37,255	1,877,987
Trade and others accounts payable, current			1,539,219	-	1,539,219
Accounts payable to related entities, current			232	-	232
Other financial liabilities, non-current			7,224,985	9,742	7,234,727
Accounts payable, non-current			387,208	-	387,208
Total			<u>10,992,376</u>	<u>46,997</u>	<u>11,039,373</u>

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

As of December 31, 2015

<u>Assets</u>	Loans and receivables	Hedge derivatives	Held for trading	Initial designation as fair value through profit and loss	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalents	726.897	-	-	26.600	753.497
Other financial assets, current (*)	27.148	16.578	158.812	448.810	651.348
Trade and others					
accounts receivable, current	796.974	-	-	-	796.974
Accounts receivable from related entities, current	183	-	-	-	183
Other financial assets, non current (*)	88.820	-	638	-	89.458
Accounts receivable, non current	10.715	-	-	-	10.715
<b>Total</b>	<u>1.650.737</u>	<u>16.578</u>	<u>159.450</u>	<u>475.410</u>	<u>2.302.175</u>

  

<u>Liabilities</u>	Other financial liabilities	Held Hedge derivatives	Total
	ThUS\$	ThUS\$	ThUS\$
Other liabilities, current	1.510.146	134.089	1.644.235
Trade and others accounts payable, current	1.483.957	-	1.483.957
Accounts payable to related entities, current	447	-	447
Other financial liabilities, non-current	7.516.257	16.128	7.532.385
Accounts payable, non-current	417.050	-	417.050
<b>Total</b>	<u>10.927.857</u>	<u>150.217</u>	<u>11.078.074</u>

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

## 7.2. Financial instruments by currency

a) Assets	As of	As of
	September 30, 2016	December 31, 2015
	ThUS\$	ThUS\$
	Unaudited	
Cash and cash equivalents	708,376	753,497
Argentine peso	7,728	18,733
Brazilian real	234,045	106,219
Chilean peso	38,572	17,978
Colombian peso	6,360	14,601
Euro	8,059	10,663
US Dollar	389,939	564,214
Strong bolivar	175	2,986
Other currencies	23,498	18,103
Other financial assets (current and non-current)	802,516	740,806
Argentine peso	57,302	157,281
Brazilian real	594,286	449,934
Chilean peso	691	640
Colombian peso	475	1,670
Euro	7,458	614
US Dollar	139,928	128,620
Strong bolivar	78	22
Other currencies	2,298	2,025
Trade and other accounts receivable, current	916,124	796,974
Argentine peso	70,558	71,438
Brazilian real	335,876	191,037
Chilean peso	66,896	57,755
Colombian peso	5,130	13,208
Euro	29,333	30,006
US Dollar	352,484	344,153
Strong bolivar	27	7,225
Other currencies (*)	55,820	82,152
Accounts receivable, non-current	8,940	10,715
Brazilian real	627	521
Chilean peso	8,177	5,041
US Dollar	-	5,000
Other currencies (*)	136	153
Accounts receivable from related entities, current	498	183
Brazilian real	-	2
Chilean peso	498	181
Total assets	2,436,454	2,302,175
Argentine peso	135,588	247,452
Brazilian real	1,164,834	747,713
Chilean peso	114,834	81,595
Colombian peso	11,965	29,479
Euro	44,850	41,283
US Dollar	882,351	1,041,987
Strong bolivar	280	10,233
Other currencies	81,752	102,433

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

## b) Liabilities

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



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

	As of September 30, <u>2016</u> ThUS\$ Unaudited	As of December 31, <u>2015</u> ThUS\$
Trade accounts receivable	827,877	685,733
Other accounts receivable	168,666	182,028
Total trade and other accounts receivable	<u>996,543</u>	<u>867,761</u>
Less: Allowance for impairment loss	(71,479)	(60,072)
Total net trade and accounts receivable	<u>925,064</u>	<u>807,689</u>
Less: non-current portion – accounts receivable	(8,940)	(10,715)
Trade and other accounts receivable, current	<u><u>916,124</u></u>	<u><u>796,974</u></u>

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

The maturity of these accounts at the end of each period is as follows:

	As of September 30, <u>2016</u> ThUS\$ Unaudited	As of December 31, <u>2015</u> ThUS\$
Fully performing	728,901	577,902
Matured accounts receivable, but not impaired		
Expired from 1 to 90 days	20,482	28,717
Expired from 91 to 180 days	4,178	10,995
More than 180 days overdue (*)	2,837	8,047
Total matured accounts receivable, but not impaired	<u>27,497</u>	<u>47,759</u>
Matured accounts receivable and impaired		
Judicial, pre-judicial collection and protested documents	37,394	24,304
Debtor under pre-judicial collection process and portfolio sensitization	34,085	35,768
Total matured accounts receivable and impaired	<u>71,479</u>	<u>60,072</u>
Total	<u><u>827,877</u></u>	<u><u>685,733</u></u>

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

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

<u>Currency</u>	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$
Argentine Peso	70,558	71,438
Brazilian Real	336,503	191,558
Chilean Peso	75,073	62,796
Colombian peso	5,130	13,208
Euro	29,333	30,006
US Dollar	352,484	349,153
Strong bolivar	27	7,225
Other currency (*)	55,956	82,305
Total	925,064	807,689
 (*) Other currencies		
Australian Dollar	13,084	26,185
Chinese Yuan	956	4,282
Danish Krone	341	164
Pound Sterling	6,763	7,228
Indian Rupee	2,671	3,070
Japanese Yen	5,489	4,343
Norwegian Kroner	393	221
Swiss Franc	1,693	1,919
Korean Won	4,236	4,462
New Taiwanese Dollar	764	3,690
Other currencies	19,566	26,741
Total	55,956	82,305

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%

Movement in the allowance for impairment loss of Trade and other accounts receivables are the following:

Periods	Opening balance ThUS\$	Write-offs ThUS\$	(Increase) Decrease ThUS\$	Closing balance ThUS\$
From January 1 to September 30, 2015 (Unaudited)	(71,042)	613	7,255	(63,174)
From October 1 to December 31, 2015	(63,174)	9,507	(6,405)	(60,072)
From January 1 to September 30, 2016 (Unaudited)	(60,072)	18,052	(29,459)	(71,479)

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 September 30, 2016			As of December 31, 2015		
	Gross exposure according to balance ThUS\$	Gross impaired exposure ThUS\$	Exposure net of risk concentrations ThUS\$	Gross exposure according to balance ThUS\$	Gross Impaired exposure ThUS\$	Exposure net of risk concentrations ThUS\$
	Unaudited					
Trade accounts receivable	827,877	(71,479)	756,398	685,733	(60,072)	625,661
Other accounts receivable	168,666	-	168,666	182,028	-	182,028

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

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

## (a) Accounts Receivable

<u>Tax No.</u>	<u>Related party</u>	<u>Relationship</u>	<u>Country of origin</u>	<u>Currency</u>	As of	As of
					September 30, 2016	December 31, 2016
					ThUS\$	ThUS\$
					Unaudited	
78.591.370-1	Bethia S.A. and Subsidiaries	Related director	Chile	CLP	486	167
87.752.000-5	Granja Marina Tornagaleones S.A.	Common shareholder	Chile	CLP	12	14
Foreign	TAM Aviação Executiva e Taxi Aéreo S.A.	Related director	Brazil	BRL	-	2
	Total				<u>498</u>	<u>183</u>

## (b) Accounts payable

<u>Tax No.</u>	<u>Related party</u>	<u>Relationship</u>	<u>Country of origin</u>	<u>Currency</u>	As of	As of
					September 30, 2016	December 31, 2015
					ThUS\$	ThUS\$
					Unaudited	
65.216.000-K	Viajes Falabella Ltda.	Related director	Chile	CLP	126	68
Foreign	Consultoría Administrativa Profesional S.A. de C.V.	Associate	Mexico	MXN	76	342
65.216.000-K	Comunidad Mujer	Related director	Chile	CLP	14	10
79.773.440-3	TAM Aviação Executiva e Taxi Aéreo S.A.	Related director	Chile	BRL	10	-
78.591.370-1	Bethia S.A. and Subsidiaries	Related director	Chile	CLP	5	5
Foreign	Inversora Aeronáutica Argentina	Related director	Argentina	US\$	<u>1</u>	<u>22</u>
	Total				<u>232</u>	<u>447</u>

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

## NOTE 10 -INVENTORIES

	As of September 30, 2016 <u>ThUS\$</u> Unaudited	As of December 31, 2015 <u>ThUS\$</u>
Technical stock	186,410	192,930
Non-technical stock	36,404	31,978
Total	<u>222,814</u>	<u>224,908</u>

The items included in this heading are spare parts and materials that will be used mainly in consumption in in-flight and maintenance services provided to the Company and third parties, which are valued at average cost, net of provision for obsolescence that as of September 30, 2016 amounts to ThUS\$ 25,464 (ThUS\$ 15,892 at December 31, 2015). The resulting amounts do not exceed the respective net realizable values.

As of September 30, 2016, the Company recorded ThUS\$ 102,344 (ThUS\$ 122,248 at September 30, 2015) 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:

	Current Assets		Non-current assets		Total Assets	
	As of September 30, 2016 <u>ThUS\$</u> Unaudited	As of December 31, 2015 <u>ThUS\$</u>	As of September 30, 2016 <u>ThUS\$</u> Unaudited	As of December 31, 2015 <u>ThUS\$</u>	As of September 30, 2016 <u>ThUS\$</u> Unaudited	As of December 31, 2015 <u>ThUS\$</u>
(a) Other financial assets						
Private investment funds	593,493	448,810	-	-	593,493	448,810
Deposits in guarantee (aircraft)	14,843	16,532	59,265	58,483	74,108	75,015
Guarantees for margins of derivatives	3,848	4,456	-	-	3,848	4,456
Other investments	-	-	594	638	594	638
Domestic and foreign bonds	57,166	158,812	-	-	57,166	158,812
Other guarantees given	15,759	6,160	44,918	30,337	60,677	36,497
Subtotal of other financial assets	<u>685,109</u>	<u>634,770</u>	<u>104,777</u>	<u>89,458</u>	<u>789,886</u>	<u>724,228</u>
(b) Hedging assets						
Interest accrued since the last payment date of Cross currency swap	92	397	-	-	92	397
Fair value of foreign currency derivatives (*)	2,286	9,888	-	-	2,286	9,888
Fair value of fuel price derivatives	10,252	6,293	-	-	10,252	6,293
Subtotal of hedging assets	<u>12,630</u>	<u>16,578</u>	<u>-</u>	<u>-</u>	<u>12,630</u>	<u>16,578</u>
Total Other Financial Assets	<u>697,739</u>	<u>651,348</u>	<u>104,777</u>	<u>89,458</u>	<u>802,516</u>	<u>740,806</u>

(\*) The foreign currency derivatives correspond to forward and combination of options. The types of derivative hedging contracts maintained by the Company at the end of each period are described in Note 19.

## NOTE 12 - OTHER NON-FINANCIAL ASSETS

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

	Current assets		Non-current assets		Total Assets	
	As of September 30, 2016	As of December 31, 2015	As of September 30, 2016	As of December 31, 2015	As of September 30, 2016	As of December 31, 2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited		Unaudited		Unaudited	
(a) Advance payments						
Aircraft leases	49,424	33,305	16,424	22,569	65,848	55,874
Aircraft insurance and other	21,505	12,408	-	-	21,505	12,408
Others	7,753	16,256	27,616	33,781	35,369	50,037
Subtotal advance payments	78,682	61,969	44,040	56,350	122,722	118,319
(b) Other assets						
Aircraft maintenance reserve (*)	53,345	99,112	117,104	64,366	170,449	163,478
Sales tax	152,650	158,134	43,932	45,061	196,582	203,195
Other taxes	2,946	4,295	-	-	2,946	4,295
Contributions to Société Internationale de Télécommunications Aéronautiques ("SITA")	450	505	547	547	997	1,052
Judicial deposits	-	-	124,114	67,980	124,114	67,980
Others	963	6,001	1,802	1,159	2,765	7,160
Subtotal other assets	210,354	268,047	287,499	179,113	497,853	447,160
Total Other Non - Financial Assets	289,036	330,016	331,539	235,463	620,575	565,479

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

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

In some cases (5 lease agreements), if the maintenance cost incurred by LATAM is less than the corresponding maintenance reserves, the lessor is entitled to retain those excess amounts at the time the heavy maintenance is performed. The Company periodically reviews its maintenance reserves for each of its leased aircraft to ensure that they will be recovered, and recognizes an expense if any such amounts are less than probable of being returned. Since the acquisition of TAM in June 2012, the cost of aircraft maintenance has been higher than the related maintenance reserves for all aircraft.

As of September 30, 2016, LATAM had ThUS\$ 170,449 in maintenance reserves (ThUS\$ 163,478 at December 31, 2015), corresponding to 9 aircraft out of a total fleet of 339 (9 aircraft out of a total fleet of 331 at December 31, 2015). All of the Company's aircraft leases containing provisions for maintenance reserves will expire fully by 2023.

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

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

Non-current assets and in disposal groups held for sale at September 30, 2016 and December 31, 2015 are detailed below:

	As of September 30, 2016	As of December 31, 2015
	ThUS\$	ThUS\$
	Unaudited	
Aircraft	23,947	263
Engines	15,144	272
Rotables	1,081	1,060
Scrapped aircraft	614	365
Total	40,786	1,960

During the first quarter of 2016, two Airbus A319 aircraft, two Airbus A320 aircraft, two Airbus A330 aircraft and six spare engines were reclassified from Property, plant and equipment to Non-current assets or groups of assets for disposal classified as held for sale. As a result, an adjustment of US\$ 5 million was recorded to write down these assets to their net realizable value.

During the third quarter of 2016, two Airbus A319 aircraft, one Airbus A320 aircraft and two Airbus A330 aircraft were sold.

The balances are presented at the lower of book value and fair value less cost to sell.

## NOTE 14 - INVESTMENTS IN SUBSIDIARIES"

### (a) Investments in subsidiaries

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

Detail of significant subsidiaries and summarized financial information:

Name of significant subsidiary	Country of incorporation	Functional currency	Ownership	
			As of September 30, 2016	As of December 31, 2015
			%	%
			Unaudited	
Lan Perú S.A.	Peru	US\$	70.00000	70.00000
Lan Cargo S.A.	Chile	US\$	99.89803	99.89803
Lan Argentina S.A.	Argentina	ARS	95.85660	94.99055
Transporte Aéreo S.A.	Chile	US\$	99.89804	99.89804
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	Ecuador	US\$	100.00000	100.00000
Aerovías de Integración Regional, AIRES S.A.	Colombia	COP	99.19061	99.01646
TAM S.A.	Brazil	BRL	99.99938	99.99938

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

## Summary financial information of significant subsidiaries

Name of significant subsidiary	Statement of financial position as of September 30, 2016						Results for the period ended September 30, 2016	
	Total Assets	Current Assets	Non-current Assets	Total Liabilities	Current Liabilities	Non-current Liabilities	Revenue	Net Income
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited							
Lan Perú S.A.	337,474	315,682	21,792	322,264	320,927	1,337	727,869	1,847
Lan Cargo S.A.	448,372	107,685	340,687	201,337	164,949	36,388	186,072	(19,086)
Lan Argentina S.A.	166,369	148,987	17,382	172,162	169,724	2,438	276,530	(25,413)
Transporte Aéreo S.A.	321,072	29,267	291,805	109,321	43,292	66,029	211,424	3,177
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	105,133	62,386	42,747	92,676	87,603	5,073	164,361	2,614
Aerovías de Integración Regional, AIRE S.A.	131,501	55,793	75,708	88,195	76,828	11,367	201,806	(17,370)
TAM S.A. (*)	5,442,326	1,725,555	3,716,771	4,845,623	2,849,228	1,996,395	2,977,791	22,345

  

Name of significant subsidiary	Statement of financial position as of December 31, 2015						Results for the period ended September 30, 2015	
	Total Assets	Current Assets	Non-current Assets	Total Liabilities	Current Liabilities	Non-current Liabilities	Revenue	Net Income
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited							
Lan Perú S.A.	255,691	232,547	23,144	240,938	239,521	1,417	815,691	(1,793)
Lan Cargo S.A.	483,033	159,294	323,739	217,037	147,423	69,614	207,538	(56,973)
Lan Argentina S.A.	195,756	180,558	15,198	170,384	168,126	2,258	328,172	10,152
Transporte Aéreo S.A.	331,117	41,756	289,361	122,666	44,495	78,171	247,727	8,395
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	126,001	80,641	45,360	116,153	111,245	4,908	186,160	1,813
Aerovías de Integración Regional, AIRE S.A.	130,039	62,937	67,102	75,003	64,829	10,174	215,385	(28,670)
TAM S.A. (*)	4,711,316	1,350,377	3,360,939	4,199,223	1,963,400	2,235,823	3,601,767	(171,609)

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



## (b) Non-controlling interest

Equity	Tax No.	Country of origin	As of	As of	As of	As of		
			September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015		
			%	%	ThUS\$	ThUS\$		
			Unaudited		Unaudited			
Lan Perú S.A	0-E	Peru	30.00000	30.00000	4,563	4,426		
Lan Cargo S.A. and Subsidiaries	93.383.000-4	Chile	0.10605	0.10605	621	974		
Promotora Aérea Latinoamericana S.A. and Subsidiaries	0-E	Mexico	51.00000	51.00000	3,415	3,084		
Inversora Cordillera S.A. and Subsidiaries	0-E	Argentina	0.70422	0.70422	(2,590)	(1,386)		
Lan Argentina S.A.	0-E	Argentina	0.13440	1.00000	1,657	29		
Americonsult de Guatemala S.A.	0-E	Guatemala	1.00000	1.00000	2	5		
Americonsult Costa Rica S.A.	0-E	Costa Rica	1.00000	1.00000	11	12		
Linea Aérea Carguera de Colombiana S.A.	0-E	Colombia	10.00000	10.00000	(847)	(811)		
Aerolíneas Regionales de Integración Aires S.A.	0-E	Colombia	0.80939	0.98307	425	540		
Transportes Aereos del Mercosur S.A.	0-E	Paraguay	5.02000	5.02000	1,736	1,256		
Multiplus S.A.	0-E	Brazil	27.26000	27.26000	80,084	72,884		
Total					89,077	81,013		

  

Incomes	Tax No.	Country of origin	As of	As of	For the 9 months ended		For the 3 months ended	
			September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
			%	%	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Unaudited								
Lan Perú S.A	0-E	Peru	30.00000	30.00000	554	(538)	741	114
Lan Cargo S.A. and Subsidiaries	93.383.000-4	Chile	0.10605	0.10605	(7)	(53)	-	(35)
Promotora Aerea Latinoamericana S.A. and Subsidiaries	0-E	Mexico	51.00000	51.00000	337	1,829	(87)	322
Inversora Cordillera S.A. and Subsidiaries	0-E	Argentina	0.70422	0.70422	272	202	92	68
Lan Argentina S.A.	0-E	Argentina	0.13440	1.00000	58	44	19	15
Americonsult de Guatemala S.A.	0-E	Guatemala	1.00000	1.00000	(4)	1	(4)	-
Americonsult Costa Rica S.A.	0-E	Costa Rica	1.00000	1.00000	-	4	-	1
Linea Aérea Carguera de Colombiana S.A.	0-E	Colombia	10.00000	10.00000	(36)	332	(335)	379
Aerolíneas Regionales de Integración Aires S.A.	0-E	Colombia	0.80939	0.98307	(171)	(282)	(81)	(145)
Transportes Aereos del Mercosur S.A.	0-E	Paraguay	5.02000	5.02000	160	(26)	110	132
Multiplus S.A.	0-E	Brazil	27.26000	27.26000	31,054	27,721	11,127	9,004
Total					32,217	29,234	11,582	9,855

## NOTE 15 - INTANGIBLE ASSETS OTHER THAN GOODWILL

The details of intangible assets are as follows:

	Classes of intangible assets (net)		Classes of intangible assets (gross)	
	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$
Airport slots	982,740	816,987	982,740	816,987
Loyalty program	327,559	272,312	327,559	272,312
Computer software	160,725	104,258	412,649	324,043
Developing software	71,697	74,887	71,697	74,887
Trademarks	63,730	52,981	63,730	52,981
Other assets	-	-	808	808
Total	<u>1,606,451</u>	<u>1,321,425</u>	<u>1,859,183</u>	<u>1,542,018</u>

## Movement in Intangible assets other than goodwill:

	Computer software Net ThUS\$	Developing software ThUS\$	Airport slots (*) ThUS\$	Trademarks and loyalty program (*) ThUS\$	Total ThUS\$
Opening balance as of January 1, 2015	126.797	74.050	1.201.028	478.204	1.880.079
Additions	4.218	27.289	-	-	31.507
Withdrawals	(3.429)	-	-	-	(3.429)
Transfer software	15.552	(15.750)	-	-	(198)
Foreing exchange	(15.480)	(17.383)	(398.046)	(158.486)	(589.395)
Amortization	(31.903)	-	-	-	(31.903)
Closing balance as of September 30, 2015 (Unaudited)	<u>95.755</u>	<u>68.206</u>	<u>802.982</u>	<u>319.718</u>	<u>1.286.661</u>
Opening balance as of October 1, 2015	95.755	68.206	802.982	319.718	1.286.661
Additions	736	20.981	-	-	21.717
Withdrawals	(1.183)	(162)	-	(1)	(1.346)
Transfer software	13.174	(14.676)	-	-	(1.502)
Foreing exchange	609	538	14.005	5.576	20.728
Amortization	(4.833)	-	-	-	(4.833)
Closing balance as of December 31, 2015	<u>104.258</u>	<u>74.887</u>	<u>816.987</u>	<u>325.293</u>	<u>1.321.425</u>
Opening balance as of January 1, 2016	104.258	74.887	816.987	325.293	1.321.425
Additions	6.082	57.004	-	-	63.086
Withdrawals	(736)	(185)	-	-	(921)
Transfer software	78.003	(67.150)	-	-	10.853
Foreing exchange	6.066	7.141	165.753	65.996	244.956
Amortization	(32.948)	-	-	-	(32.948)
Closing balance as of September 30, 2016 (Unaudited)	<u>160.725</u>	<u>71.697</u>	<u>982.740</u>	<u>391.289</u>	<u>1.606.451</u>

The amortization of the period is shown in the consolidated statement of income in administrative expenses. The accumulated amortization of computer programs as of September 30, 2016 amounts to ThUS\$ 252,732 (ThUS\$ 220,593 at December 31, 2015).

(\*) See Note 2.5

## NOTE 16 – GOODWILL

The Goodwill amount at September 30, 2016 is ThUS\$ 2,723,629 (ThUS\$ 2,280,575 at December 31, 2015). Movement of Goodwill separated by CGU it includes the following:

Movement of Goodwill, separated by CGU:	Air Transport	Coalition and loyalty program Multiplus	Total
	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2015	2,658,503	654,898	3,313,401
Increase (decrease) due to exchange rate differences	(851,485)	(217,047)	(1,068,532)
Closing balance as of September 30, 2015 (Unaudited)	<u>1,807,018</u>	<u>437,851</u>	<u>2,244,869</u>
Opening balance as of October 1, 2015	1,807,018	437,851	2,244,869
Increase (decrease) due to exchange rate differences	28,070	7,636	35,706
Closing balance as of December 31, 2015	<u>1,835,088</u>	<u>445,487</u>	<u>2,280,575</u>
Opening balance as of January 1, 2016	1,835,088	445,487	2,280,575
Increase (decrease) due to exchange rate differences	352,672	90,382	443,054
Closing balance as of September 30, 2016 (Unaudited)	<u>2,187,760</u>	<u>535,869</u>	<u>2,723,629</u>

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

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of expected cash flows, before tax, which are based on the budget approved by the Board. Cash flows beyond the budget period are extrapolated using the estimated growth rates, which do not exceed the average rates of long-term growth. Base on growth expectation and long-term investment cycles, usually in the industry, these calculations use projections or ten years.

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

As of December 31, 2015 the recoverable values were determined using the following assumptions presented below:

		Air transportation CGU	Coalition and loyalty program Multiplus CGU (2)
Annual growth rate (Terminal)	%	1.5 and 2.5	4.7 and 6.4
Exchange rate (1)	R\$/US\$	4.15 and 5.21	4.15 and 5.21
Discount rate based on the weighted average cost of capital (WACC)	%	10.5 and 11.5	-
Discount rate based on cost of equity (CoE)	%	-	19.0 and 23.0
Fuel Price from futures price curves commodities markets	US\$/barril	60-70	-

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

(2) The flow, as well as annual growth rate and discount, are denominated in real.

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

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

	Increase Maximum WACC	Increase Maximum CoE	Decrease Minimum terminal growth rate
Air transportation CGU	%	%	%
	11,5	-	1,5
Coalition and loyalty program Multiplus CGU	-	23,0	4,4

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

As of September 30, 2016 have been identified impairment indications for the Air Transportation CGU. The recoverable value was determined using the following assumptions presented below:

		Air transportation CGU
Annual growth rate (Terminal)	%	1.7 and 2.0
Exchange rate (1)	R\$/US\$	3.73 and 4.40
Discount rate based on the weighted average cost of capital (WACC)	%	8.56 and 9.56
Fuel Price from futures price curves commodities markets	US\$/barril	53-76

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

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

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

	Increase Maximum WACC	Decrease Minimum terminal growth rate
	%	%
Air transportation CGU	9,56	1,7

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

At June 30, 2016, have not been any indications of impairment requiring an impairment test for Coalition and loyalty program Multiplus CGU.

At September 30, 2016, have not been any indications of impairment requiring an impairment test.

## NOTE 17 - PROPERTY, PLANT AND EQUIPMENT

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

	Gross Book Value		Acumulated depreciation		Net Book Value	
	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$
Construction in progress (*)	561,153	1,142,812	-	-	561,153	1,142,812
Land	50,340	45,313	-	-	50,340	45,313
Buildings	163,220	131,816	(45,861)	(40,325)	117,359	91,491
Plant and equipment	9,897,407	9,683,764	(2,070,110)	(2,392,463)	7,827,297	7,291,301
Own aircraft	9,239,991	9,118,396	(1,851,216)	(2,198,682)	7,388,775	6,919,714
Other (**)	657,416	565,368	(218,894)	(193,781)	438,522	371,587
Machinery	42,663	36,569	(27,338)	(21,220)	15,325	15,349
Information technology equipment	163,405	154,093	(122,376)	(110,204)	41,029	43,889
Fixed installations and accessories	211,694	179,026	(107,384)	(90,068)	104,310	88,958
Motor vehicles	106,762	99,997	(74,095)	(64,047)	32,667	35,950
Leasehold improvements	166,862	124,307	(80,989)	(70,219)	85,873	54,088
Other property, plants and equipment	3,317,583	3,279,902	(1,253,354)	(1,150,396)	2,064,229	2,129,506
Financial leasing aircraft	3,152,986	3,151,405	(1,217,856)	(1,120,682)	1,935,130	2,030,723
Other	164,597	128,497	(35,498)	(29,714)	129,099	98,783
Total	14,681,089	14,877,599	(3,781,507)	(3,938,942)	10,899,582	10,938,657

(\*) It includes pre-delivery payments to aircraft manufacturers for ThUS\$ 523,455 (ThUS\$ 1,016,007 as of December 31, 2015)

(\*\*) Mainly considers rotatable and tools.

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

	Construction in progress	Land	Buildings net	Plant and equipment net	Information technology equipment net	Fixed installations & accessories net	Motor vehicles net	Leasehold improvements net	Other property, plant and equipment net	Property, Plant and equipment net
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2015	937,279	57,988	167,006	6,954,089	51,009	43,783	1,965	56,523	2,503,434	10,773,076
Additions	26,970	-	-	706,106	9,978	1,334	228	11,408	44,141	800,165
Disposals	-	-	(500)	(73,019) <sup>(1)</sup>	(26)	-	(6)	-	(11)	(73,562)
Retirements	(38)	-	-	(26,188)	(87)	(207)	(4)	-	(5,876)	(32,400)
Depreciation expenses	-	-	(6,385)	(382,418)	(12,578)	(8,155)	(280)	(10,751)	(134,464)	(555,031)
Foreing exchange	104	(12,160)	(19,311)	(151,242)	(5,946)	(12,442)	(453)	(2,458)	(243,467)	(447,375)
Other increases (decreases)	129,268	(1,066)	(54,745)	(30,248)	(330)	62,890	308	(3,069)	(9,871)	93,137
Changes, total	156,304	(13,226)	(80,941)	42,991	(8,989)	43,420	(207)	(4,870)	(349,548)	(215,066)
Closing balance as of September 30, 2015 (Unaudited)	1,093,583	44,762	86,065	6,997,080	42,020	87,203	1,758	51,653	2,153,886	10,558,010
Opening balance as of October 1, 2015	1,093,583	44,762	86,065	6,997,080	42,020	87,203	1,758	51,653	2,153,886	10,558,010
Additions	12,741	-	439	598,093	5,344	358	52	1,780	20,085	638,892
Disposals	-	-	-	(3,656)	(1)	-	(2)	-	-	(3,659)
Retirements	(1,224)	-	(956)	(12,052)	(17)	(269)	-	-	(3,026)	(17,544)
Depreciation expenses	-	-	(776)	(139,270)	(3,618)	(3,494)	(98)	(3,222)	(40,010)	(190,488)
Foreing exchange	(1,036)	374	1,063	21,309	(180)	(827)	(185)	799	(9,242)	12,075
Other increases (decreases)	38,748	177	5,656	(120,429)	341	5,987	-	3,078	7,813	(58,629)
Changes, total	49,229	551	5,426	343,995	1,869	1,755	(233)	2,435	(24,380)	380,647
Closing balance as of December 31, 2015	1,142,812	45,313	91,491	7,341,075	43,889	88,958	1,525	54,088	2,129,506	10,938,657
Opening balance as of January 1, 2016	1,142,812	45,313	91,491	7,341,075	43,889	88,958	1,525	54,088	2,129,506	10,938,657
Additions	12,479	-	272	1,037,644	5,288	99	5	28,224	10,258	1,094,269
Disposals	-	-	-	(16,908) <sup>(2)</sup>	(59)	-	-	-	-	(16,967)
Retirements	(117)	-	-	(35,371)	(47)	(696)	-	-	(4,318)	(40,549)
Depreciation expenses	-	-	(4,304)	(418,814)	(11,733)	(10,335)	(224)	(16,656)	(97,831)	(559,897)
Foreing exchange	5,140	5,027	2,653	53,119	3,076	9,796	230	2,925	95,314	177,280
Other increases (decreases)	(599,161)	-	27,247	(86,992) <sup>(3)</sup>	615	16,488	-	17,292	(68,700)	(693,211)
Changes, total	(581,659)	5,027	25,868	532,678	(2,860)	15,352	11	31,785	(65,277)	(39,075)
Closing balance as of September 30, 2016 (Unaudited)	561,153	50,340	117,359	7,873,753	41,029	104,310	1,536	85,873	2,064,229	10,899,582

(1) During the first half of 2015 three Airbus A340 aircraft were sold.

During the second half of 2015 seven Dash-200 aircraft were sold.

During the second half of 2015 two Airbus A319 aircraft were sold.

(2) During the first quarter of 2016 one Airbus A330 aircraft were sold.

(3) During the first half of 2016 two Airbus A319 aircraft, two Airbus A320 aircraft and two Airbus A330 aircraft were reclassified to non-current assets and disposal group classified as held for sale (See Note 13).

## (b) Composition of the fleet:

Aircraft	Model	Aircraft included in Property, plant and equipment		Operating leases		Total fleet	
		As of September 30, 2016 Unaudited	As of December 31, 2015	As of September 30, 2016 Unaudited	As of December 31, 2015	As of September 30, 2016 Unaudited	As of December 31, 2015
Boeing 767	300ER	34	34	3	4	37	38
Boeing 767	300F	8 (1)	8 (1)	3	3	11 (1)	11 (1)
Boeing 777	300ER	4	4	6	6	10	10
Boeing 777	Freighter	2 (2)	2 (2)	2	2	4 (2)	4 (2)
Boeing 787	800	6	6	4	4	10	10
Boeing 787	900	4	3	8	4	12	7
Airbus A319	100	36	38	12	12	48	50
Airbus A320	200	93	95	56	59	149	154
Airbus A320	NEO	-	-	1	-	1	-
Airbus A321	200	30	26	16	10	46	36
Airbus A330	200	4	8	2	2	6	10
Airbus A350	900	4	1	1	-	5	1
Total		225	225	114	106	339	331

(1) Three aircraft leased to FEDEX

(2) One aircraft leased to DHL

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

	Method	Useful life (years)	
		minimum	maximum
Buildings	Straight line without residual value	20	50
Plant and equipment	Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet. (*)	5	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. (*)	10	20

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

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

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

The depreciation charged to income in the period, which is included in the consolidated statement of income, amounts to ThUS\$ 559,897 (ThUS\$ 555,031 at September 30, 2015). Depreciation charges for the year are recognized in Cost of sales and administrative expenses in the consolidated statement of income.



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

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

In the period ended September 30, 2016, direct guarantees by five Airbus A319-100 aircraft, four Airbus A321-200 aircraft, two Airbus A320-200 aircraft, one Boeing 787-9 aircraft and three Airbus A350-941 aircraft were added.

Description of Property, plant and equipment pledged as guarantee:

Creditor of guarantee	Assets committed	Fleet	As of September 30, 2016		As of December 31, 2015	
			Existing Debt	Book Value	Existing Debt	Book Value
			ThUS\$	ThUS\$	ThUS\$	ThUS\$
			Unaudited			
Wilmington Trust Company	Aircraft and engines	Airbus A321 / A350	605,110	731,650	374,619	478,667
		Boeing 767	835,790	1,181,712	907,356	1,220,541
		Boeing 787	758,269	910,249	712,059	834,567
Banco Santander S.A.	Aircraft and engines	Airbus A319	52,640	93,431	58,527	95,387
		Airbus A320	478,515	721,585	524,682	749,192
		Airbus A321	33,731	44,705	36,334	45,380
BNP Paribas	Aircraft and engines	Airbus A319	139,523	231,480	154,828	229,798
		Airbus A320 / A350	132,555	185,160	145,506	192,957
Credit Agricole	Aircraft and engines	Airbus A319	27,791	72,815	37,755	84,129
		Airbus A320	82,811	203,380	115,339	214,726
		Airbus A321	43,130	94,147	50,591	97,257
JP Morgan	Aircraft and engines	Boeing 777	198,357	255,175	215,265	263,366
Wells Fargo	Aircraft and engines	Airbus A320	259,245	340,155	279,478	348,271
Bank of Utah	Aircraft and engines	Airbus A320	499,166	545,442	240,094	312,573
Natixis	Aircraft and engines	Airbus A320	48,425	67,551	56,223	81,355
		Airbus A321	386,278	520,979	413,201	542,594
Citibank N. A.	Aircraft and engines	Airbus A320	115,260	168,007	127,135	172,918
		Airbus A321	44,536	70,905	49,464	73,122
HSBC	Aircraft and engines	Airbus A320	-	-	53,583	64,241
KfW IPEX-Bank	Aircraft and engines	Airbus A319	7,959	6,707	-	-
		Airbus A320	30,490	36,559	13,593	16,838
Airbus Financial Services	Aircraft and engines	Airbus A319	31,981	33,360	-	-
PK AirFinance US, Inc.	Aircraft and engines	Airbus A320	56,769	46,929	62,514	48,691
Total direct guarantee			<u>4,868,331</u>	<u>6,562,083</u>	<u>4,628,146</u>	<u>6,166,570</u>

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

Additionally, there are indirect guarantees related to assets recorded in Property, plant and equipment whose total debt at September 30, 2016 amounted to ThUS\$ 1,024,501 (ThUS\$ 1,311,088 at December 31, 2015). The book value of assets with indirect guarantees as of September 30, 2016 amounts to ThUS\$ 1,900,475 (ThUS\$ 2,001,605 as of December 31, 2015).

## (ii) Commitments and others

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

	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$
Gross book value of fully depreciated property, plant and equipment still in use	112,511	129,766
Commitments for the acquisition of aircraft (*)	16,100,000	19,800,000

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

## Purchase commitment of aircraft

Manufacturer	Year of delivery							Total
	2016	2017	2018	2019	2020	2021	2022	
Airbus S.A.S.	5	5	16	14	16	21	2	79
A320-NEO	1	5	5	8	8	8	-	35
A321	2	-	1	-	-	-	-	3
A321-NEO	-	-	6	2	6	5	-	19
A350-1000	-	-	-	2	2	8	2	14
A350-900	2	-	4	2	-	-	-	8
The Boeing Company	-	1	4	6	-	-	-	11
B777	-	-	-	2	-	-	-	2
B787-9	-	1	4	4	-	-	-	9
Total	<u>5</u>	<u>6</u>	<u>20</u>	<u>20</u>	<u>16</u>	<u>21</u>	<u>2</u>	<u>90</u>

In September 2015 the change of 6 Airbus A350-900 aircraft for 6 Airbus A350-1000 aircraft was signed. Additionally, in November 2015 the change of 6 Airbus A350-900 aircraft to 6 Airbus A350-1000 aircraft was signed. In April 2016 the change of 4 Airbus A320 NEO aircraft to 4 Airbus A321 NEO aircraft was signed. In August 2016 a cancellation of 12 Airbus A320 NEO aircraft and the change of 2 Airbus A350-900 to 2 Airbus A350-1000 were signed.

As of September 30, 2016, as a result of the different aircraft purchase agreements signed with Airbus S.A.S., 57 aircraft Airbus A320 family, with deliveries between 2016 and 2021, and 22 Airbus aircraft A350 family with deliveries between 2016 and 2022 remain to be received.

The approximate amount is ThUS\$ 13,300,000, according to the manufacturer's price list. Additionally, the Company has valid purchase options for 4 Airbus A350 aircraft.

In April 2015 the change of 8 Boeing 787-8 aircraft for 8 Boeing 787-8 aircraft was signed. In May 2016 the change of 4 Boeing 787-8 aircraft for 4 Boeing 787-9 aircraft was signed.

As of September 30, 2016, and as a result of different aircraft purchase contracts signed with The Boeing Company, a total of 9 Boeing 787 Dreamliner aircraft, with delivery dates between 2017 and 2019, and 2 Boeing 777 with delivery expected for 2019 remain to be received.

The approximate amount, according to the manufacturer's price list, is ThUS\$ 2,800,000.

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

		For the periods ended	
		September 30,	
		2016	2015
		Unaudited	
Average rate of capitalization of capitalized interest costs	%	3.38	2.92
Costs of capitalized interest	ThUS\$	4,034	15,835

## (iv) Financial leases

The detail of the main financial leases is as follows:

Lessor	Aircraft	Model	As of	As of
			September 30, 2016	December 31, 2015
			Unaudited	
Agonandra Statutory Trust	Airbus A320	200	-	2
Becacina Leasing LLC	Boeing 767	300ER	1	1
Caiquen Leasing LLC	Boeing 767	300F	1	1
Cernicalo Leasing LLC	Boeing 767	300F	2	2
Chirihue Leasing Trust	Boeing 767	300F	2	2
Cisne Leasing LLC	Boeing 767	300ER	2	2
Codorniz Leasing Limited	Airbus A319	100	2	2
Conure Leasing Limited	Airbus A320	200	2	2
Flamenco Leasing LLC	Boeing 767	300ER	1	1
FLYAFI 1 S.R.L.	Boeing 777	300ER	1	1
FLYAFI 2 S.R.L.	Boeing 777	300ER	1	1
FLYAFI 3 S.R.L.	Boeing 777	300ER	1	1
Forderum Holding B.V. (GECAS)	Airbus A320	200	2	2
Garza Leasing LLC	Boeing 767	300ER	1	1
General Electric Capital Corporation	Airbus A330	200	3	3
Intraelo BETA Corpotation (KFW)	Airbus A320	200	1	1
Juliana Leasing Limited	Airbus A320	200	-	2
Loica Leasing Limited	Airbus A319	100	2	2
Loica Leasing Limited	Airbus A320	200	2	2
Mirlo Leasing LLC	Boeing 767	300ER	1	1
NBB Rio de Janeiro Lease CO and Brasilia Lease LLC (BBAM)	Airbus A320	200	1	1
NBB São Paulo Lease CO. Limited (BBAM)	Airbus A321	200	1	1
Osprey Leasing Limited	Airbus A319	100	8	8
Petrel Leasing LLC	Boeing 767	300ER	1	1
Pilpilen Leasing Limited	Airbus A320	200	4	4
Pochard Leasing LLC	Boeing 767	300ER	2	2
Quetro Leasing LLC	Boeing 767	300ER	3	3
SG Infrastructure Italia S.R.L.	Boeing 777	300ER	1	1
SL Alcyone LTD (Showa)	Airbus A320	200	1	1
TMF Interlease Aviation B.V.	Airbus A330	200	-	1
TMF Interlease Aviation II B.V.	Airbus A319	100	-	5
TMF Interlease Aviation II B.V.	Airbus A320	200	-	2
Tricahue Leasing LLC	Boeing 767	300ER	3	3
Wacapou Leasing S.A	Airbus A320	200	1	1
Total			<u>54</u>	<u>66</u>

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

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

Fixed assets acquired under financial leases are classified as Other property, plant and equipment. As of September 30, 2016 the Company had fifty four aircrafts (sixty six aircraft as of December 31, 2015).

As of September 30, 2016, as a result of the transfer plan fleet of TAM Linhas Aéreas S.A. to LATAM Airlines Group S.A., the Company declined its number of aircraft leasing in five Airbus A319-100, six Airbus A320-200 and one Airbus A330-200 aircraft.

The book value of assets under financial leases as of September 30, 2016 amounts to ThUS\$ 1,935,130 (ThUS\$ 2,030,723 at December 31, 2015).

The minimum payments under financial leases are as follows:

	As of September 30, 2016 (Unaudited)			As of December 31, 2015		
	Gross Value	Interest	Present Value	Gross Value	Interest	Present Value
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
No later than one year	318,868	(37,095)	281,773	360,862	(47,492)	313,370
Between one and five years	761,052	(49,937)	711,115	1,003,237	(75,363)	927,874
Over five years	51,502	(324)	51,178	95,050	(1,406)	93,644
Total	<u>1,131,422</u>	<u>(87,356)</u>	<u>1,044,066</u>	<u>1,459,149</u>	<u>(124,261)</u>	<u>1,334,888</u>

#### NOTE 18 - CURRENT AND DEFERRED TAXES

In the period ended September 30, 2016, the income tax provision was calculated at the rate of 24% for the business year 2016, in accordance with the recently enacted Law No. 20,780 published in the Official Journal of the Republic of Chile on September 29, 2014.

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

As LATAM Airlines Group S.A. is a public company, by default it must choose the "Partially Integrated Taxation System", unless a future Extraordinary Meeting of Shareholders of the Company agrees, by a minimum of 2/3 of the votes, to choose the "Attributed Income Taxation System". This decision must be taken at the latest in the last quarter of 2016.

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

Assets and deferred tax liabilities are offset if there is a legal right to offset the assets and liabilities, always correspond to the same entity and tax authority.

(\*) The Partially Integrated Taxation System is one of the tax regimes approved through the Tax Reform previously mentioned, which is based on the taxation by the perception of profits and the Attributed Income Taxation System is based on the taxation by the accrual of profits.

(a) Current taxes

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

	Current assets		Non-current assets		Total assets	
	As of September 30, 2016	As of December 31, 2015	As of September 30, 2016	As of December 31, 2015	As of September 30, 2016	As of December 31, 2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited		Unaudited		Unaudited	
Provisional monthly payments (advances)	49,317	43,935	-	-	49,317	43,935
Other recoverable credits	25,255	20,080	25,629	25,629	50,884	45,709
Total assets by current tax	<u>74,572</u>	<u>64,015</u>	<u>25,629</u>	<u>25,629</u>	<u>100,201</u>	<u>89,644</u>

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

	Current liabilities		Non-current liabilities		Total liabilities	
	As of September 30, 2016	As of December 31, 2015	As of September 30, 2016	As of December 31, 2015	As of September 30, 2016	As of December 31, 2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited		Unaudited		Unaudited	
Income tax provision	27,092	19,001	-	-	27,092	19,001
Additional tax provision	4,643	377	-	-	4,643	377
Total liabilities by current tax	<u>31,735</u>	<u>19,378</u>	<u>-</u>	<u>-</u>	<u>31,735</u>	<u>19,378</u>

## (b) Deferred taxes

The balances of deferred tax are the following:

Concept	Assets		Liabilities	
	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$ Unaudited	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$ Unaudited
Depreciation	(35,394)	(14,243)	1,343,868	1,116,748
Leased assets	(5,023)	(25,299)	193,192	226,003
Amortization	(5,779)	(5,748)	64,330	65,416
Provisions	180,789	210,992	(28,457)	(167,545)
Revaluation of financial instruments	-	709	(4,385)	(7,575)
Tax losses	250,812	212,067	(1,064,664)	(797,715)
Revaluation property, plant and equipment	-	-	-	(4,081)
Intangibles	-	-	437,573	364,314
Others	4,261	(1,883)	17,287	16,000
Total	<u>389,666</u>	<u>376,595</u>	<u>958,744</u>	<u>811,565</u>

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

## Movements of Deferred tax assets and liabilities

## (a) From January 1 to September 30, 2015 (Unaudited)

	Opening balance	Recognized in consolidated	Recognized in comprehensive	Exchange rate	Others	Ending balance
	Assets/(liabilities) ThUS\$	income ThUS\$	income ThUS\$	variation ThUS\$	ThUS\$	Asset (liability) ThUS\$
Depreciation	(871,640)	(183,881)	-	8,852	-	(1,046,669)
Leased assets	(185,775)	(18,844)	-	8,087	-	(196,532)
Amortization	(160,100)	33,333	-	4,774	-	(121,993)
Provisions	351,077	54,213	-	(131,437)	-	273,853
Revaluation of financial instruments	12,806	28,743	(28,143)	(3,295)	-	10,111
Tax losses (*)	722,749	264,091	-	(34,581)	-	952,259
Revaluation property, plant and equipment	5,999	13,265	-	(15,253)	-	4,011
Intangibles	(523,275)	-	-	173,423	-	(349,852)
Others	3,588	(1,769)	-	(24,774)	6,184	(16,771)
Total	<u>(644,571)</u>	<u>189,151</u>	<u>(28,143)</u>	<u>(14,204)</u>	<u>6,184</u>	<u>(491,583)</u>

(b) From October 1 to December 31, 2015

	Opening balance	Recognized in consolidated	Recognized in comprehensive	Exchange rate	Others	Ending balance
	Assets/(liabilities)	income	income	variation		Asset (liability)
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Depreciation	(1,046,669)	(84,010)	-	(312)	-	(1,130,991)
Leased assets	(196,532)	(54,486)	-	(284)	-	(251,302)
Amortization	(121,993)	50,997	-	(168)	-	(71,164)
Provisions	273,853	96,149	3,911	4,624	-	378,537
Revaluation of financial instruments	10,111	(8,983)	7,040	116	-	8,284
Tax losses (*)	952,259	56,306	-	1,217	-	1,009,782
Revaluation property, plant and equipment	4,011	(466)	-	536	-	4,081
Intangibles	(349,852)	(8,362)	-	(6,100)	-	(364,314)
Others	(16,771)	34,608	-	(22,691)	(13,029)	(17,883)
<b>Total</b>	<b>(491,583)</b>	<b>81,753</b>	<b>10,951</b>	<b>(23,062)</b>	<b>(13,029)</b>	<b>(434,970)</b>

(c) From January 1 to September 30, 2016 (Unaudited)

	Opening balance	Recognized in consolidated	Recognized in comprehensive	Exchange rate	Others	Ending balance
	Assets/(liabilities)	income	income	variation		Asset (liability)
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Depreciation	(1,130,991)	(244,585)	-	(3,686)	-	(1,379,262)
Leased assets	(251,302)	56,455	-	(3,368)	-	(198,215)
Amortization	(71,164)	3,043	-	(1,988)	-	(70,109)
Provisions	378,537	(224,451)	427	54,733	-	209,246
Revaluation of financial instruments	8,284	22,337	(27,608)	1,372	-	4,385
Tax losses (*)	1,009,782	291,294	-	14,400	-	1,315,476
Revaluation property, plant and equipment	4,081	(10,433)	-	6,352	-	-
Intangibles	(364,314)	(1,042)	-	(72,217)	-	(437,573)
Others	(17,883)	(16,903)	-	20,536	1,224	(13,026)
<b>Total</b>	<b>(434,970)</b>	<b>(124,285)</b>	<b>(27,181)</b>	<b>16,134</b>	<b>1,224</b>	<b>(569,078)</b>

Deferred tax assets not recognized:

	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$
Tax losses	65,363	15,513
<b>Total Deferred tax assets not recognized</b>	<b>65,363</b>	<b>15,513</b>

Deferred tax assets on tax loss, are recognized to the extent that it is likely probable the realization of future tax benefit. By the above at September 30, 2016, the Company has not recognized deferred tax assets of ThUS\$ 65,363 (ThUS\$ 15,513 at December 31, 2015) according with a loss of ThUS\$ 192,243 (ThUS\$ 45,628 at December 31, 2015).

## Deferred tax expense and current income taxes:

	For the 9 months ended		For the 3 months ended	
	September 30,		September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Current tax expense				
Current tax expense	71,083	69,672	24,145	28,163
Adjustment to previous period's current tax	1,972	322	2,148	279
Total current tax expense, net	<u>73,055</u>	<u>69,994</u>	<u>26,293</u>	<u>28,442</u>
Deferred tax expense				
Deferred expense for taxes related to the creation and reversal of temporary differences	124,285	(189,151)	26,148	(110,646)
Total deferred tax expense, net	<u>124,285</u>	<u>(189,151)</u>	<u>26,148</u>	<u>(110,646)</u>
Income tax expense	<u>197,340</u>	<u>(119,157)</u>	<u>52,441</u>	<u>(82,204)</u>

## Composition of income tax expense (income):

	For the 9 months ended		For the 3 months ended	
	September 30,		September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Current tax expense, net, foreign	66,395	68,044	25,491	27,713
Current tax expense, net, Chile	6,660	1,950	802	729
Total current tax expense, net	<u>73,055</u>	<u>69,994</u>	<u>26,293</u>	<u>28,442</u>
Deferred tax expense, net, foreign	97,199	(171,035)	2,055	(95,815)
Deferred tax expense, net, Chile	27,086	(18,116)	24,093	(14,831)
Deferred tax expense, net, total	<u>124,285</u>	<u>(189,151)</u>	<u>26,148</u>	<u>(110,646)</u>
Income tax expense	<u>197,340</u>	<u>(119,157)</u>	<u>52,441</u>	<u>(82,204)</u>



Profit before tax by the legal tax rate in Chile (24% and 22.5% at September 30, 2016 and 2015, respectively)

	For the 9 months ended September 30,		For the 3 months ended September 30,	
	2016	2015	2016	2015
	ThUS\$	ThUS\$	%	%
	Unaudited		Unaudited	
Tax expense using the legal rate (*)	58,665	(72,489)	24.00	22.50
Tax effect of rates in other jurisdictions	21,987	(24,946)	9.00	7.74
Tax effect of non-taxable operating revenues	(41,683)	(48,029)	(17.05)	14.91
Tax effect of disallowable expenses	149,584	26,825	61.20	(8.33)
Other increases (decreases) in legal tax charge	8,787	(518)	3.59	0.16
Total adjustments to tax expense using the legal rate	138,675	(46,668)	56.74	14.48
Tax expense using the effective rate	197,340	(119,157)	80.74	36.98

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

Thus, at September 30, 2016 the Company presents the reconciliation of income tax expense and legal tax rate considering the rate increase.

Deferred taxes related to items charged to net equity:

	For the 9 months ended September 30		For the 3 months ended September 30	
	2016	2015	2016	2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Aggregate deferred taxation of components of other comprehensive income	(27,181)	(28,143)	(10,624)	8,252
Aggregate deferred taxation related to items charged to net equity	(467)	2,139	1,280	713

## NOTE 19 - OTHER FINANCIAL LIABILITIES

The composition of Other financial liabilities is as follows:

	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$
<b>Current</b>		
(a) Interest bearing loans	1,840,732	1,510,146
(b) Hedge derivatives	37,255	134,089
Total current	<u>1,877,987</u>	<u>1,644,235</u>
<b>Non-current</b>		
(a) Interest bearing loans	7,224,985	7,516,257
(b) Hedge derivatives	9,742	16,128
Total non-current	<u>7,234,727</u>	<u>7,532,385</u>
<b>(a) Interest bearing loans</b>		

Obligations with credit institutions and debt instruments:

	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$
<b>Current</b>		
Loans to exporters	252,696	387,409
Bank loans	288,543	80,188
Guaranteed obligations	582,819	591,148
Other guaranteed obligations	6,317	32,513
Subtotal bank loans	<u>1,130,375</u>	<u>1,091,258</u>
Obligation with the public	337,290	10,999
Financial leases	288,845	324,859
Other loans	84,222	83,030
Total current	<u>1,840,732</u>	<u>1,510,146</u>
<b>Non-current</b>		
Bank loans	389,213	564,128
Guaranteed obligations	4,466,744	4,122,995
Other guaranteed obligations (1)	309,788	-
Subtotal bank loans	<u>5,165,745</u>	<u>4,687,123</u>
Obligation with the public (2)	996,387	1,294,882
Financial leases	757,726	1,015,779
Other loans	305,127	518,473
Total non-current	<u>7,224,985</u>	<u>7,516,257</u>
Total obligations with financial institutions	<u>9,065,717</u>	<u>9,026,403</u>

(1) On March 29, May 12 and September 8, 2016, LATAM Airlines Group S.A. performed the closing of a new financing - Revolving Credit Facility (RCF). The credit line will be guaranteed by TAM Linhas Aereas S.A. and Transporte Aereo S.A.

The total amount committed and disbursed to September 30, 2016 was for a total of MUS \$ 313,000. The financing term is 3 years.

The line is secured with collateral asset basis; such collateral is composed of: aircraft, engines and spare parts

This funding requires must compliance with liquidity ratio and certain ratios of collateral.

(2) On June 9, 2015 LATAM Airlines Group S.A. has issued and placed on the international market under Rule 144-A and Regulation S of the securities laws of the United States of America, unsecured long-term bonds in the amount of US\$ 500,000,000, maturing 2020, interest rate of 7.25% per annum.

As reported in the Essential Matter of May 20 and June 5, 2015, the Issuance and placement of the Bonds 144-A shall be: (i) finance the repurchase, conversion and redemption of secured long-term bonds issued by the company TAM Capital 2 Inc., under Rule 144-A and Regulation S of the securities laws of the United States of America, maturing 2020; (ii) in the event there is any remnant fund other general corporate purposes. The aforementioned bonds TAM Capital 2 Inc. were redeemed in whole (US\$ 300,000,000) through a process of exchange for new bonds dated June 9, 2015 and then the remaining bonds were redeemed by running the prepay dated June 18, 2015.

(3) On September 29, TAM S.A. realizes financing amounting to US \$ 200 million with the guarantee of approximately 18% ownership of the shares of Multiplus S.A., percentage subject to adjustment depending on the value of the stock as collateral. In conjunction with the structuring of the USD credit, the company executed a Cross Currency Swap for the same amount and term as the aforementioned financing to change the commitment currency from US\$ to BRL.

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

Currency balances that make the interest bearing loans:

<u>Currency</u>	As of September 30, <u>2016</u> ThUS\$ Unaudited	As of December 31, <u>2015</u> ThUS\$
Brazilian real	2,359	3,387
Chilean peso (U.F.)	174,170	210,423
US Dollar	<u>8,889,188</u>	<u>8,812,593</u>
Total	<u><u>9,065,717</u></u>	<u><u>9,026,403</u></u>

Interest-bearing loans due in installments to September 30, 2016 (Unaudited)

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

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective rate %	Nominal rate %
				Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total nominal value	Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total accounting value			
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			
Loans to exporters																		
97.032.000-8	BBVA	Chile	US\$	100,000	-	-	-	-	100,000	100,307	-	-	-	-	100,307	At Expiration	1.65	1.65
97.036.000-K	SANTANDER	Chile	US\$	-	30,000	-	-	-	30,000	-	30,000	-	-	-	30,000	At Expiration	2.39	2.39
97.030.000-7	ESTADO	Chile	US\$	40,000	-	-	-	-	40,000	40,079	-	-	-	-	40,079	At Expiration	1.65	1.65
97.003.000-K	BANCO DO BRASIL	Chile	US\$	70,000	-	-	-	-	70,000	70,308	-	-	-	-	70,308	At Expiration	2.82	2.82
97.951.000-4	HSBC	Chile	US\$	12,000	-	-	-	-	12,000	12,002	-	-	-	-	12,002	At Expiration	1.35	1.35
Bank loans																		
97.023.000-9	CORPBANCA	Chile	UF	19,470	58,409	74,924	21,944	-	174,747	20,149	58,409	73,757	21,855	-	174,170	Quarterly	4.10	4.10
0-E	BLADEX	U.S.A.	US\$	5,000	5,000	30,000	7,500	-	47,500	5,762	5,000	29,625	7,438	-	47,825	Semiannual	4.80	4.80
0-E	DVB BANK SE	U.S.A.	US\$	-	-	28,911	-	-	28,911	1	-	28,911	-	-	28,912	Quarterly	1.77	1.77
97.036.000-K	SANTANDER	Chile	US\$	-	-	225,117	-	-	225,117	-	-	225,117	-	-	225,117	Quarterly	3.65	3.65
Obligations with the public																		
0-E	BANK OF NEW YORK	U.S.A.	US\$	-	-	-	500,000	-	500,000	12,068	-	-	488,455	-	500,523	At Expiration	7.77	7.25
Guaranteed obligations																		
0-E	CREDIT AGRICOLE	France	US\$	15,316	32,641	308,256	38,090	5,473	399,776	17,442	32,641	306,036	38,090	5,473	399,682	Quarterly	2.44	2.29
0-E	BNP PARIBAS	U.S.A.	US\$	12,380	37,980	106,735	107,431	260,119	524,645	14,876	38,325	104,538	106,406	258,488	522,633	Quarterly	2.74	2.70
0-E	WELLS FARGO	U.S.A.	US\$	31,309	94,764	258,960	268,319	434,302	1,087,654	35,160	94,764	233,719	257,408	427,042	1,048,093	Quarterly	2.35	1.66
0-E	WILMINGTON TRUST	U.S.A.	US\$	17,227	48,595	133,842	140,850	644,049	984,563	22,667	48,596	129,295	138,398	639,485	978,441	Quarterly	4.25	4.25
0-E	CITIBANK	U.S.A.	US\$	17,374	52,830	145,974	153,767	195,597	565,542	18,914	52,830	137,366	149,916	192,055	551,081	Quarterly	2.63	1.88
97.036.000-K	SANTANDER	Chile	US\$	5,311	16,124	44,239	46,139	32,072	143,885	5,641	16,124	42,385	45,507	31,925	141,582	Quarterly	1.88	1.34
0-E	BTMU	U.S.A.	US\$	2,767	8,419	23,243	24,474	29,854	88,757	2,971	8,418	21,931	23,951	29,624	86,895	Quarterly	2.19	1.59
0-E	APPLE BANK	U.S.A.	US\$	1,360	4,134	11,440	12,065	15,115	44,114	1,527	4,134	10,787	11,803	14,995	43,246	Quarterly	2.14	1.54
0-E	US BANK	U.S.A.	US\$	14,733	44,703	123,004	128,728	236,173	547,341	17,281	44,703	106,291	121,277	230,672	520,224	Quarterly	3.99	2.81
0-E	DEUTSCHE BANK	U.S.A.	US\$	4,935	15,189	26,689	26,687	48,697	122,197	5,505	15,189	26,689	26,687	48,697	122,767	Quarterly	3.76	3.76
0-E	NATIXIS	France	US\$	12,116	37,257	96,191	76,900	212,238	434,702	12,840	37,257	96,191	76,899	212,239	435,426	Quarterly	2.51	2.48
0-E	HSBC	U.S.A.	US\$	695	2,118	5,837	6,130	9,781	24,561	760	2,118	5,837	6,130	9,781	24,626	Quarterly	2.88	2.07
0-E	PK AIRFINANCE	U.S.A.	US\$	1,983	6,160	18,094	23,631	6,901	56,769	2,034	6,160	18,094	23,631	6,901	56,820	Quarterly	2.23	2.23
0-E	KFW IPEX-BANK	Germany	US\$	2,259	6,935	18,002	11,253	-	38,449	2,288	6,935	18,002	11,253	-	38,478	Quarterly	2.36	2.36
0-E	AIRBUS FINANCIAL	U.S.A.	US\$	1,782	5,433	15,140	9,626	-	31,981	1,832	5,433	15,140	9,626	-	32,031	Monthly	2.73	2.73
0-E	INVESTEC	England	US\$	1,297	3,988	11,494	12,858	14,363	44,000	1,765	4,118	10,996	12,660	14,283	43,822	Semiannual	5.47	5.47
-	SWAP Aviones Ilegados	-	US\$	429	1,142	1,878	267	-	3,716	429	1,142	1,878	267	-	3,716	Quarterly	-	-
Other guaranteed obligations																		
0-E	CITIBANK	U.S.A.	US\$	-	-	313,000	-	-	313,000	199	-	309,788	-	-	309,987	Quarterly	3.35	2.85
0-E	DVB BANK SE	U.S.A.	US\$	6,113	-	-	-	-	6,113	6,118	-	-	-	-	6,118	Quarterly	2.61	2.61
Financial leases																		
0-E	ING	U.S.A.	US\$	6,675	15,463	32,605	15,631	-	70,374	7,281	15,463	31,983	15,577	-	70,304	Quarterly	5.53	4.89
0-E	CREDIT AGRICOLE	France	US\$	1,732	5,333	1,824	-	-	8,889	1,761	5,333	1,824	-	-	8,918	Quarterly	1.66	1.66
0-E	CITIBANK	U.S.A.	US\$	4,874	15,100	43,545	19,603	-	83,122	5,579	15,100	42,718	19,537	-	82,934	Quarterly	6.40	5.67
0-E	PEFCO	U.S.A.	US\$	15,790	48,554	74,646	7,610	-	146,600	16,771	48,554	73,598	7,595	-	146,518	Quarterly	5.38	4.78
0-E	BNP PARIBAS	U.S.A.	US\$	10,352	31,922	64,550	16,001	-	122,825	10,819	31,922	63,581	15,953	-	122,275	Quarterly	4.12	3.68
0-E	WELLS FARGO	U.S.A.	US\$	4,636	14,143	39,525	42,302	7,355	107,961	4,990	14,143	38,433	42,022	7,345	106,933	Quarterly	3.98	3.54
0-E	DVB BANK SE	U.S.A.	US\$	4,652	14,127	-	-	-	18,779	4,692	14,127	-	-	-	18,819	Quarterly	2.48	2.48
Other loans																		
0-E	CITIBANK (*)	U.S.A.	US\$	21,350	61,898	182,134	126,356	-	391,738	22,324	61,898	179,034	126,093	-	389,349	Quarterly	6.00	6.00
Total				465,917	718,361	2,459,799	1,844,162	2,152,089	7,640,328	505,142	718,836	2,383,544	1,804,434	2,129,005	7,540,961			

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

Interest-bearing loans due in installments to September 30, 2016 (Unaudited)  
Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Nominal values					Accounting values					Amortization	Effective rate %	Nominal rate %		
				Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total nominal value	Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years				More than five years	Total accounting value
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$				ThUS\$	ThUS\$
<b>Bank loans</b>																		
0-E	NEDERLANDSCHE CREDITVERZEKERING MAATSCHAPPIJ	Holanda	US\$	120	372	1,078	1,215	217	3,002	135	372	1,078	1,215	217	3,017	Monthly	6.01	6.01
0-E	CITIBANK	U.S.A	US\$	-	200,000	-	-	-	200,000	(148)	198,863	-	-	-	198,715	Monthly	3.25	3.00
<b>Obligation with the public</b>																		
0-E	THE BANK OF NEW YORK	U.S.A	US\$	-	300,000	-	500,000	-	800,000	23,646	301,576	4,119	503,813	-	833,154	At Expiration	8.17	8.00
<b>Financial leases</b>																		
0-E	AFS INVESTMENT IX LLC	U.S.A	US\$	2,057	6,347	18,296	10,805	-	37,505	2,233	6,347	18,296	10,805	-	37,681	Monthly	1.25	1.25
0-E	DVB BANK SE	U.S.A	US\$	119	282	-	-	-	401	119	282	-	-	-	401	Monthly	2.35	2.35
0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A	US\$	3,742	8,970	-	-	-	12,712	3,774	8,970	-	-	-	12,744	Monthly	2.14	2.14
0-E	KFW IPEX-BANK	Germany	US\$	579	1,736	386	-	-	2,701	584	1,737	386	-	-	2,707	Monthly/Quarterly	2.64	2.64
0-E	NATIXIS	France	US\$	1,424	6,896	18,294	40,208	41,731	108,553	1,867	6,896	18,294	40,208	41,731	108,996	Quarterly/Semiannual	4.74	4.74
0-E	PK AIRFINANCE US, INC.	U.S.A	US\$	19,164	-	-	-	-	19,164	19,196	-	-	-	-	19,196	Monthly	2.60	2.60
0-E	WACAPOU LEASING S.A.	Luxemburg	US\$	660	2,019	5,706	6,214	2,092	16,691	703	2,019	5,706	6,214	2,093	16,735	Quarterly	2.85	2.85
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	8,453	25,973	73,895	179,467	-	287,788	9,716	25,973	73,895	179,467	-	289,051	Quarterly	4.03	3.97
0-E	BANCO IBM S.A	Brazil	BRL	261	783	252	-	-	1,296	261	783	252	-	-	1,296	Monthly	14.13	14.13
0-E	HP FINANCIAL SERVICE	Brazil	BRL	218	222	-	-	-	440	217	222	-	-	-	439	Monthly	10.02	10.02
0-E	SOCIETE GENERALE	France	BRL	103	308	213	-	-	624	103	308	213	-	-	624	Monthly	14.13	14.13
<b>Total</b>				<b>36,900</b>	<b>553,908</b>	<b>118,120</b>	<b>737,909</b>	<b>44,040</b>	<b>1,490,877</b>	<b>62,406</b>	<b>554,348</b>	<b>122,239</b>	<b>741,722</b>	<b>44,041</b>	<b>1,524,756</b>			
<b>Total consolidado</b>				<b>502,817</b>	<b>1,272,269</b>	<b>2,577,919</b>	<b>2,582,071</b>	<b>2,196,129</b>	<b>9,131,205</b>	<b>567,548</b>	<b>1,273,184</b>	<b>2,505,783</b>	<b>2,546,156</b>	<b>2,173,046</b>	<b>9,065,717</b>			

Interest-bearing loans due in installments to December 31, 2015  
 Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective rate %	Nominal rate %
				Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total nominal value	Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total accounting value			
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			
Loans to exporters																		
97.032.000-8	BBVA	Chile	US\$	100.000	-	-	-	-	100.000	100.183	-	-	-	-	100.183	At Expiration	1,00	1,00
97.036.000-K	SANTANDER	Chile	US\$	100.000	-	-	-	-	100.000	100.067	-	-	-	-	100.067	At Expiration	1,44	1,44
97.030.000-7	ESTADO	Chile	US\$	55.000	-	-	-	-	55.000	55.088	-	-	-	-	55.088	At Expiration	1,05	1,05
97.004.000-5	CHILE	Chile	US\$	50.000	-	-	-	-	50.000	50.006	-	-	-	-	50.006	At Expiration	1,42	1,42
97.003.000-K	BANCO DO BRASIL	Chile	US\$	70.000	-	-	-	-	70.000	70.051	-	-	-	-	70.051	At Expiration	1,18	1,18
97.951.000-4	HSBC	Chile	US\$	12.000	-	-	-	-	12.000	12.014	-	-	-	-	12.014	At Expiration	0,66	0,66
Bank loans																		
97.023.000-9	CORPBANCA	Chile	UF	17.631	52.893	105.837	34.774	-	211.135	18.510	52.892	104.385	34.635	-	210.422	Quarterly	4,18	4,18
0-E	BLADEX	U.S.A.	US\$	-	7.500	27.500	15.000	-	50.000	134	7.500	27.125	14.875	-	49.634	Semiannual	4,58	4,58
0-E	DVB BANK SE	U.S.A.	US\$	-	-	153.514	-	-	153.514	14	-	153.514	-	-	153.528	Quarterly	1,67	1,67
97.036.000-K	SANTANDER	Chile	US\$	-	-	226.712	-	-	226.712	650	-	226.712	-	-	227.362	Quarterly	2,24	2,24
Obligations with the public																		
0-E	BANK OF YORK	U.S.A.	US\$	-	-	-	500.000	-	500.000	2.383	-	-	486.962	-	489.345	At Expiration	7,77	7,25
Guaranteed obligations																		
0-E	CREDIT AGRICOLE	France	US\$	29.633	88.188	204.722	54.074	12.410	389.027	30.447	88.189	203.286	54.074	12.410	388.406	Quarterly	1,83	1,66
0-E	BNP PARIBAS	U.S.A.	US\$	8.162	25.012	70.785	75.028	140.410	319.397	9.243	25.012	70.335	74.917	140.407	319.914	Quarterly	2,29	2,22
0-E	WELLS FARGO	U.S.A.	US\$	30.895	93.511	255.536	264.770	536.039	1.180.751	34.933	93.511	227.704	252.054	1.133.459	1.133.459	Quarterly	2,27	1,57
0-E	WILMINGTON TRUST	U.S.A.	US\$	-	48.264	85.183	90.694	451.555	675.696	5.691	48.263	81.867	88.977	448.016	672.814	Quarterly	4,25	4,25
0-E	CITIBANK	U.S.A.	US\$	17.042	51.792	143.168	150.792	254.208	617.002	18.545	51.792	133.740	146.362	249.406	599.845	Quarterly	2,40	1,64
97.036.000-K	SANTANDER	Chile	US\$	5.233	15.862	43.552	45.416	49.606	159.669	5.514	15.862	41.434	44.599	49.281	156.690	Quarterly	1,47	0,93
0-E	BTMU	U.S.A.	US\$	2.714	8.250	22.801	24.007	39.182	96.954	2.897	8.250	21.336	23.376	38.789	94.648	Quarterly	1,82	1,22
0-E	APPLE BANK	U.S.A.	US\$	1.333	4.055	11.211	11.828	19.715	48.142	1.478	4.056	10.483	11.513	19.515	47.045	Quarterly	1,72	1,12
0-E	US BANK	U.S.A.	US\$	14.483	43.948	120.924	126.550	285.134	591.039	17.232	43.948	102.607	117.968	277.195	558.950	Quarterly	3,99	2,81
0-E	DEUTSCHE BANK	U.S.A.	US\$	4.767	14.667	32.449	25.826	58.989	136.698	5.342	14.666	32.448	25.826	58.989	137.271	Quarterly	3,40	3,40
0-E	NATIXIS	France	US\$	11.698	35.914	97.434	83.289	241.088	469.423	12.351	35.914	97.434	83.289	241.088	470.076	Quarterly	2,08	2,05
0-E	HSBC	U.S.A.	US\$	1.374	4.180	11.533	12.112	24.384	53.583	1.504	4.180	11.533	12.112	24.384	53.713	Quarterly	2,40	1,59
0-E	PK AIRFINANCE	U.S.A.	US\$	1.882	5.846	17.171	19.744	17.871	62.514	1.937	5.846	17.171	19.744	17.871	62.569	Monthly	2,04	2,04
0-E	KFW IPEX-BANK	Germany	US\$	653	2.028	5.314	3.958	1.640	13.593	655	2.028	5.314	3.958	1.640	13.595	Quarterly	2,45	2,45
-	SWAP Aviones Ilegados	-	US\$	502	1.360	2.521	765	-	5.148	502	1.360	2.521	765	-	5.148	Quarterly	-	-
Other guaranteed obligations																		
0-E	DVB BANK SE	U.S.A.	US\$	8.054	24.438	-	-	-	32.492	8.075	24.438	-	-	-	32.513	Quarterly	2,32	2,32
Financial leases																		
0-E	ING	U.S.A.	US\$	8.108	23.191	36.868	26.831	-	94.998	8.894	23.191	36.066	26.682	-	94.833	Quarterly	5,13	4,57
0-E	CREDIT AGRICOLE	France	US\$	1.666	5.131	7.158	-	-	13.955	1.700	5.131	7.158	-	-	13.989	Quarterly	1,28	1,28
0-E	CITIBANK	U.S.A.	US\$	4.687	14.447	41.726	36.523	-	97.383	5.509	14.447	40.684	36.330	-	96.970	Quarterly	6,40	5,67
0-E	PEFCO	U.S.A.	US\$	15.246	46.858	108.403	22.407	-	192.914	16.536	46.858	106.757	22.324	-	192.475	Quarterly	5,37	4,77
0-E	BNP PARIBAS	U.S.A.	US\$	9.956	30.678	81.373	31.100	-	153.107	10.494	30.678	79.983	30.958	-	152.113	Quarterly	4,08	3,64
0-E	WELLS FARGO	U.S.A.	US\$	4.519	13.784	38.531	41.238	23.556	121.628	4.919	13.784	37.247	40.819	23.486	120.255	Quarterly	3,98	3,54
0-E	DVB BANK SE	U.S.A.	US\$	4.567	13.873	14.127	-	-	32.567	4.625	13.873	14.127	-	-	32.625	Quarterly	2,06	2,06
0-E	BANC OF AMERICA	U.S.A.	US\$	674	2.096	-	-	-	2.770	676	2.096	-	-	-	2.772	Monthly	1,41	1,41
Other loans																		
0-E	BOEING	U.S.A.	US\$	-	-	151.362	-	-	151.362	2.294	-	151.363	-	-	153.657	At Expiration	1,80	1,80
0-E	CITIBANK (*)	U.S.A.	US\$	19.361	60.251	174.178	196.210	-	450.000	20.485	60.251	174.178	192.932	-	447.846	Quarterly	6,00	6,00
Total				611.840	738.017	2.291.593	1.892.936	2.155.787	7.690.173	641.578	738.016	2.218.512	1.846.051	2.127.734	7.571.891			

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

Interest-bearing loans due in installments to December 31, 2015  
 Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

Tax No.	Creditor	Creditor country	Currency	Nominal values						Accounting values						Amortization	Effective rate %	Nominal rate %
				Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total nominal value	Up to 90 days	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total accounting value			
				ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			
Préstamos bancarios																		
0-E	NEDERLANDSCHE CREDITVERZEKERING MAATSCHAPPIJ	Holland	US\$	115	356	1.031	1.162	689	3.353	132	356	1.031	1.162	689	3.370	Monthly	6,01	6,01
Obligaciones con el público																		
0-E	THE BANK OF NEW YORK	U.S.A.	US\$	-	-	300.000	-	500.000	800.000	7.506	1.110	301.722	5.171	501.027	816.536	At Expiration	8,17	8,00
Arrendamientos financieros																		
0-E	AFS INVESTMENT IX LLC	U.S.A.	US\$	1.972	6.085	17.540	17.908	-	43.505	2.176	6.085	17.540	17.908	-	43.709	Monthly	1,25	1,25
0-E	AIRBUS FINANCIAL	U.S.A.	US\$	3.370	10.397	20.812	15.416	-	49.995	3.461	10.396	20.813	15.416	-	50.086	Monthly	1,43	1,43
0-E	CREDIT AGRICOLE-CIB	U.S.A.	US\$	4.500	-	-	-	-	4.500	4.528	-	-	-	-	4.528	Quarterly	3,25	3,25
0-E	DVB BANK SE	U.S.A.	US\$	118	355	282	-	-	755	120	355	282	-	-	757	Monthly	1,64	1,64
0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A.	US\$	3.654	11.137	8.970	-	-	23.761	3.697	11.137	8.970	-	-	23.804	Monthly	1,25	1,25
0-E	KFW IPEX-BANK	Germany	US\$	3.097	6.401	15.186	12.215	-	36.899	3.163	6.401	15.186	12.215	-	36.965	Monthly/Quarterly	1,72	1,72
0-E	NATIXIS	France	US\$	2.505	5.387	17.359	19.682	70.087	115.020	3.476	5.387	17.360	19.682	70.088	115.993	Quarterly/Semiannual	3,85	3,85
0-E	PK AIRFINANCE US, INC.	U.S.A.	US\$	1.276	21.769	-	-	-	23.045	1.316	21.769	-	-	-	23.085	Monthly	1,75	1,75
0-E	WACAPOU LEASING S.A.	Luxemburg	US\$	383	1.101	2.617	14.267	-	18.368	418	1.101	2.617	14.267	-	18.403	Quarterly	2,00	2,00
0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	8.148	25.003	71.311	208.024	-	312.486	9.552	25.003	71.311	208.024	-	313.890	Quarterly	3,63	3,55
0-E	BANCO IBM S.A	Brazil	BRL	217	651	860	-	-	1.728	217	651	860	-	-	1.728	Monthly	14,14	14,14
0-E	HP FINANCIAL SERVICE	Brazil	BRL	168	529	185	-	-	882	169	529	185	-	-	883	Monthly	10,02	10,02
0-E	SOCIETE GENERALE	France	BRL	85	256	434	-	-	775	85	256	434	-	-	775	Monthly	14,14	14,14
Total				29.608	89.427	456.587	288.674	570.776	1.435.072	40.016	90.536	458.311	293.845	571.804	1.454.512			
Total consolidado				641.448	827.444	2.748.180	2.181.610	2.726.563	9.125.245	681.594	828.552	2.676.823	2.139.896	2.699.538	9.026.403			

## (b) Hedge derivatives

	Current liabilities		Non-current liabilities		Total hedge derivatives	
	As of September 30, 2016	As of December 31, 2015	As of September 30, 2016	As of December 31, 2015	As of September 30, 2016	As of December 31, 2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Accrued interest from the last date of interest rate swap	2,819	4,329	-	-	2,819	4,329
Fair value of interest rate derivatives	13,546	33,518	9,742	16,128	23,288	49,646
Fair value of fuel derivatives	2,743	56,424	-	-	2,743	56,424
Fair value of foreign currency derivatives	18,147	39,818	-	-	18,147	39,818
Total hedge derivatives	<u>37,255</u>	<u>134,089</u>	<u>9,742</u>	<u>16,128</u>	<u>46,997</u>	<u>150,217</u>

The foreign currency derivatives exchanges are FX forward and cross currency swap.

Hedging operation

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

	As of September 30, 2016	As of December 31, 2015
	ThUS\$	ThUS\$
	Unaudited	
Cross currency swaps (CCS) (1)	(12,863)	(49,311)
Interest rate swaps (2)	(24,280)	(44,085)
Fuel options (3)	7,509	(50,131)
Currency forward - options US\$/GBPS (4)	1,910	7,432
Currency forward - options US\$/EUR\$ (4)	352	1,438
Currency options R\$/US\$ (4)	(6,156)	933
Currency options CLP/US\$ (4)	(233)	85
Currency options COP/US\$ (4)	(512)	-
Currency options AUD/US\$ (4)	(94)	-

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



During the periods presented, the Company only maintains cash flow hedges and fair value (in the case of CCS). In the case of fuel hedges, the cash flows subject to such hedges will impact results in the next 9 months from the consolidated statement of financial position date, meanwhile in the case of interest rate hedging, the hedges will impact results over the life of the related loans, which are valid initially for 12 years. The hedges on investments will impact results continuously throughout the life of the investment, while the cash flows occur at the maturity of the investment. In the case of currency hedges through a CCS, are generated two types of hedge accounting, a cash flow component by US\$/UF and US\$/BRL, and other fair value by US\$ floating rate component.

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

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

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

	For the 9 months ended September 30,		For the 3 months ended September 30,	
	<u>2016</u> ThUS\$	<u>2015</u> ThUS\$	<u>2016</u> ThUS\$	<u>2015</u> ThUS\$
	Unaudited			
Debit (credit) recognized in comprehensive income during the period	101,123	110,051	39,586	(22,452)
Debit (credit) transferred from net equity to income during the period	(109,796)	(235,237)	(46,218)	(68,620)

## NOTE 20 - TRADE AND OTHER ACCOUNTS PAYABLES

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

	As of September 30, <u>2016</u> ThUS\$	As of December 31, <u>2015</u> ThUS\$
	Unaudited	
Current		
(a) Trade and other accounts payables	1,043,740	1,025,574
(b) Accrued liabilities at the reporting date	495,479	458,383
Total trade and other accounts payables	<u>1,539,219</u>	<u>1,483,957</u>

## (a) Trade and other accounts payable:

	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$
Trade creditors	876,683	758,783
Leasing obligation	8,688	18,784
Other accounts payable	158,369	248,007
Total	1,043,740	1,025,574

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

	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$
Boarding Fee	183,504	175,900
Aircraft Fuel	164,133	148,612
Airport charges and overflight	95,510	94,139
Handling and ground handling	85,650	88,629
Land services	74,734	80,387
Other personnel expenses	68,515	72,591
Suppliers' technical purchases	62,541	52,160
Professional services and advisory	46,530	63,302
Airlines	42,707	3,890
Marketing	38,195	45,997
Services on board	30,727	32,993
Leases, maintenance and IT services	29,186	25,558
Crew	28,727	23,834
Aviation insurance	22,466	7,655
Achievement of goals	12,664	15,386
Distribution system	12,017	17,531
Maintenance	8,806	18,573
Aircraft and engines leasing	8,688	19,146
SEC agreement (*)	4,719	-
Communications	2,671	6,731
Others	21,050	32,560
Total trade and other accounts payables	1,043,740	1,025,574

(\*) Provision made for payments of fines, on July 25, 2016 LATAM reached agreements with the U.S. Securities and Exchange Commission ("SEC") and the U.S. Department of Justice ("DOJ") both authorities of the United States of America, in force as of this date, regarding the investigation on payments by LAN Airlines S.A. made in 2006-2007 to a consultant who advised on the resolution of labor matters in Argentina. The amount of the fines is ThUS\$ 12,750 to the DOJ and the amount to the SEC agreement is ThUS\$ 6,744 plus interests of ThUS\$ 2,694.

As of September 30, the balance payable to the SEC is ThUS \$ 4,719.

## (b) Liabilities accrued:

	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$
Aircraft and engine maintenance	249,503	246,454
Accrued personnel expenses	172,239	108,058
Accounts payable to personnel (*)	51,985	81,368
Others accrued liabilities	21,752	22,503
Total accrued liabilities	<u>495,479</u>	<u>458,383</u>

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

## NOTE 21 - OTHER PROVISIONS

## Other provisions:

	Current liabilities		Non-current liabilities		Total Liabilities	
	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$
Provision for contingencies (1)						
Tax contingencies	1,297	1,297	402,742	350,418	404,039	351,715
Civil contingencies	956	1,476	57,781	37,555	58,737	39,031
Labor contingencies	212	149	31,096	15,648	31,308	15,797
Other	-	-	14,899	11,910	14,899	11,910
Provision for European						
Commision investigation (2)	-	-	9,229	8,966	9,229	8,966
Total other provisions (3)	<u>2,465</u>	<u>2,922</u>	<u>515,747</u>	<u>424,497</u>	<u>518,212</u>	<u>427,419</u>

## (1) Provisions for contingencies:

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

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

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

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

- (2) Provision made for proceedings brought by the European Commission for possible breaches of free competition in the freight market.
- (3) Total other provision at September 30, 2016, and at December 31, 2015, include the fair value correspond to those contingencies from the business combination with TAM S.A and subsidiaries, with a probability of loss under 50%, which are not provided for the normal application of IFRS enforcement and that only must be recognized in the context of a business combination in accordance with IFRS 3.

#### Movement of provisions:

	Legal claims	European Commission Investigation(*)	Total
	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2015	705,552	9,999	715,551
Increase in provisions	33,109	-	33,109
Provision used	(12,914)	-	(12,914)
Difference by subsidiaries conversion	(228,298)	-	(228,298)
Reversal of provision	(26,278)	-	(26,278)
Exchange difference	(912)	(808)	(1,720)
Closing balance as of September 30, 2015 (Unaudited)	<u>470,259</u>	<u>9,191</u>	<u>479,450</u>
Opening balance as of October 1, 2015	470,259	9,191	479,450
Increase in provisions	21,566	-	21,566
Provision used	(6,608)	-	(6,608)
Difference by subsidiaries conversion	8,032	-	8,032
Reversal of provision	(74,462)	-	(74,462)
Exchange difference	(334)	(225)	(559)
Closing balance as of December 31, 2015	<u>418,453</u>	<u>8,966</u>	<u>427,419</u>
Opening balance as of January 1, 2016	418,453	8,966	427,419
Increase in provisions	85,613	-	85,613
Provision used	(17,964)	-	(17,964)
Difference by subsidiaries conversion	81,304	-	81,304
Reversal of provision	(59,256)	-	(59,256)
Exchange difference	833	263	1,096
Closing balance as of September 30, 2016 (Unaudited)	<u>508,983</u>	<u>9,229</u>	<u>518,212</u>

Accumulated balance includes the judicial deposit in guarantee, related to the “Fundo Aeroviário” (FA), of US\$ 73 million, done in order to suspend the enforceability of the tax credit. The company is discussing over the Tribunal the constitutionality of the requirement made by FA in a legal suit. Initially it was covered by the effects of a provisional remedy, meaning that, the company was not obligated to collect the tax while there was not a judicial decision in this regard. However, the decision taken by a judge in the first instance was publicized in an unfavorable way, revoking the provisional remedy relief. As the legal suit is still in progress (TAM appealed from this first decision), the company needed to do the deposit judicial in guarantee to suspend the enforceability of such tax credit; deposit classified in this category deducting the existing provision. Finally, if the final decision is favorable to the company, the deposit already made is going to come back to TAM. On the other hand, if the tribunal confirms the first decision, such deposit will be

converted in a definitive payment in favor of the Brazilian Government. The procedural stage at September 30, 2016 is disclosed in Note 31, at case No. 2001.51.01.012530-0.

(\*) 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 that begun in 2007 regarding possible unfair competition on the air cargo market. This was a joint investigation done by the European and U.S.A. authorities. The start of the investigation was disclosed through an Essential 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 an Essential Matter report notice on January 21, 2009.
- (b) A Essential 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 you can find LATAM Airlines Group S.A. and Lan Cargo S.A., Air Canada, Air France, KLM, British Airways, Cargolux, Cathay Pacific, Japan Airlines, Qantas Airways, S.A.S. and Singapore Airlines.
- (c) Jointly, LATAM Airlines Group S.A. and Lan Cargo S.A., have been fined in the amount of € 8,220,000 (eight million two hundred twenty thousand Euros) for said infractions, which was provisioned in the financial statements of LATAM Airlines Group S.A. This is a minor fine in comparison to the original decision, as there was a significant reduction in fine because LATAM Airlines Group S.A. cooperated during the investigation.
- (d) On January 24, 2011, LATAM Airlines Group S.A. and Lan Cargo S.A. appealed the decision before the Court of Justice of the European Union. On December 16, 2015 The European Commission does not appeal the sentence, but can issue a new decision correcting the failures specified in the Judgment and it has a period of 5 years the Court European resolved the appeal and annulled the European Commission. The procedural stage at September 30, 2016 is disclosed in Note 31, in (ii) lawsuits received by Latam Airlines Group S.A. and Subsidiaries.

## NOTE 22 - OTHER NON-FINANCIAL LIABILITIES

	Current liabilities		Non-current liabilities		Total Liabilities	
	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$ Unaudited	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$ Unaudited	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$ Unaudited
Deferred revenues (*)	2,525,918	2,423,703	271,127	272,130	2,797,045	2,695,833
Sales tax	8,255	10,379	-	-	8,255	10,379
Retentions	33,080	33,125	-	-	33,080	33,125
Others taxes	4,460	11,211	-	-	4,460	11,211
Dividends	9,232	3,980	-	-	9,232	3,980
Other sundry liabilities	21,261	7,635	-	-	21,261	7,635
Total other non-financial liabilities	<u>2,602,206</u>	<u>2,490,033</u>	<u>271,127</u>	<u>272,130</u>	<u>2,873,333</u>	<u>2,762,163</u>

(\*) Note 2.20.

The balance comprises, mainly, deferred income by services not yet rendered and programs such as: LATAM Pass, LATAM Fidelidade y Multiplus:

LATAM Pass is the frequent flyer program created by LAN to reward the preference and loyalty of its customers with many benefits and privileges, by the accumulation of kilometers that can be exchanged for free flying tickets or a wide range of products and services. Customers accumulate LATAM Pass kilometers every time they fly with LAN, TAM, in companies that are members of **oneworld®** and other airlines associated with the program, as well as when they buy on the stores or use the services of a vast network of companies that have an agreement with the program around the world.

Thinking on people who travel constantly, TAM created the program LATAM Fidelidade, in order to improve the passenger attention and give recognition to those who choose the company. By using this program, customers accumulate points in a variety of programs loyalty in a single account and can redeem them at all TAM destinations and related airline companies, and even more, participate in the Red Multiplus Fidelidade.

Multiplus is a coalition of loyalty programs, aiming to operate activities of accumulation and redemption of points. This program has an integrated network by associates including hotels, financial institutions, retail companies, supermarkets, vehicle rentals and magazines, among many other partners from different segments.

## NOTE 23 - EMPLOYEE BENEFITS

	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$
Retirements payments	49,311	42,117
Resignation payments	10,075	8,858
Other obligations	18,291	14,296
Total liability for employee benefits	<u>77,677</u>	<u>65,271</u>

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

	Opening balance ThUS\$	Increase (decrease) current service provision ThUS\$	Benefits paid ThUS\$	Actuarial (gains) losses ThUS\$	Currency translation ThUS\$	Closing balance ThUS\$
From January 1 to September 30, 2015 (Unaudited)	74,102	4,347	(1,070)	-	-	77,379
From October 1 to December 31, 2015	77,379	(17,956)	(2,754)	14,631	(6,029)	65,271
From January 1 to September 30, 2016 (Unaudited)	65,271	21,605	(2,543)	(6,656)	-	77,677

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

Assumptions	As of September 30,	
	2016	2015
Discount rate	4.53%	4.83%
Expected rate of salary increase	4.50%	4.50%
Rate of turnover	6.16%	6.16%
Mortality rate	RV-2009	RV-2009
Inflation rate	3.01%	3.05%
Retirement age of women	60	60
Retirement age of men	65	65

The discount rate is determined by reference to free risk 20 years Central Bank of Chile BCP bond. Mortality table RV – 2009, established by Chilean Superintendency of Securities and Insurance and inflation rate performance curve of Central Bank of Chile instruments long term BCU and BCP.

The obligation is determined based on the actuarial value of the accrued cost of the benefit and it is sensibility to main actuarial assumptions used for the calculation. The Following is a sensitivity analysis based on increased (decreased) on the discount rate, increased wages, rotation and inflation:

	Effect on the liability	
	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$ Unaudited
<u>Discount rate</u>		
Change in the accrued liability an closing for increase in 100 p.b.	(5,609)	(4,669)
Change in the accrued liability an closing for decrease of 100 p.b.	5,843	5,345
<u>Rate of wage growth</u>		
Change in the accrued liability an closing for increase in 100 p.b.	6,292	5,309
Change in the accrued liability an closing for decrease of 100 p.b.	(5,592)	(4,725)

(b) The liability for short-term:

	As of September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$ Unaudited
Profit-sharing and bonuses (*)	<u>51,985</u>	<u>81,368</u>

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

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

(c) Employment expenses are detailed below:

	For the 9 months ended September 30,		For the 3 months ended September 30,	
	2016 ThUS\$	2015 ThUS\$	2016 ThUS\$	2015 ThUS\$
	Unaudited			
Salaries and wages	1,156,781	1,274,890	398,693	392,531
Short-term employee benefits	93,354	138,091	46,406	51,461
Termination benefits	64,247	46,345	22,841	12,894
Other personnel expenses	140,225	151,874	51,545	50,465
Total	<u>1,454,607</u>	<u>1,611,200</u>	<u>519,485</u>	<u>507,351</u>



## NOTE 24 - ACCOUNTS PAYABLE, NON-CURRENT

	As of September 30, <u>2016</u> ThUS\$ Unaudited	As of December 31, <u>2015</u> ThUS\$
Aircraft and engine maintenance	352,230	371,419
Fleet financing (JOL)	22,539	35,042
Provision for vacations and bonuses	12,213	10,365
Other sundry liabilities	226	224
Total accounts payable, non-current	<u>387,208</u>	<u>417,050</u>

(\*) See Note 20

## NOTE 25 - EQUITY

## (a) Capital

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

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

The paid capital of the Company at September 30, 2016 amounts to ThUS\$ 2,541,068 (\*) divided into 545,558,101 common stock of a same series (ThUS\$ 2,545,705, divided into 545,547,819 shares as of December 31, 2015), a single series nominative, ordinary character with no par value. There are no special series of shares and no privileges. The form of its stock certificates and their issuance, exchange, disablement, loss, replacement and other similar circumstances, as well as the transfer of the shares, is governed by the provisions of Corporations Law and its regulations.

(\*) Paid capital include a deduction for issuance costs ThUS\$ 4,793 and adjustment by 10,282 placement shares for ThUS\$ 156.

## (b) Subscribed and paid shares

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

Movement of authorized shares	Nro. Of shares
Authorized shares as of January 1, 2015	551,847,819
No movement of authorized shares during 2015	-
Authorized shares as of December 31, 2015	<u>551,847,819</u>
Authorized shares as of January 1, 2016	551,847,819
No movement of authorized shares during 2016	-
Authorized shares as of September 30, 2016 (Unaudited)	<u>551,847,819</u>

## Movement fully paid shares

	increase (decrease) through transfers and other changes N° of shares	Movement value of shares (1) ThUS\$	Cost of issuance and placement of shares (2) ThUS\$	Paid- in Capital ThUS\$
Paid shares as of January 1, 2015	545,547,819	2,552,066	(6,361)	2,545,705
No movement of paid shares during 2015	-	-	-	-
Paid shares as of December 31, 2015	<u>545,547,819</u>	<u>2,552,066</u>	<u>(6,361)</u>	<u>2,545,705</u>
Paid shares as of January 1, 2016	545,547,819	2,552,066	(6,361)	2,545,705
Capital reserve	-	-	(4,793)	(4,793)
Increase (decrease) by transfers and other changes	<u>10,282</u>	<u>156</u>	<u>-</u>	<u>156</u>
Paid shares as of September 30, 2016 (Unaudited)	<u>545,558,101 (3)</u>	<u>2,552,222</u>	<u>(11,154)</u>	<u>2,541,068</u>

- (1) Amounts reported represent only those arising from the payment of the shares subscribed.
- (2) Decrease of capital by capitalization of reserves for cost of issuance and placement of shares established according to Extraordinary Shareholder's Meetings, where such decreases were authorized.
- (3) At September 30, 2016, the difference between authorized shares and fully paid shares are 6,289,718 shares allocated to compensation plans for executives of LATAM Airlines Group S.A. and subsidiaries (see Note 34(a.1)).
- (4) In January 2014, these 10,282 shares were placed and charged to the Compensation plan 2011 (See Note 34 (a.1))

## (c) Treasury stock

At September 30, 2016, the Company held no treasury stock, the remaining of ThUS\$ (178) corresponds to the difference between the amount paid for the shares and their book value, at the time of the full right decrease of the shares which held in its portfolio.

At the Extraordinary Shareholder's Meeting held on June 11, 2013, the company relinquished all right to 7,972 stocks of its portfolio, this date the Company does not maintain treasury stock.

(d) Reserve of share- based payments

Movement of Reserves of share- based payments:

Periods	Opening balance	Stock option plan	Deferred tax	Net movement of the period	Closing balance
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
From January 1 to September 30, 2015 (Unaudited)	29,642	5,948	(2,139)	3,809	33,451
From July 1 to December 31, 2015	33,451	2,976	(780)	2,196	35,647
From January 1 to September 30, 2016 (Unaudited)	35,647	3,547	(807)	2,740	38,387

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

(e) Other sundry reserves

Movement of Other sundry reserves:

Periods	Opening balance	Legal reserves	Closing balance
	ThUS\$	ThUS\$	ThUS\$
From January 1 to September 30, 2015 (Unaudited)	2,635,748	4,250	2,639,998
From October 1 to December 31, 2015	2,639,998	(5,319)	2,634,679
From January 1 to September 30, 2016 (Unaudited)	2,634,679	5,693	2,640,372

Balance of Other sundry reserves comprises the following:

	As of September 30, 2016	As of December 31, 2015
	ThUS\$	ThUS\$
	Unaudited	
Higher value for TAM S.A. share exchange (1)	2,665,692	2,665,692
Reserve for the adjustment to the value of fixed assets (2)	2,620	2,620
Transactions with non-controlling interest (3)	(25,911)	(25,891)
Cost of issuance and placement of shares	-	(4,793)
Others	(2,029)	(2,949)
Total	<u>2,640,372</u>	<u>2,634,679</u>

- (1) Corresponds to the difference in the shares value of TAM S.A. acquired (under subscriptions) by Sister Holdco S.A. and Holdco II S.A. (under the Exchange Offer), as stipulated in the Declaration of Posting of Merger by Absorption and the fair value of these exchange shares of LATAM Airlines Group S.A. at June 22, 2012.

- (2) Corresponds to the technical revaluation of fixed assets authorized by the Superintendence of Securities and Insurance in 1979, in Circular No. 1,529. The revaluation was optional and could be taken only once, the reserve is not distributable and can only be capitalized.
- (3) The balance at September 30, 2016, correspond to the loss generated by the participation of Lan Pax Group S.A. and Inversiones Lan S.A. in the acquisition of shares of Aerovías de Integración Regional Aires of ThUS\$ (3,480) and ThUS\$ (20), respectively; the acquisition of TAM S.A. of the minority holding of Aerolíneas Brasileiras S.A. of ThUS\$ (885) and the acquisition of minority interest of Aerolane S.A. by Lan Pax group S.A. through Holdco Ecuador S.A. for US\$ (21,526).
- (f) Reserves with effect in other comprehensive income.

Movement of Reserves with effect in other comprehensive income:

	Currency translation reserve	Cash flow hedging reserve	Actuarial gain or loss on defined benefit plans reserve	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2015	(1,193,871)	(151,340)	-	(1,345,211)
Derivatives valuation gains (losses)	-	112,483	-	112,483
Deferred tax	-	(28,970)	-	(28,970)
Difference by subsidiaries conversion	(1,418,037)	-	-	(1,418,037)
Closing balance				
as of September 30, 2015 (Unaudited)	(2,611,908)	(67,827)	-	(2,679,735)
Opening balance as of July 1, 2015	(2,611,908)	(67,827)	-	(2,679,735)
Derivatives valuation gains (losses)	-	(29,753)	-	(29,753)
Deferred tax	-	7,070	-	7,070
Actuarial reserves				
by employee benefit plans	-	-	(14,627)	(14,627)
Deferred tax actuarial IAS				
by employee benefit plans	-	-	3,910	3,910
Difference by subsidiaries conversion	35,867	-	-	35,867
Closing balance as of December 31, 2015	(2,576,041)	(90,510)	(10,717)	(2,677,268)
Opening balance as of January 1, 2016	(2,576,041)	(90,510)	(10,717)	(2,677,268)
Derivatives valuation gains (losses)	-	100,068	-	100,068
Deferred tax	-	(27,249)	-	(27,249)
Actuarial reserves				
by employee benefit plans	-	-	(1,418)	(1,418)
Deferred tax actuarial IAS				
by employee benefit plans	-	-	427	427
Difference by subsidiaries conversion	509,728	-	-	509,728
Closing balance				
as of September 30, 2016 (Unaudited)	(2,066,313)	(17,691)	(11,708)	(2,095,712)

## (f.1) Currency translation reserve

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

## (f.2) Cash flow hedging reserve

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

## (g) Retained earnings

Movement of Retained earnings:

<u>Periods</u>	<u>Opening balance ThUS\$</u>	<u>Result for the period ThUS\$</u>	<u>Dividens ThUS\$</u>	<u>Other increase (decreases) ThUS\$</u>	<u>Closing balance ThUS\$</u>
From January 1 to September 30, 2015 (Unaudited)	536,190	(203,018)	-	1,564	334,736
From October 1 to December 31, 2015	334,736	(16,256)	-	(530)	317,950
From January 1 to September 30, 2016 (Unaudited)	317,950	14,875	(4,463)	(292)	328,070

## (h) Dividends per share

<u>Description of dividend</u>	<u>Minimum mandatory dividend 2016</u>	<u>Final dividend dividend 2015</u>
Date of dividend	09-30-2016	12-31-2015
Amount of the dividend (ThUS\$)	4,463	-
Number of shares among which the dividend is distributed	545,558,101	545,547,819
Dividend per share (US\$)	0.0082	-

## NOTE 26 - REVENUE

The detail of revenues is as follows:

	For the 9 months ended		For the 3 months ended	
	September 30,		September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	<u>Unaudited</u>			
Passengers LAN	3,051,063	3,169,485	1,061,257	1,058,136
Passengers TAM	2,714,248	3,264,886	1,039,050	1,055,547
Cargo	<u>801,571</u>	<u>994,548</u>	<u>265,594</u>	<u>309,781</u>
Total	<u>6,566,882</u>	<u>7,428,919</u>	<u>2,365,901</u>	<u>2,423,464</u>

## NOTE 27 - COSTS AND EXPENSES BY NATURE

## (a) Costs and operating expenses

The main operating costs and administrative expenses are detailed below:

	For the 9 months ended		For the 3 months ended	
	September 30,		September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	<u>Unaudited</u>			
Aircraft fuel	1,499,625	2,077,877	570,188	658,840
Other rentals and landing fees	792,241	834,071	270,588	275,688
Aircraft rentals	419,599	391,134	147,443	133,442
Aircraft maintenance	289,643	352,688	107,898	122,990
Comissions	194,659	235,852	67,473	81,769
Passenger services	210,505	222,679	70,230	78,161
Other operating expenses	<u>1,011,207</u>	<u>931,792</u>	<u>370,298</u>	<u>303,131</u>
Total	<u>4,417,479</u>	<u>5,046,093</u>	<u>1,604,118</u>	<u>1,654,021</u>

## (b) Depreciation and amortization

Depreciation and amortization are detailed below:

	For the 9 months ended September 30,		For the 3 months ended September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Depreciation (*)	680,815	673,682	231,194	223,487
Amortization	32,948	31,903	12,412	9,565
Total	<u>713,763</u>	<u>705,585</u>	<u>243,606</u>	<u>233,052</u>

(\*) Include the depreciation of Property, plant and equipment and the maintenance cost of aircraft held under operating leases. The amount of maintenance cost included within the depreciation line item at September 30, 2016 is ThUS\$ 254,779 and ThUS\$ 258,267 for the same period of 2015.

## (c) Personnel expenses

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

## (d) Financial costs

The detail of financial costs is as follows:

	For the 9 months ended September 30,		For the 3 months ended September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Bank loan interest	253,682	257,977	86,258	91,026
Financial leases	25,512	33,320	7,737	10,268
Other financial instruments	31,369	22,195	9,936	6,615
Total	<u>310,563</u>	<u>313,492</u>	<u>103,931</u>	<u>107,909</u>

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

## (e) Restructuring Costs

As part of the ongoing process of reviewing its fleet plan, in December 2015 the company recognized a negative impact on results of US\$ 80 million before tax associated with the output of the rest of the A330 fleet, including engines and technical materials is recognized. These expenses are recognized at "Other Gain and Loses" of the Consolidated Statement of Income by Function.

## NOTE 28 - OTHER INCOME, BY FUNCTION

Other income by function is as follows:

	For the 9 months ended September 30,		For the 3 months ended September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Coalition and loyalty program Multiplus	132,209	116,919	46,464	32,881
Tours	103,545	82,647	54,661	24,887
Aircraft leasing	46,982	32,863	14,505	11,565
Customs and warehousing	16,436	18,151	5,821	6,912
Maintenance	14,025	7,845	3,216	64
Duty free	7,674	13,244	2,906	5,189
Other miscellaneous income	70,023	18,230	26,052	9,860
Total	<u>390,894</u>	<u>289,899</u>	<u>153,625</u>	<u>91,358</u>

## NOTE 29 - FOREIGN CURRENCY AND EXCHANGE RATE DIFFERENCES

The functional currency of LATAM Airlines Group S.A. is the US dollar, also it has subsidiaries whose functional currency is different to the US dollar, such as the Chilean peso, Argentine peso, Colombian peso and Brazilian real.

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

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



## (a) Foreign currency

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

<u>Current assets</u>	As of September 30, <u>2016</u> ThUS\$ Unaudited	As of December 31, <u>2015</u> ThUS\$
Cash and cash equivalents	166,463	182,089
Argentine peso	4,733	11,611
Brazilian real	9,107	8,810
Chilean peso	38,065	17,739
Colombian peso	945	1,829
Euro	8,059	10,663
U.S. dollar	84,250	112,422
Strong bolivar	175	2,986
Other currency	21,129	16,029
Other financial assets, current	50,269	124,042
Argentine peso	36,950	108,592
Brazilian real	592	1,263
Chilean peso	606	563
Colombian peso	125	1,167
U.S. dollar	11,620	12,128
Strong bolivar	78	22
Other currency	298	307

<u>Current assets</u>	As of September 30, <u>2016</u> ThUS\$ Unaudited	As of December 31, <u>2015</u> ThUS\$
Other non - financial assets, current	144,270	126,130
Argentine peso	16,975	14,719
Brazilian real	20,253	15,387
Chilean peso	20,236	10,265
Colombian peso	734	486
Euro	2,409	1,983
U.S. dollar	63,456	61,577
Strong bolivar	3	-
Other currency	20,204	21,713
Trade and other accounts receivable, current	293,035	247,229
Argentine peso	48,319	30,563
Brazilian real	36,268	11,136
Chilean peso	65,321	55,169
Colombian peso	344	1,195
Euro	29,333	30,006
U.S. dollar	58,007	29,937
Strong bolivar	27	7,225
Other currency	55,416	81,998
Accounts receivable from related entities, current	498	181
Chilean peso	498	181
Tax current assets	31,791	22,717
Argentine peso	2,231	2,371
Brazilian real	2,705	5
Chilean peso	4,319	3,615
Colombian peso	1,276	1,275
Euro	258	14
U.S. dollar	322	1,394
Peruvian sol	19,099	12,572
Other currency	1,581	1,471
 Total current assets	 686,326	 702,388
Argentine peso	109,208	167,856
Brazilian real	68,925	36,601
Chilean peso	129,045	87,532
Colombian peso	3,424	5,952
Euro	40,059	42,666
U.S. Dollar	217,655	217,458
Strong bolivar	283	10,233
Other currency	117,727	134,090

Non-current assets	As of September 30, <u>2016</u> ThUS\$	As of December 31, <u>2015</u> ThUS\$
Other financial assets, non-current	28,634	20,767
Argentine peso	19	22
Brazilian real	2,504	1,478
Chilean peso	85	77
Colombian peso	177	162
Euro	7,458	614
U.S. dollar	16,391	16,696
Other currency	2,000	1,718
Other non - financial assets, non-current	31,691	60,215
Argentine peso	154	169
Brazilian real	7,672	4,454
U.S. dollar	18,705	50,108
Other currency	5,160	5,484
Accounts receivable, non-current	8,313	9,404
Chilean peso	8,177	4,251
U.S. dollar	-	5,000
Other currency	136	153
Deferred tax assets	2,463	2,632
Colombian peso	204	336
Other currency	2,259	2,296
Total non-current assets	71,101	93,018
Argentine peso	173	191
Brazilian real	10,176	5,932
Chilean peso	8,262	4,328
Colombian peso	381	498
Euro	7,458	614
U.S. dollar	35,096	71,804
Other currency	9,555	9,651

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

<u>Current liabilities</u>	<u>Up to 90 days</u>		<u>91 days to 1 year</u>	
	As of	As of	As of	As of
	September 30,	December 31,	September 30,	December 31,
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited		Unaudited	
Other financial liabilities, current	132,385	94,199	597,177	141,992
Chilean peso	56,293	54,655	58,409	52,892
U.S. dollar	76,092	39,544	538,768 (*)	89,100
Trade and other accounts				
payables, current	552,480	482,402	16,890	14,981
Argentine peso	24,807	20,772	1,602	2,072
Brazilian real	45,659	37,572	-	16
Chilean peso	38,245	40,219	12,109	10,951
Colombian peso	7,214	5,271	282	155
Euro	12,622	5,275	3	618
U.S. dollar	360,819	310,565	18	839
Strong bolivar	679	2,627	-	-
Peruvian sol	18,804	28,293	2,344	87
Mexican peso	6,923	15,248	248	225
Pound sterling	19,442	7,819	-	-
Uruguayan peso	10,513	6,005	-	-
Other currency	6,753	2,736	284	18
Accounts payable to related entities, current	225	447	-	-
Chilean peso	145	83	-	-
U.S. dollar	1	22	-	-
Other currency	79	342	-	-
Other provisions, current	-	-	428	457
Chilean peso	-	-	24	21
Other currency	-	-	404	436
Tax liabilities, current	937	36	12,109	9,037
Argentine peso	937	-	12,109	9,036
U.S. dollar	-	27	-	-
Other currency	-	9	-	1

<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
	September 30,	December 31,	September 30,	December 31,
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited		Unaudited	
Other non-financial				
liabilities, current	34,696	40,432	-	-
Argentine peso	4,648	(2,387)	-	-
Brazilian real	5,046	4,297	-	-
Chilean peso	17,188	32,228	-	-
Colombian peso	978	145	-	-
Euro	5,569	2,706	-	-
U.S. dollar	278	(3,238)	-	-
Strong bolivar	(14)	2,490	-	-
Other currency	1,003	4,191	-	-
Total current liabilities	720,723	617,516	626,604	166,467
Argentine peso	30,392	18,385	13,711	11,108
Brazilian real	50,705	41,869	-	16
Chilean peso	111,871	127,185	70,542	63,864
Colombian peso	8,192	5,416	282	155
Euro	18,191	7,981	3	618
U.S. dollar	437,190	346,920	538,786	89,939
Strong bolivar	665	5,117	-	-
Other currency	63,517	64,643	3,280	767

(\*) See Note 19.a (3)

<u>Non-current liabilities</u>	<u>More than 1 to 3 years</u>		<u>More than 3 to 5 years</u>		<u>More than 5 years</u>	
	As of	As of	As of	As of	As of	As of
	September 30,	December 31,	September 30,	December 31,	September 30,	December 31,
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	
	Unaudited		Unaudited		Unaudited	
Other financial liabilities, non-current	195,530	561,217	763,579	328,480	44,041	571,804
Chilean peso	73,757	104,385	21,856	34,635	-	-
U.S. dollar	121,773	456,832	741,723	293,845	44,041	571,804
Accounts payable, non-current	231,682	239,029	329	168	30	8
Chilean peso	9,792	8,058	329	168	30	8
U.S. dollar	220,389	229,005	-	-	-	-
Other currency	1,501	1,966	-	-	-	-
Other provisions, non-current	39,076	27,780	-	-	-	-
Argentine peso	659	797	-	-	-	-
Brazilian real	22,594	11,009	-	-	-	-
Chilean peso	38	-	-	-	-	-
Colombian peso	489	198	-	-	-	-
Euro	9,229	8,966	-	-	-	-
U.S. dollar	6,067	6,810	-	-	-	-
Provisions for						
employees benefits, non-current	67,610	56,306	-	-	-	-
Chilean peso	67,610	56,306	-	-	-	-
Other non-financial liabilities, non-current	3	-	-	-	-	-
Colombian peso	3	-	-	-	-	-
Total non-current liabilities	533,901	884,332	763,908	328,648	44,071	571,812
Argentine peso	659	797	-	-	-	-
Brazilian real	22,594	11,009	-	-	-	-
Chilean peso	151,197	168,749	22,185	34,803	30	8
Colombian peso	492	198	-	-	-	-
Euro	9,229	8,966	-	-	-	-
U.S. dollar	348,229	692,647	741,723	293,845	44,041	571,804
Other currency	1,501	1,966	-	-	-	-

General summary of foreign currency:	As of September 30, <u>2016</u> ThUS\$ Unaudited	As of December 31, <u>2015</u> ThUS\$
Total assets	757,427	795,406
Argentine peso	109,381	168,047
Brazilian real	79,101	42,533
Chilean peso	137,307	91,860
Colombian peso	3,805	6,450
Euro	47,517	43,280
U.S. dollar	252,751	289,262
Strong bolivar	283	10,233
Other currency	127,282	143,741
Total liabilities	2,689,207	2,568,775
Argentine peso	44,762	30,290
Brazilian real	73,299	52,894
Chilean peso	355,825	394,609
Colombian peso	8,966	5,769
Euro	27,423	17,565
U.S. dollar	2,109,969	1,995,155
Strong bolivar	665	5,117
Other currency	68,298	67,376
Net position		
Argentine peso	64,619	137,757
Brazilian real	5,802	(10,361)
Chilean peso	(218,518)	(302,749)
Colombian peso	(5,161)	681
Euro	20,094	25,715
U.S. dollar	(1,857,218)	(1,705,893)
Strong bolivar	(382)	5,116
Other currency	58,984	76,365

## (b) Exchange differences

Exchange differences recognized in the income statement, except for financial instruments measured at fair value through profit or loss, for the period ended September 30, 2016 and 2015, generated a debit of ThUS\$ 132,814 and a charge ThUS\$ 410,755, respectively. In the third quarter of 2016 and 2015 generated a credit of ThUS\$ 10,594 and ThUS\$ 241,533 respectively.

Exchange differences recognized in equity as reserves for currency translation differences for the period ended September 30, 2016 and 2015, represented a debit of ThUS\$ 516,548 and a charge ThUS\$ 1,437,025, respectively. In the third quarter of 2016 and 2015 generated a credit of ThUS\$ 32,514 and ThUS\$ 776,941 respectively.

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

	As of September 30,		As of December 31,	
	2016	2015	2015	2014
	Unaudited			
Argentine peso	15.24	9.42	12.97	8.55
Brazilian real	3.24	3.97	3.98	2.66
Chilean peso	658.02	698.72	710.16	606.75
Colombian peso	2,891.95	3,090.99	3,183.00	2,389.50
Euro	0.89	0.89	0.92	0.82
Strong bolivar	658.89	13.50	198.70	12.00
Australian dollar	1.31	1.43	1.37	1.22
Boliviano	6.86	6.86	6.85	6.86
Mexican peso	19.34	16.93	17.34	14.74
New Zealand dollar	1.37	1.56	1.46	1.28
Peruvian Sol	3.39	3.23	3.41	2.99
Uruguayan peso	28.45	29.05	29.88	24.25



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

	For the 9 months ended		For the 3 months ended	
	September 30,		September 30,	
Basic earnings / (loss) per share	2016	2015	2016	2015
	Unaudited			
Earnings / (loss) attributable to owners of the parent (ThUS\$)	14,875	(203,018)	4,742	(113,344)
Weighted average number of shares, basic	545,558,101	545,547,819	545,558,101	545,547,819
Basic earnings / (loss) per share (US\$)	0.02727	(0.37214)	0.00869	(0.20776)
	Unaudited			
Diluted earnings / (loss) per share	2016	2015	2016	2015
	Unaudited			
Earnings / (loss) attributable to owners of the parent (ThUS\$)	14,875	(203,018)	4,742	(113,344)
Weighted average number of shares, basic	545,558,101	545,547,819	545,558,101	545,547,819
Weighted average number of shares, diluted	545,558,101	545,547,819	545,558,101	545,547,819
Diluted earnings / (loss) per share (US\$)	0.02727	(0.37214)	0.00869	(0.20776)

In the calculation of diluted earnings per share have not been considered the compensation plan disclosed in Note 33 (a.1), because the average market price is lower than the price of options.

## NOTE 31 – CONTINGENCIES

## I. Lawsuits

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

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*)</u> ThUS\$
Atlantic Aviation Investments LLC (AAI).	Supreme Court of the State of New York County of New York.	07-6022920	Atlantic Aviation Investments LLC ("AAI"), an indirect subsidiary LATAM Airlines Group S.A., incorporated under the laws of the State of Delaware, sued in August 29 <sup>th</sup> , 2007 Varig Logistics S.A. ("Variglog") for non-payment of four documented loans in credit agreements governed by New York law. These contracts establish the acceleration of the loans in the event of sale of the original debtor, VRG Linhas Aéreas S.A.	In implementation stage in Switzerland, the conviction stated that Variglog should pay the principal, interest and costs in favor of AAI. It keeps the embargo of Variglog funds in Switzerland with AAI. In Brazil a Settlement Agreement was signed and it is awaiting for approval from the Bankruptcy Court of that country and Variglog has asked Switzerland to recognize the judgment that declared the state of judicial recovery and subsequent bankruptcy. Conversations have begun with the representatives in the Variglog liquidation process to work towards a settlement regarding the funds in Switzerland.	17,100 Plus interests and costs
Lan Argentina S.A.	National Administrative Court.	36337/13	ORSNA Resolution No. 123 which directs Lan Argentina to vacate the hangar located in the Airport named Aeroparque Metropolitano Jorge Newberry, Argentina.	The 2nd Room of the Federal Appellate Court confirmed another extension of the precautionary measure that will expire March 16, 2016. ORSNA did not file an extraordinary remedy, so the measure is in effect through that date. On February 25, 2016, Lan Argentina S.A. and ORSNA informed the Court of their decision to put an end to the lawsuit and guarantee use of the hangar by Lan. The parties agreed to maintain the precautionary measure in effect allowing Lan to use the hangar indefinitely until the parties reach a final agreement. The court agreed, so the precautionary measure was extended indefinitely.	-0-

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

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*)</u> ThUS\$
LATAM Airlines Group S.A. y Lan Cargo S.A.	European Commission.	-	Investigation of alleged infringements to free competition of cargo airlines, especially fuel surcharge. On December 26 <sup>th</sup> , 2007, the General Directorate for Competition of the European Commission notified Lan Cargo S.A. and LATAM Airlines Group S.A. the instruction process against twenty five cargo airlines, including Lan Cargo S.A., for alleged breaches of competition in the air cargo market in Europe, especially the alleged fixed fuel surcharge and freight.	<p>On April 14<sup>th</sup>, 2008, the notification of the European Commission was replied. The appeal was filed on January 24, 2011.</p> <p>On May 11, 2015, we attended a hearing at which we petitioned for the vacation of the Decision based on discrepancies in the Decision between the operating section, which mentions four infringements (depending on the routes involved) but refers to Lan in only one of those four routes; and the ruling section (which mentions one single conjoint infraction).</p> <p>On November 9<sup>th</sup>, 2010, the General Directorate for Competition of the European Commission notified Lan Cargo S.A. and LATAM Airlines Group S.A. the imposition of a fine in the amount of THUS\$ 9,229. (8.220.000 Euros)</p> <p>This fine is being appealed by Lan Cargo S.A. and LATAM Airlines Group S.A. On December 16, 2015, the European Court of Justice revoked the Commission's decision because of discrepancies. The European Commission did not appeal the resolution, but rather confirmed, on May 20, 2016, that it will issue a new decision curing the rulings specified in the Decision. It has a period of 5 years to do this, or until 2021.</p>	9,229

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*)</u> ThUS\$
Lan Cargo S.A. y LATAM Airlines Group S.A.	In the High Court of Justice Chancery División (England) Ovre Romerike District Court (Norway) y Directie Juridische Zaken Afdeling Ceveil Recht (Netherlands) , Cologne Regional Court (Landgericht Köln Germany).	-	Lawsuits filed against European airlines by users of freight services in private lawsuits as a result of the investigation into alleged breaches of competition of cargo airlines, especially fuel surcharge. Lan Cargo S.A. and LATAM Airlines Group S.A., have been sued in court proceedings directly and/or in third party, based in England, Norway, the Netherlands and Germany.	Cases are in the uncovering evidence stage.	-0-
Aerolinhas Brasileiras S.A.	Federal Justice.	0008285- 53.2015.403.6105	An action seeking to quash a decision and petitioning for early protection in order to obtain a revocation of the penalty imposed by the Brazilian Competition Authority (CADE) in the investigation of cargo airlines alleged fair trade violations, in particular the fuel surcharge.	This action was filed by presenting a guaranty – policy – in order to suspend the effects of the CADE’s decision regarding the payment of the following fines: (i) ABSA: ThUS\$10,479; (ii) Norberto Jochmann: ThUS\$201; (iii) Hernan Merino: ThUS\$ 102; (iv) Felipe Meyer :ThUS\$ 102. The action also deals with the affirmative obligation required by the CADE consisting of the duty to publish the condemnation in a widely circulating newspaper. This obligation had also been stayed by the court of federal justice in this process. Awaiting CADE’s statement.	10,479
Aerolinhas Brasileiras S.A.	Federal Justice.	0001872- 58.2014.4.03.6105	An annulment action with a motion for preliminary injunction, was filed on 28/02/2014, in order to cancel tax debts of PIS, CONFINS, IPI and II, connected with the administrative process 10831.005704/2006.43.	We have been waiting since August 21, 2015 for a statement by Serasa on TAM’s letter of indemnity and a statement by the Union. The statement was authenticated on January 29, 2016. A petition on evidence and replications were filed on June 20, 2016.	11,184

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*)</u> ThUS\$
Tam Linhas Aéreas S.A.	Department of Federal Revenue of Brazil	19515.722556/2012-21	Alleged irregularities in the SAT payments for the periods 01/2009 to 13/2009.	A judgment by the Administrative Council of Tax Appeals (CARF) has been pending since February 27, 2015.	2,160
Tam Linhas Aéreas S.A.	Department of Federal Revenue of Brazil	19515.721155/2014-15	Alleged irregularities in the SAT payments for the periods 01/2010 to 13/2009.	A decision was rendered in favor of Tam Linhas Aéreas S.A. on August 22, 2016. The Attorney General has said it will not appeal.	25,515
Tam Linhas Aéreas S.A.	Department of Federal Revenue of Brazil	19515.720476/2015-83	Alleged irregularities in the SAT payments for the periods 01/2011 to 12/2012	A judgment by CARF is pending since April 12, 2016.	52,622
Tam Linhas Aéreas S.A.	Court of the Second Region.	2001.51.01.012530-0	Ordinary judicial action brought for the purpose of declaring the nonexistence of legal relationship obligating the company to collect the Air Fund.	Unfavorable court decision in first instance. Currently expecting the ruling on the appeal filed by the company. In order to suspend chargeability of Tax Credit a Guaranty Deposit to the Court was delivered for MUS\$73. The court decision requesting that the Expert make all clarifications requested by the parties in a period of 30 days was published on March 29, 2016. The plaintiffs' submitted a petition on June 21, 2016 requesting acceptance of the opinion of their consultant and an urgent ruling on the dispute.	80,162
Tam Linhas Aéreas S.A.	Administrative Council of Tax Appeals	19.515.002963/2009-12, 19515.722555/2012-86, 19515.721154/2014-71, 19515.720475/2015-39	Collection of contributions to the Aviation Fund for the periods from 01/2004 to 12/2004, from 12/2006 to 12/2008, from 01/2009 to 12/2010, and from 01/2011 to 10/2012.	A judgment is pending by CARF since February 5, 2016.	66,050

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*)</u> ThUS\$
Tam Linhas Aéreas S.A.	Internal Revenue Service of Brazil.	16643.000087/2009-36	This is an administrative proceeding arising from an infraction notice issued on 15.12.2009, by which the authority aims to request social contribution on net income (CSL) on base periods 2004 to 2007, due to the deduction of expenses related to suspended taxes.	The appeal filed by the company was dismissed in 2010. In 2012 the voluntary appeal was also dismissed. Consequently, the special appeal filed by the company awaits judgment of admissibility, since 2012.	22,314
Tam Linhas Aéreas S.A.	Internal Revenue Service of Brazil.	10880.725950/2011-05	Compensation credits of the Social Integration Program (PIS) and Contribution for Social Security Financing (COFINS) Declared on DCOMPs.	The objection ( <i>manifestação de inconformidade</i> ) filed by the company was rejected, which is why the voluntary appeal was filed. The case was assigned to the 1st Ordinary Group of Brazil's Administrative Council of Tax Appeals (CARF) on June 8, 2015. TAM's appeal was included in the CARF session held August 25, 2016.	43,513
Aerovías de Integración Regional, AIRES S.A.	United States Court of Appeals for the Eleventh Circuit, Florida, U.S.A.	2013-20319 CA 01	The July 30 <sup>th</sup> , 2012 LAN COLOMBIA AIRLINES initiated a legal process in Colombia against Regional One INC and Volvo Aero Services LLC, to declare that these companies are civilly liable for moral and material damages caused to LAN COLOMBIA AIRLINES arising from breach of contractual obligations of the aircraft HK-4107. The June 20 <sup>th</sup> , 2013 AIRES SA And / Or LAN AIRLINES COLOMBIA was notified of the lawsuit filed in U.S. for Regional One INC and Dash 224 LLC for damages caused by the aircraft HK-4107 arguing failure of LAN COLOMBIA AIRLINES customs duty to obtain import declaration when the aircraft in April 2010 entered Colombia for maintenance required by Regional One.	This case is being heard by the 45th Civil Court of the Bogota Circuit. In an interim decree issued August 16, 2016, the hearing under article 101 was set for February 2, 2017, when a reconciliation will be attempted, facts of the case will be set, the parties will conduct depositions and evidence will be decreed. The Federal Court of the State of Florida decided on March 26, 2016 to approve Lan Colombia Airlines's request to suspend the proceedings in the USA until the claim under way in Colombia is decided. The U.S. Court judge also closed the case administratively. The Federal Court of Appeal ratified the case closing in the U.S.A. on April 1, 2015. On October 1, 2015, Regional One petitioned that the U.S. court reopen the case. Lan Colombia Airlines presented its arguments and the Court sustained them on August 23, 2016, ratifying the closing of the case in the United States, so it continues to be closed.	12,443

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*) ThUS\$</u>
Tam Linhas Aéreas S.A.	Internal Revenue Service of Brazil	10880.722.355/2014-52	On August 19th , 2014 the Federal Tax Service issued a notice of violation stating that compensation credits Program (PIS) and the Contribution for the Financing of Social Security COFINS by TAM are not directly related to the activity of air transport.	An administrative objection was filed on September 17th, 2014. A first-instance ruling was rendered on June 1, 2016 that was partially favorable. The separate fine was revoked. A voluntary appeal was filed on June 30, 2016, which is pending a decision by CARF.	54,182
Tam Viagens S.A.	Department of Finance to the municipality of São Paulo.	67.168.795 / 67.168.833 / 67.168.884 / 67.168.906 / 67.168.914 / 67.168.965	A claim was filed alleging infraction and seeking a fine because of a deficient basis for calculation of the service tax (ISS) because the company supposedly made incorrect deductions.	We received notice of the petition on December 22, 2015. The objection was filed on January 19, 2016. A first-instance administrative decision is now pending.	89,980
Tam Linhas Aéreas S.A.	Labor Court of São Paulo.	0001734- 78.2014.5.02.0045	Action filed by the Ministry of Labor, which requires compliance with legislation on breaks, extra hours and others.	Early stage. Eventually could affect the operations and control of working hours of employees. The company won in the first instance, but an appeal by the Union is expected.	16,275
TAM S.A.	Conselho Administrativo de Recursos Fiscais.	13855.720077/2014-02	Notice of an alleged infringement presented by Secretaria da Receita Federal do Brasil requiring the payment of IRPJ and CSLL, taxes related to the income earned by TAM on March, 2011, in relation of the reduction of the statute capital of Multiplus S.A.	On January 12, 2014, it was filed an appeal against the object of the notice of infringement. Currently, the company is waiting for the court judgment regarding the appeal filed in the Conselho Administrativo de Recursos Fiscais (CARF) The case will be put into the system again for re-assignment for hearing and reporting because of the departure of Eduardo de Andrade, a CARF council member.	104,838

<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed (*)</u> ThUS\$
Tam Linhas Aereas S.A.	1° Civil Court of Comarca of Bauru/SP.	0049304-37.2009.8.26.0071/1	That action is filed by the current complainants against the defendant, TAM Linhas Aéreas S / A, for receiving compensation for material and moral damages suffered as a result of an accident with one of its aircraft, which landed on adjacent lands to the Bauru airport, impacting the vehicle of Ms. Savi Gisele Marie de Seixas Pinto and William Savi de Seixas Pinto, causing their death. The first was the wife and mother of the complainants and the second, son and brother, respectively.	Currently under the enforcement phase of the sentence. ThUS\$4.770 in cash was deposited in guarantee. A procedural agreement was made for 23 million reais (ThUS\$7,142) on September 23, 2016.	7,142
Aerolinhas Brasileiras S.A.	Labor Court of Campinas.	0010498-37.2014.5.15.0095	Lawsuit filed by the National Union of aeronauts, requiring weekly rest payment (DSR) scheduled stopovers, displacement and moral damage.	An agreement for ThUS\$2,732 was reached with the Union on August 2, 2016.	16,460
TAM Linhas Aéreas S.A.	Sao Paulo Labor Court, Sao Paulo	0000009-45.2016.5.02.090	The Ministry of Labor filed an action seeking that the company adapt the ergonomics and comfort of seats.	The action is in its initial phase since a new filing was made.	15,980

- In order to deal with any financial obligations arising from legal proceedings in effect at June 30, 2016, whether civil, tax, or labor, LATAM Airlines Group S.A. and Subsidiaries, has made provisions, which are included in Other non-current provisions that are disclosed in Note 21.
- The Company has not disclosed the individual probability of success for each contingency in order to not negatively affect its outcome.

(\*) The Company has reported the amounts involved only for the lawsuits for which a reliable estimation can be made of the financial impacts and of the possibility of any recovery, pursuant to Paragraph 86 of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.



## II. Governmental Investigations.

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

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

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

The agreements signed, included the following:

- a) The agreement with the DOJ involves: (i) entering into a Deferred Prosecution Agreement (“DPA”), which is a public contract under which the DOJ files public charges alleging an infringement of the FCPA accounting regulations. LATAM is not obligated to answer these charges, the DOJ will not pursue them for a period of 3 years, and the DOJ will dismiss the charges after expiration of that 3-year period provided LATAM complies with all terms of the DPA. In exchange, LATAM must admit to the negotiated events described in the DPA and agree to pay the negotiated fine explained below and abide by other terms stipulated in the agreement; (ii) clauses in which LATAM admits that the payments to the consultant in Argentina were incorrectly accounted for and that at the time those payments were made (2006-2007), it did not have adequate internal controls in place; (iii) LATAM’s agreement to have an outside consultant monitor, evaluate and report to the DOJ on the effectiveness of LATAM’s compliance program for a period of 27 months; and LATAM’s agreement to continue evaluating and reporting directly to the DOJ on the effectiveness of its compliance program for a period of 9 months after the consultant’s work concludes; and (iv) paying a fine estimated to total approximately ThUS\$ 12,750.
- b) The agreement with the SEC involves: (i) accepting a Cease and Desist Order, which is an administrative resolution of the SEC closing the investigation, in which LATAM will accept certain obligations and statements of fact that are described in the document; (ii) accepting the same obligations regarding the consultant mentioned above; and (iii) paying the sum of ThUS\$ 6,744, plus interest of ThUS\$ 2,694.

As at September 20, 2016, a balance of ThUS\$ 4,719 was payable to the SEC, as reported in Note 20 - Trade payables and other payables.

- 2) LATAM Airlines Ecuador, our Ecuadoran subsidiary, has received notice from one of the Investigative Divisions of the Market Power Control Commission of Ecuador that LATAM Airlines Ecuador and two other airlines are being investigated by that Division for alleged signs of conscious parallelism in setting specific fares for one domestic route in Ecuador from August 2012 to February 2013. The Investigative Division has 180 days (to February 21, 2017) to issue a report stating whether it will close the investigation or present charges against two or more of the airlines being investigated. That period can be extended. If charges are made, only then will proceedings begin. LATAM Airlines Ecuador is cooperating with the authority and has retained a law firm specializing in this subject to advise the company during this process.

#### NOTE 32 - COMMITMENTS

##### (a) Loan covenants

With respect to various loans signed by the Company for the financing of Boeing 767, 767F, 777F and 787 aircraft, which carry the guarantee of the United States Export-Import Bank, limits have been set on some of the Company's financial indicators on a consolidated basis. Moreover, and related to these same contracts, restrictions are also in place on the Company's management in terms of its ownership and disposal of assets.

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

On March 30, 2016, LATAM structured a Revolving Credit Facility granted by with aircraft, engines, spare parts and supplies for a total amount available of US\$ 325 million, this line includes restrictions minimum liquidity level as the consolidated company and individual level as for companies LATAM Airlines Group S.A. and TAM Linhas Aereas S.A.

On September 29, TAM Linhas Aereas S.A. realizes financing amounting to US \$ 200 million with the guarantee of approximately 18% of Multiplus S.A. This contract includes certain minimum value of the shares as collateral on the loan amount conditions.

At September 30, 2016, the Company is in compliance with all indicators detailed above.

## (b) Commitments under operating leases as lessee

Details of the main operating leases are as follows:

<u>Lessor</u>	<u>Aircraft</u>	As of September 30, <u>2016</u>	As of December 31, <u>2015</u>
		Unaudited	
Aircraft 76B-26329 Inc.	Boeing 767	1	1
Aircraft 76B-27615 Inc.	Boeing 767	1	1
Aircraft 76B-28206 Inc.	Boeing 767	1	1
Aviación Centaurus, A.I.E.	Airbus A319	3	3
Aviación Centaurus, A.I.E.	Airbus A321	1	1
Aviación Real A.I.E.	Airbus A319	1	1
Aviación Real A.I.E.	Airbus A320	1	1
Aviación Tritón A.I.E.	Airbus A319	3	3
Avolon Aerospace AOE 19 Limited	Airbus A320	1	1
Avolon Aerospace AOE 20 Limited	Airbus A320	1	1
Avolon Aerospace AOE 6 Limited	Airbus A320	1	1
Avolon Aerospace AOE 62 Limited	Boeing 777	1	1
AWAS 5125 Trust	Airbus A320	-	1
AWAS 5178 Limited	Airbus A320	-	1
AWAS 5234 Trust	Airbus A320	1	1
Baker & Spice Aviation Limited	Airbus A320	1	1
Bank of America	Airbus A321	2	3
CIT Aerospace International	Airbus A320	2	2
ECAF I 1215 DAC	Airbus A320	1	1
ECAF I 2838 DAC	Airbus A320	1	1
ECAF I 40589 DAC	Boeing 777	1	1
Eden Irish Aircr Leasing MSN 1459	Airbus A320	1	1
GECAS Sverige Aircraft Leasing Worldwide AB	Airbus A320	2	3
GFL Aircraft Leasing Netherlands B.V.	Airbus A320	1	1
International Lease Finance Corporation	Boeing 767	-	1
JSA Aircraft 38484, LLC	Boeing 787	1	1
JSA Aircraft 7126, LLC	Airbus A320	1	-
JSA Aircraft 7128, LLC	Airbus A321	1	-
JSA Aircraft 7239, LLC	Airbus A321	1	-
JSA Aircraft 7298, LLC	Airbus A321	1	-
Macquarie Aerospace Finance 5125-2 Trust	Airbus A320	1	-
Macquarie Aerospace Finance 5178 Limited	Airbus A320	1	-
Magix Airlease Limited	Airbus A320	2	2

<u>Lessor</u>	<u>Aircraft</u>	As of September 30, <u>2016</u>	As of December 31, <u>2015</u>
		Unaudited	
MASL Sweden (1) AB	Airbus A320	-	1
MASL Sweden (2) AB	Airbus A320	-	1
MASL Sweden (7) AB	Airbus A320	-	1
MASL Sweden (8) AB	Airbus A320	1	1
Merlin Aviation Leasing (Ireland) 18 Limited	Airbus A320	1	-
NBB Cuckoo Co., Ltd	Airbus A321	1	1
NBB Grosbeak Co., Ltd	Airbus A321	1	1
NBB Redstart Co., Ltd	Airbus A321	1	-
NBB-6658 Lease Partnership	Airbus A321	1	1
NBB-6670 Lease Partnership	Airbus A321	1	1
Orix Aviation Systems Limited	Airbus A320	4	2
PAAL Aquila Company Limited	Airbus A321	1	-
PAAL Aquila Company Limited	Airbus A321	2	-
SASOF II (J) Aviation Ireland Limited	Airbus A319	1	1
Shenton Aircraft Leasing Limited	Airbus A320	1	1
SKY HIGH V LEASING COMPANY LIMITED	Airbus A320	-	1
Sky High XXIV Leasing Company Limited	Airbus A320	5	5
Sky High XXV Leasing Company Limited	Airbus A320	2	2
SMBC Aviation Capital Limited	Airbus A320	6	7
SMBC Aviation Capital Limited	Airbus A321	2	2
Sunflower Aircraft Leasing Limited	Airbus A320	2	2
TC-CIT Aviation Ireland Limited	Airbus A320	1	1
Volito Aviation August 2007 AB	Airbus A320	2	2
Volito Aviation November 2006 AB	Airbus A320	2	2
Volito November 2006 AB	Airbus A320	2	2
Wells Fargo Bank North National Association	Airbus A319	3	3
Wells Fargo Bank North National Association	Airbus A320	2	2
Wells Fargo Bank Northwest National Association	Airbus A320	7	7
Wells Fargo Bank Northwest National Association	Airbus A330	2	2
Wells Fargo Bank Northwest National Association	Boeing 767	3	3
Wells Fargo Bank Northwest National Association	Boeing 777	6	6
Wells Fargo Bank Northwest National Association	Boeing 787	11	7
Wells Fargo Bank Northwest National Association	Airbus A350	1	-
Wilmington Trust Company	Airbus A319	1	1
Total		<u>114</u>	<u>106</u>

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 September 30, 2016 ThUS\$ Unaudited	As of December 31, 2015 ThUS\$ Unaudited
No later than one year	539,381	513,748
Between one and five years	1,450,440	1,281,454
Over five years	1,226,834	858,095
Total	<u>3,216,655</u>	<u>2,653,297</u>

The minimum lease payments charged to income are the following:

	For the 9 months ended September 30, 2016 ThUS\$ Unaudited		For the 3 months ended September 30, 2015 ThUS\$ Unaudited	
Minimum operating lease payments	419,599	391,134	147,443	133,442
Total	<u>419,599</u>	<u>391,134</u>	<u>147,443</u>	<u>133,442</u>

In the first quarter of 2015, two Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand, two Airbus A320-200 aircraft were returned. In the second quarter of 2015, two Airbus A321-200 aircraft and one Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand, one Airbus A320-200 aircraft and two Airbus A330-200 aircraft were returned. In the third quarter of 2015, five Airbus A321-200 aircraft and one Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand, one Airbus A330-200 aircraft was returned. In the fourth quarter of 2015, one Airbus A330-200 aircraft was returned.

In the first quarter of 2016, two Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand and one Airbus A320-200 aircraft was returned. In the second quarter of 2016, three Airbus A321-200 aircraft were leased for a period of ten years each and two Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand, one Airbus A320-200 aircraft and one Boeing 767-300ER aircraft were returned. In the third quarter of 2016, three Airbus A321-200 aircraft and one Airbus A320- NEO aircraft were leased for a period of ten years each, and one Airbus A350-900 aircraft was leased for a period of twelve years. On the other hand and one Airbus A320-200 aircraft was returned.

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 September 30, 2016 the Company has existing letters of credit related to operating leasing as follows:

<u>Creditor Guarantee</u>	<u>Debtor</u>	<u>Type</u>	<u>Value</u> ThUS\$	<u>Release</u> date
GE Capital Aviation Services Limited	Lan Cargo S.A.	Two letter of credit	7,530	Sep 17, 2017
Wells Fargo Bank North N.A.	Lan Cargo S.A.	One letter of credit	5,000	May 25, 2017
Bank of America	LATAM Airlines Group S.A.	Three letter of credit	1,044	Jul 2, 2017
Engine Lease Finance Corporation	LATAM Airlines Group S.A.	One letter of credit	4,750	Oct 8, 2017
GE Capital Aviation Services Ltd.	LATAM Airlines Group S.A.	Nine letter of credit	37,178	Dec 6, 2016
International Lease Finance Corp	LATAM Airlines Group S.A.	Three letter of credit	1,450	Feb 4, 2017
ORIX Aviation System Limited	LATAM Airlines Group S.A.	One letter of credit	3,255	Aug 31, 2017
SMBC Aviation Capital Ltd.	LATAM Airlines Group S.A.	Two letter of credit	13,569	Aug 14, 2017
Wells Fargo Bank	LATAM Airlines Group S.A.	Nine letter of credit	15,160	Feb 8, 2017
CIT Aerospace International	Tam Linhas Aéreas S.A.	Three letter of credit	12,375	Oct 6, 2016
RBS Aerospace Limited	Tam Linhas Aéreas S.A.	One letter of credit	13,096	Jan 29, 2017
Wells Fargo Bank North N.A.	Tam Linhas Aéreas S.A.	One letter of credit	5,500	Jul 14, 2017
			<u>119,907</u>	

(c) Other commitments

At September 30, 2016 the Company has existing letters of credit, certificates of deposits and warranty insurance policies as follows:

<u>Creditor Guarantee</u>	<u>Debtor</u>	<u>Type</u>	<u>Value</u> ThUS\$	<u>Release</u> date
Lima Airport Partners S.R.L.	Lan Perú S.A.	Twenty two letter of credit	3,805	Dec 31, 2016
Superintendencia Nacional de Aduanas y de Administración Tributaria	Lan Perú S.A.	Nine letter of credit	75,000	Oct 30, 2016
Aena Aeropuertos S.A.	LATAM Airlines Group S.A.	Four letter of credit	2,137	Nov 15, 2017
American Alternative Insurance Corporation	LATAM Airlines Group S.A.	Six letter of credit	3,490	Apr 5, 2017
Deutsche Bank A.G.	LATAM Airlines Group S.A.	One letter of credit	30,000	Mar 31, 2017
Dirección General de Aeronáutica Civil	LATAM Airlines Group S.A.	Forty-eight letter of credit	18,952	Oct 31, 2016
Empresa Pública de Hidrocarburos del Ecuador EP Petroecuador	LATAM Airlines Group S.A.	One letter of credit	5,500	Jun 17, 2017
JP Morgan Chase	LATAM Airlines Group S.A.	One letter of credit	10,000	Jun 17, 2017
Metropolitan Dade County	LATAM Airlines Group S.A.	Ten letter of credit	2,521	Mar 13, 2017
The Royal Bank of Scotland plc	LATAM Airlines Group S.A.	One letter of credit	5,000	May 20, 2017
4ª Vara Mista de Bayeux	Tam Linhas Aéreas S.A.	One insurance policies guarantee	1,064	Mar 25, 2021
6ª Vara Federal da Subseção	Tam Linhas Aéreas S.A.	Two insurance policies guarantee	25,068	Jan 4, 2018
8ª Vara Federal da Subseção de Campinas SP	Tam Linhas Aéreas S.A.	One insurance policies guarantee	12,945	May 19, 2020
Conselho Administrativo de Conselhos Federais	Tam Linhas Aéreas S.A.	One insurance policies guarantee	6,730	Oct 20, 2021
Fundação de Proteção de Defesa do Consumidor Procon	Tam Linhas Aéreas S.A.	Two insurance policies guarantee	3,289	Jan 21, 2021
União Federal Vara Comarca de DF	Tam Linhas Aéreas S.A.	Two insurance policies guarantee	2,707	Nov 9, 2020
União Federal Vara Comarca de SP	Tam Linhas Aéreas S.A.	One insurance policies guarantee	19,635	Feb 22, 2021
			<u>227,843</u>	

## NOTE 33 - TRANSACTIONS WITH RELATED PARTIES

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

Tax No.	Related party	Nature of relationship with related parties	Country of origin	Nature of related parties transactions	Currency	Transaction amount with related parties	
						As of September 30,	
						2016	2015
						ThUS\$	ThUS\$
						Unaudited	
96.810.370-9	Inversiones Costa Verde Ltda. y CPA.	Related director	Chile	Tickets sales	CLP	1	6
65.216.000-K	Comunidad Mujer	Related director	Chile	Services provided for advertising	CLP	(12)	(11)
				Tickets sales	CLP	9	2
78.591.370-1	Bethia S.A and subsidiaries	Related director	Chile	Services received cargo transport	CLP	(1,257)	(1,656)
				Services received from National and International Courier	CLP	(362)	(136)
				Services provided cargo transport	CLP	1,416	1,520
65.216.000-K	Viajes Falabella Ltda.	Related director	Chile	Sales commissions incurred	CLP	(108)	-
79.773.440-3	Transportes San Felipe S.A	Common property	Chile	Shuttle services received passenger	CLP	(80)	(131)
				Tickets sales	CLP	2	4
87.752.000-5	Granja Marina Tornagaleones S.A.	Common shareholder	Chile	Tickets sales	CLP	60	81
Foreign	Consultoría Administrativa Profesional S.A. de C.V.	Associate	Mexico	Service received professional management consulting	MXN	(1,756)	(371)
Foreign	Inversora Aeronáutica Argentina	Related director	Argentina	Service received lease property	US\$	(198)	(201)
Foreign	TAM Aviação Executiva e Taxi Aéreo S/A	Principal shareholder of the common matrix	Brazil	Revenues by advertising poster maintenance	ARS	-	2
				Services provided by tickets sales	BRL	63	11
				Services provided cargo transport	BRL	12	8
				Airport services received	BRL	(18)	(43)

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

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

(b) Compensation of key management

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

	For the 9 months ended		For the 3 months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited			
Remuneration	12,781	13,002	3,872	4,444
Management fees	348	455	102	177
Non-monetary benefits	600	513	186	153
Short-term benefits	19,159	14,964	4,106	4,812
Share-based payments	5,927	7,921	2,939	2,640
Total	<u>38,815</u>	<u>36,855</u>	<u>11,205</u>	<u>12,226</u>

NOTE 34 - SHARE-BASED PAYMENTS

(a) Compensation plan for increase of capital in LATAM Airlines Group S.A.

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

(a.1) Compensation plan 2011

At a Special Shareholders Meeting held on December 21, 2011, the Company's shareholders approved, among other matters, an increase of capital of which 4,800,000 shares were allocated to compensation plans for employees of the Company and its subsidiaries, pursuant to Article 24 of the Companies Law. In this compensation plan no member of the controlling group would be benefited. It is recorded that the 10,282 shares placed on the market in January 2014 were allocated



and deducted from the issued and unallocated shares of this compensation plan. In view of the foregoing, this compensation plan currently comprises a balance of 4,789,718 shares.

The granting of options for the subscription and payment of shares has been formalized through conclusion of contracts of options to subscribe for shares, according to the proportions shown in the following schedule of accrual and is related to the permanence condition of the executive as employee of the Company at these dates for the exercise of the options:

<u>Percentage</u>	<u>Period</u>		<u>Number of share options</u>
30%	From December 21, 2014 and until December 21, 2016.		
30%	From December 21, 2015 and until December 21, 2016.		
40%	From June 21, 2016 and until December 21, 2016.		
Share options in agreements of share- based payments, as of January 1, 2015			4,202,000
Share options granted			406,000
Share options cancelled			(90,000)
Share options in agreements of share- based payments, as of December 31, 2015			<u>4,518,000</u>
Share options in agreements of share- based payments, as of January 1, 2016			4,518,000
Executives resinged options (*)			(4,172,000)
Share options in agreements of share- based payments, as of September 30, 2016 (Unaudited)			<u>346,000</u>

These options have been valued and recorded at fair value at the grant date, determined by the "Black-Scholes-Merton". The effect on income to September 2016 corresponds to ThUS\$ 2,989 (ThUS\$ 7,920 at September 30, 2015).

The input data of option pricing model used for share options granted are as follows:

	<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>
As of September 30, 2015 (Unaudited)	US\$ 15,47	US\$ 18,29	34.74%	3.6 years	0%	0.00696
As of September 30, 2016 (Unaudited)	US\$ 15,47	US\$ 18,29	34.74%	3.6 years	0%	0.00696

#### (a.2) Compensation plan 2013

At the Extraordinary Shareholders' Meeting held on June 11, 2013, the Company's shareholders approved motions including increasing corporate equity, of which 1,500,000 shares were allocated to compensation plans for employees of the Company and its subsidiaries, in conformity with the

stipulations established in Article 24 of the Corporations Law. With regard to this compensation, a defined date for implementation does not exist. The granting of options for the subscription and payment of shares has been formalized through conclusion of contracts of options to subscribe for shares, according to the proportions shown in the following schedule of accrual and is related to the permanence condition of the executive at these dates for the exercise of the options:

<u>Percentage</u>	<u>Period</u>
100%	From November 15, 2017 and until June 11, 2018.

(b) Compensation plan 2016-2018

The company implemented a retention plan long-term for executives, which lasts until December 2018, with a vesting period between October 2018 and March 2019, which consists of an extraordinary bonus whose calculation formula is based on the variation the value to experience the action of LATAM Airlines Group S.A. for a period of time.

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

	<u>Unit bases granted</u>
Units bases, balance at September 30, 2016	<u>4.719.720</u>

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

At September 30, 2016, the carrying amount of MUS \$ 2,939, is classified under "Administrative expenses" in the Consolidated Statement of Income by Function.

(c) Subsidiaries compensation plans

(c.1) Stock Options

TAM Linhas Aereas S.A. and Multiplus S.A., both subsidiaries of TAM S.A., have outstanding stock options at September 30, 2016, which amounted to 96,675 shares and 417,539 shares, respectively (at December 31, 2015, the distribution of outstanding stock options amounted to 394,698 for Multiplus S.A. and 96,675 shares TAM Linhas Aéreas S.A.).

## TAM Linhas Aéreas S.A.

Description	4th Grant	
	05-28-2010	Total
Outstanding option number		
As September 30, 2015 (Unaudited)	96,675	96,675
Outstanding option number		
As September 30, 2016 (Unaudited)	96,675	96,675

## Multiplus S.A.

Description	1st Grant	3rd Grant	4th Grant	4th Extraordinary	Total
				Grant	
Date	10-04-2010	03-21-2012	04-03-2013	11-20-2013	
Outstanding option number					
As September 30, 2015 (Unaudited)	3,796	115,298	269,241	205,575	593,910
Outstanding option number					
As September 30, 2016 (Unaudited)	-	84,249	173,399	137,050	394,698

The Options of TAM Linhas Aéreas S.A., under the plan's terms, are divided into three equal parts and employees can run a third of its options after three, four and five years respectively, as long as they remain employees of the company. The agreed term of the options is seven years.

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

Both companies have an option that contains a "service condition" in which the exercise of options depends exclusively on the delivery services by employees during a predetermined period. Terminated employees will be required to meet certain preconditions in order to maintain their right to the options.

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

Company	Number of shares Accrued options		Number of shares Non accrued options	
	As of September 30, 2016	As of December 31, 2015	As of September 30, 2016	As of December 31, 2015
	Unaudited		Unaudited	
TAM Linhas Aéreas S.A.	-	-	96,675	96,675
Multiplus S.A.	-	-	394,698	518,507

In accordance with IFRS 2 - Share-based payments, the fair value of the option must be recalculated and recorded as a liability of the Company once payment is made in cash (cash-settled). The fair value of these options was calculated using the “Black-Scholes-Merton” method, where the cases were updated with information LATAM Airlines Group S.A. There is no value recorded in liabilities and in income at September 30, 2016 (at December 31, 2015 not exist value recorded in liabilities and in incomes).

(c.2) Payments based on restricted stock

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

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

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

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

	Number shares in circulation
As of January 1, 2015	91,103
Granted	119,731
Not acquired by non-compliance with conditions of stay	<u>(34,924)</u>
As of September 30, 2015 (Unaudited)	<u>175,910</u>
As of October 1, 2015	175,910
No movement	<u>-</u>
As of December 31, 2015	<u>175,910</u>
As of January 1, 2016	175,910
Granted	138,282
Exercised	(15,811)
Not acquired due to breach of employment retention conditions	<u>(42,944)</u>
As of September 30, 2016 (Unaudited)	<u>255,437</u>

## NOTE 35 - STATEMENT OF CASH FLOWS

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

(b) Other inflows (outflows) of cash:

	For the periods ended	
	September 30,	
	2016	2015
	ThUS\$	ThUS\$
	Unaudited	
Change reservation systems	-	11,000
Bank commissions, taxes paid and other	(1,335)	(4,028)
Hedging margin guarantees	(1,795)	89,280
SEC agreement	(4,719)	-
Fuel derivatives premiums	(6,840)	(18,979)
Tax paid on bank transaction	(7,016)	(8,905)
DOJ fine	(12,750)	-
Guarantees	(17,640)	(15,117)
Currency hedge	(30,031)	(25,047)
Fuel hedge	(44,664)	(220,069)
Others	50	-
Total Other inflows (outflows) Operation flow	<u>(126,740)</u>	<u>(191,865)</u>
Recovery loans convertible into shares	-	20,000
Certificate of bank deposits	-	3,497
Tax paid on bank transaction	(3,308)	(8,196)
Total Other inflows (outflows) Investment flow	<u>(3,308)</u>	<u>15,301</u>
Credit card loan manager	-	3,227
Early redemption of bonds TAM 2020	-	(15,328)
Settlement of derivative contracts	(19,304)	(27,744)
Aircraft Financing advances	(151,363)	9,067
Others	-	(2,822)
Total Other inflows (outflows) Financing flow	<u>(170,667)</u>	<u>(33,600)</u>

(c) Dividends:

	For the periods ended	
	September 30,	
	2016	2015
	ThUS\$	ThUS\$
	Unaudited	
Multiplus S.A	(30,287)	(25,283)
Lan Perú S.A	(400)	(400)
Total dividends paid (*)	<u>(30,687)</u>	<u>(25,683)</u>

(\*) Dividends paid to minority shareholders

## NOTE 36 - THE ENVIRONMENT

LATAM Airlines Group S.A. manages environmental issues at the corporate level, centralized in Environmental Management. There is a commitment to the highest level to monitor the company and minimize their impact on the environment, where continuous improvement and contribute to the solution of global climate change problems, generating added value to the company and the region, are the pillars of his administration.

One function of Environmental Management, in conjunction with the various areas of the Company, is to ensure environmental compliance, implementing a management system and environmental programs that meet the increasingly demanding requirements globally; well as continuous improvement programs in their internal processes that generate environmental and economic benefits and to join the currently completed.

The Environment Strategy LATAM Airlines Group S.A. is called Climate Change Strategy and it is based on the aim of being a world leader in Climate Change and Eco-efficiency, which is implemented under the following pillars:

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

For 2016, were established the following topics:

1. Advance in the implementation of an Environmental Management System;
2. Manage the Carbon Footprint of our emissions by ground operations;
3. Corporate Risk Management;
4. Corporate strategy to meet the global target of aviation to have a carbon neutral growth by 2020.

Thus, during 2016, we have worked in the following initiatives:

- Advance in the implementation of an Environmental Management System for main operations of the Company, with an emphasis on Santiago. It is highlighted that the Company has a certified management system, under ISO 14.001 at its facility in Miami, obtained in the second quarter of 2015.
- Certification of stage 2 of IATA Environmental Assessment (IEnvA), the most advanced of this certification, been the third airline in the world to achieve this certification.
- Preparation of the environmental chapter for reporting sustainability of the Company, to measure progress on environmental issues.
- Answer to the Dow Jones Sustainability Index 2016 questionnaire, which the company responds annually.
- Measurement and external verification of the Corporate Carbon Footprint.

It is highlighted that in the 2016 LATAM Airlines Group maintained its selection in the index Dow Jones Sustainability in the global category, being the only two airlines that belong to this select group.

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

Subsequent at September 30, 2016 until the date of issuance of these financial statements, there is no knowledge of financial facts or otherwise, that could significantly affect the balances or interpretation thereof.

LATAM Airlines Group S.A. and Subsidiaries' consolidated financial statements as at September 30, 2016, have been approved by the Board of Director's in an extraordinary meeting held on November 10, 2016.