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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-14728

LATAM Airlines Group S.A.

(Exact name of registrant as specified in its charter)

LATAM Airlines Group S.A.
(Translation of registrant's name into English)

Republic of Chile
(Jurisdiction of incorporation or organization)

Presidente Riesco 5711, 20th Floor
Las Condes
Santiago, Chile
(Address of principal executive offices)

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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:
American Depositary Shares (as evidenced by American
Depositary Receipts), each representing one share of Common

Name of each exchange on which registered:
New York Stock Exchange

Stock, without par value

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 551,847,819.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer

Accelerated filer

Non-Accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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PRESENTATION OF INFORMATION

In this annual report on Form 20-F, unless the context otherwise requires, references to “LATAM Airlines Group” are to LATAM Airlines Group S.A., the unconsolidated operating entity, and references to “LATAM,” “we,” “us” or the “Company” are to LATAM Airlines Group S.A. and its consolidated subsidiaries: Transporte Aéreo S.A. (which does business under the name “LAN Express”), LAN Perú S.A. (“LAN Peru”), Aerolane, Líneas Aéreas Nacionales del Ecuador S.A. (“LAN Ecuador”), LAN Argentina S.A. (“LAN Argentina,” previously Aero 2000 S.A.), Aerovías de Integración Regional, Aires S.A. (which does business under the name “LAN Colombia”), TAM S.A. (“TAM”), LAN Cargo S.A. (“LAN Cargo”) and Multiplus S.A. (“Multiplus”), and its three regional affiliates: Aero Transportes Mas de Carga S.A. de C.V. (“MasAir”) in Mexico, Linea Aerea Carguera de Colombia S.A. (“LANCO”) in Colombia and Aerolinhas Brasileiras S.A. (“ABSA”) in Brazil. All references to “Chile” are references to the Republic of Chile.

On June 22, 2012, LATAM was formed following the completion of the business combination between LAN Airlines S.A. and its consolidated subsidiaries (“LAN”) with TAM S.A. and its consolidated subsidiaries (“TAM”). Following the combination, LAN Airlines S.A. became “LATAM Airlines Group S.A.” and TAM continues to exist as a subsidiary of Holdco I S.A. (“Holdco I”) and a subsidiary of LATAM Airlines Group. LATAM’s consolidated financial statements for the year ended December 31, 2012 include TAM’s financial results from June 23, 2012. As LATAM Airlines Group S.A. is the owner of substantially all the economic rights in TAM, TAM and its consolidated subsidiaries are for the purposes of this annual report and LATAM’s consolidated financial statements treated as being subsidiaries of LATAM Airlines Group S.A. See “Item 4. Information on the Company—A. History and Development of the Company—Combination of LAN and TAM.”

Throughout this annual report on Form 20-F we make numerous references to “LAN”. Some references to “LAN” are to LAN Airlines S.A., currently known as LATAM Airlines Group S.A. and its consolidated subsidiaries, in connection with circumstances and facts occurring prior to June 22, 2012. Other references to “LAN”, however, are to the LAN brand which was launched in 2004 and brings together, under one internationally recognized name, all of the affiliate brands such as LAN Chile, LAN Peru, LAN Argentina, LAN Colombia and LAN Ecuador.

In this annual report on Form 20-F, unless the context otherwise requires, references to “TAM” are to TAM S.A., and its consolidated subsidiaries, including TAM Linhas Aereas S.A., the operating entity, Multiplus S.A. (“Multiplus”), Pantanal Linhas Aéreas S.A. (“Pantanal”), Fidelidade Viagens e Turismo Limited (“TAM Viagens”), and Transportes Aéreos Del Mercosur S.A. (“TAM Mercosur”).

This annual report contains conversions of certain Chilean peso and Brazilian real amounts into U.S. dollars at specified rates solely for the convenience of the reader. These conversions should not be construed as representations that the Chilean peso and the Brazilian real amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless we specify otherwise, all references to “\$,” “US\$,” “U.S. dollars” or “dollars” are to United States dollars, references to “pesos,” “Chilean pesos” or “Ch\$” are to Chilean pesos. References to “reais,” “Brazilian reais,” or “R\$” are to Brazilian reais, and references to “UF” are to *Unidades de Fomento*, a daily indexed Chilean peso-denominated monetary unit that takes into account the effect of the Chilean inflation rate. Unless we indicate otherwise, the U.S. dollar equivalent for information in Chilean pesos is based on the “*dólar observado*” or “observed” exchange rate published by *Banco Central de Chile* (which we refer to as the Central Bank of Chile) on December 30, 2013, which was Ch\$523.76 = US\$1.00. The observed exchange rate on April 25, 2014 was Ch\$559.67 = US\$1.00. Unless we indicate otherwise, the U.S. dollar equivalent for information in Brazilian reais is based on the “*dólar observado*” or “observed” exchange rate published by *Banco Central do Brasil* (which we refer to as the Central Bank of Brazil) on December 31, 2013, which was R\$2.342 = US\$1.00. The observed exchange rate on April 25, 2014 was R\$2.231 = US\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos nor Brazilian reais. See “Item 3. Key Information—A. Selected Financial Data—Chilean Peso Exchange Rates” and “Item 3. Key Information—A. Selected Financial Data—Brazilian Exchange Rates.”

LATAM Airlines Group and the majority of our subsidiaries maintain their accounting records and prepare their financial statements in U.S. dollars. Some of our other subsidiaries, however, maintain their accounting records and prepare their financial statements in Chilean pesos, Argentinean pesos, Colombian pesos or Brazilian reais. In particular, TAM maintains its accounting records and prepares its financial statements in Brazilian reais. Our audited consolidated financial statements include the results of these subsidiaries translated into U.S. dollars. International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), require assets and liabilities to be translated at period-end exchange rates, while revenue and expense accounts are translated at each transaction date, although a monthly rate may also be used if exchange rates do not vary widely.

LATAM’s audited consolidated financial statements for the periods ended December 31, 2009, 2010, 2011, 2012 and 2013 were prepared in accordance with IFRS.

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We have rounded percentages and certain U.S. dollar, Chilean peso and Brazilian reais amounts contained in this annual report for ease of presentation. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

This annual report contains certain terms that may be unfamiliar to some readers. You can find a glossary of these terms on page 4 of this annual report.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements, including those relating to our recently completed combination with TAM. See “Item 3. Key Information—D. Risk Factors—Risks Relating to the Combination of LAN and TAM.” Such statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” or other similar expressions. Forward-looking statements, including statements about our beliefs and expectations, are not statements of historical facts. These statements are based on current plans, estimates and projections, and, therefore, you should not place undue reliance on them. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. These factors include, but are not limited to:

- the factors described in “Item 3—Key Information—D. Risk Factors” generally and with respect to our combination with TAM in particular;
- our ability to service our debt and fund our working capital requirements;
- future demand for passenger and cargo air service in Chile, Brazil other countries in Latin America and the rest of the world;
- the maintenance of relationships with customers;
- the state of the Chilean, Brazilian, Latin American and world economies and their impact on the airline industry;
- the effects of competition;
- future terrorist incidents or related activities affecting the airline industry;
- future outbreak of diseases, or spread of already existing diseases, affecting traveling behavior and/or exports;
- natural disasters affecting traveling behavior and/or exports;
- the relative value of the Chilean, Peruvian, Ecuadorian, Colombian, Brazilian, Mexican and Argentine currencies compared to other currencies;
- inflation;
- competitive pressures on pricing;
- our capital expenditure plans;
- changes in labor costs, maintenance costs, and insurance premiums;
- fluctuation of crude oil prices and its effect on fuel costs;
- cyclical and seasonal fluctuations in our operating results;
- defects or mechanical problems with our aircraft;
- our ability to successfully implement our growth strategy;
- increases in interest rates; and
- changes in regulations, including regulations related to access to routes in which we operate.

Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them, whether in light of new information, future events or otherwise. You should also read carefully the risk factors described in “Item 3. Key Information—D. Risk Factors.”

GLOSSARY OF TERMS

The following terms, as used in this annual report, have the meanings set forth below.

Capacity Measurements:

“available seat kilometers” or “ASKs”	The number of seats made available for sale multiplied by the kilometers flown.
“available ton kilometers” or “ATKs”	The number of tons available for the transportation of revenue load (cargo) multiplied by the kilometers flown.
“available seat kilometers equivalent” or “ASK equivalent”	The number of seats made available for sale plus the quotient of cargo ATKs divided by 0.095, all multiplied by the kilometers flown.

Traffic Measurements:

“revenue passenger kilometers” or “RPKs”	The number of passengers multiplied by the number of kilometers flown.
“revenue ton kilometers” or “RTKs”	The load (cargo) in tons multiplied by the kilometers flown.
“traffic revenue”	Revenue from passenger and cargo operations.

Yield Measurements:

“cargo yield”	Revenue from cargo operations divided by RTKs.
“overall yield”	Revenue from airline operations (passenger and cargo) divided by system RTKs (passenger and cargo).
“passenger yield”	Revenue from passenger operations divided by RPKs.

Load Factors:

“cargo load factor”	RTKs (cargo) expressed as a percentage of ATKs (cargo).
“passenger load factor”	RPKs expressed as a percentage of ASKs.

Other:

“ACMI leases”	A type of aircraft leasing contract, under which the lessor provides the aircraft, crew, maintenance and insurance on a per hour basis. Also referred to as a “wet lease.”
“Airbus A320-Family Aircraft”	The Airbus A318, Airbus A319, Airbus A320 and Airbus A321 models of aircraft.
“block hours”	The elapsed time between an aircraft leaving an airport gate and arriving at an airport gate.
“m ² ”	square meters.
“ton”	A metric ton, equivalent to 2,204.6 pounds.
“utilization rates”	The actual number of flight hours per aircraft per operating day.
“operating expenses”	Operating expenses, which are calculated in accordance with IFRS, comprise the sum of the line items “cost of sales” plus “distribution costs” plus “administrative expenses” plus “other operating expenses”, as shown on our consolidated statement of comprehensive income. These operating expenses include: wages and benefits, fuel, depreciation and amortization, commissions to agents, aircraft rentals, other rental and landing fees, passenger services, aircraft maintenance, and other operating expenses.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

On June 22, 2012, LATAM Airlines Group was formed through the combination of LAN and TAM. Following the combination, LAN Airlines S.A. became “LATAM Airlines Group S.A.” and TAM continues to exist as a subsidiary of Holdco I and a subsidiary of LATAM Airlines Group. Financial statements for LATAM fully consolidate TAM’s results since June 23, 2012.

LATAM’s Historical Financial Information

The summary consolidated annual financial information of LATAM as of December 31, 2013, 2012, 2011, 2010 and 2009 and for each of the five years ended December 31, 2013, 2012, 2011, 2010 and 2009 has been prepared in accordance with IFRS. LATAM’s consolidated annual financial information as of and for the year ended December 31, 2012, includes TAM’s results of operations from June 23, 2012, and was included in a previous annual report filed by LATAM with the SEC. The LATAM Historical Financial Information as of and for the years ended December 31, 2011, 2010 and 2009 represents LAN’s historical audited consolidated financial information and were included in previous annual reports filed by LAN with the SEC.

The following table sets forth certain income statement and balance sheet data for LATAM Airlines Group, as of and for the year ended December 31, 2012 (including TAM’s results from June 23, 2012), as retrospectively revised. For more information see “Item 5.—Operating and Financial Review and Prospects—A. Operating Results—Accounting Impact of the Business Combination”.

LATAM’s Annual Financial Information

	Year ended December 31,				
	2013	2012	2011	2010	2009
	(in US\$ millions, except per share and capital stock data)				
The Company⁽¹⁾⁽²⁾					
Statement of Income Data:					
Operating revenues					
Passenger	11,061.6	7,966.8	4,008.9	3,109.8	2,623.6
Cargo	1,863.0	1,743.5	1,576.5	1,280.7	895.6
Total operating revenues	<u>12,924.5</u>	<u>9,710.4</u>	<u>5,585.4</u>	<u>4,390.5</u>	<u>3,519.2</u>
Cost of sales	<u>(10,054.2)</u>	<u>(7,634.5)</u>	<u>(4,078.6)</u>	<u>(3,012.7)</u>	<u>(2,522.8)</u>
Gross margin	2,870.4	2,075.9	1,506.8	1,377.8	996.4
Other operating income ⁽³⁾	341.6	220.2	132.8	132.8	136.4
Distribution costs	(1,025.9)	(803.6)	(479.8)	(383.5)	(327.0)
Administrative expenses	(1,136.1)	(888.7)	(405.7)	(331.8)	(270.0)
Other expenses	(408.7)	(311.8)	(214.4)	(172.4)	(100.5)
Other gains/(losses)	(55.4)	(45.8)	(33.0)	5.4	(11.7)
Financial income	72.8	77.5	14.5	14.9	18.2
Financial costs	(462.5)	(294.6)	(139.1)	(155.3)	(153.1)
Equity accounted earnings	2.0	1.0	0.5	0.1	0.3
Exchange rate differences	(482.2)	66.7	(0.3)	13.8	(11.2)
Result of indexation units	<u>0.2</u>	<u>0</u>	<u>0.1</u>	<u>0.1</u>	<u>(0.6)</u>
Income before income taxes	(283.9)	96.7	382.4	502.0	277.5
Income tax	<u>20.1</u>	<u>(102.4)</u>	<u>(61.8)</u>	<u>(81.1)</u>	<u>(44.5)</u>
Net income for the period	(263.8)	(5.6)	320.6	420.9	233.0
Income attributable to the parent company’s equity holders	(281.1)	19.1	320.2	419.7	231.1
Income attributable to non-controlling interests	<u>17.3</u>	<u>13.4</u>	<u>0.4</u>	<u>1.2</u>	<u>1.9</u>

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	Year ended December 31,				
	2013	2012	2011	2010	2009
	(in US\$ millions, except per share and capital stock data)				
Net income for the period	(263.8)	(5.6)	320.6	420.9	233.0
Earnings per share					
Average number of Shares	487,930,977	412,267,624	339,424,598	338,790,909	338,790,909
Basic earnings per share (US\$) ⁽⁴⁾	(0.57613)	(0.0463)	0.94335	1.23882	0.68221
Diluted earnings per share(US\$)	(0.57613)	(0.0463)	0.9426	1.23534	0.68221

	At December 31,				
	2013	2012	2011	2010	2009
	(in US\$ millions, except per share and capital stock data)				
Balance Sheet Data:					
Cash, and cash equivalents	1,984.9	650.3	374.4	631.1	731.5
Other current assets in operation	2,992.2	2,626.2	964.3	896.5	666.6
Non-current assets and disposal groups held for sale	2.4	47.7	4.7	5.5	10.9
Total current assets	4,979.5	3,324.2	1,343.4	1,533.1	1,409.0
Property and equipment	10,982.8	11,807.1	5,928.0	4,948.4	4,196.6
Other non-current assets	6,668.8	7,195.0	377.3	304.4	166.4
Total non-current assets	17,651.6	19,002.1	6,305.3	5,252.8	4,363.0
Total assets	22,631.1	22,326.3	7,648.7	6,785.9	5,772.0
Total current liabilities	6,509.1	6,297.5	2,322.1	2,144.0	1,523.3
Total non-current liabilities	10,795.6	10,808.1	3,869.2	3,341.8	3,142.7
Total liabilities	17,304.7	17,105.6	6,191.3	5,485.8	4,666.0
Issued Capital	2,389.4	1,501.0	473.9	453.4	453.4
Net equity attributable to the parent company's equity holders	5,238.8	5,112.1	1,445.3	1,296.8	1,098.8
Minority interest	87.6	108.6	12.0	3.2	7.1
Total net equity	5,326.5	5,220.7	1,457.4	1,300.1	1,105.9

- (1) For more information on the subsidiaries included in this consolidated information, see Note 1 to our audited consolidated financial statements.
- (2) The addition of the items may differ from the total amount due to rounding.
- (3) Other operating income included in this Statement of Income Data is equivalent to the sum of income derived from duty free operations, aircraft leasing, logistics and courier operations, customs and warehousing operations, tours and other miscellaneous income, and for the years ended December 31, 2012 and 2013, net income of Multiplus. For more information, see Note 32 to our audited consolidated financial statements.
- (4) As of December 31, 2009 and 2010 we had 338,790,909 common shares outstanding, which was equivalent to 338,790,909 American Depositary Shares ("ADSs"). As of December 31, 2011 we had 340,326,431 common shares outstanding, which was equivalent to 340,326,431 ADSs. As of December 31, 2012 we had 479,098,052 common shares outstanding, which was equivalent to 479,098,052 ADSs. As of December 31, 2013 we had 535,243,229 common shares outstanding, which was equivalent to 535,243,229 ADSs

The table below presents unaudited operating data of LATAM as at and for the year ended December 31, 2009, 2010, 2011 (which represents LAN's historical unaudited operating data), as at and for the year ended December 31, 2012 (which includes TAM's unaudited operating data since June 23, 2012), and as at and for the year ended December 31, 2013. LATAM believes this operating data is useful to report the operating performance of its business and may be used by certain investors in evaluating companies operating in the global air transportation sector. However these measures may differ from similarly titled measures reported by other companies, and should not be considered in isolation or as a substitute for measures of performance in accordance with IFRS. This unaudited operating data is not included in or derived from LATAM's financial statements.

Operating Data:	For the year ended and as at December 31,				
	2013	2012(1)	2011	2010	2009
ASKs (million)	131,690.7	93,319.2	48,153.6	42,355.2	38,776.2
RPKs (million)	106,466.4	74,694.9	38,422.9	33,147.5	29,836.2
ATKs (million)	7,651.9	6,449.6	5,192.7	4,628.7	3,848.9
RTKs (million)	4,466.7	4,044.5	3,612.4	3,245.3	2,627.4
ASK Equivalent (million)	212,236.8	161,209.3	102,813.6	91,078.4	79,290.9

- (1) The operating data for 2012 included in this annual report has been revised to reflect certain non-material changes to information previously published by LATAM. The changes were made as part of the correction of certain errors in the computation of LATAM's data.

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Although most of our revenues and expenses are denominated in U.S. dollars, some are denominated in different currencies, such as the Chilean peso or the Brazilian real. Fluctuations in foreign exchange rates could lead to changes in the value of these items in U.S. dollars. Nevertheless, the impact on our results stemming from any such fluctuations is partially mitigated by the fact that 42% of our revenues and 60% of our operating expenses for the year ended December 31, 2013 are denominated in U.S. dollars.

LATAM Unaudited Pro Forma Financial Information

The unaudited pro forma statement of income data for the year ended December 31, 2012 combines the historical consolidated statements of income of LAN and TAM, giving effect to the combination as if it had been consummated on January 1, 2012. The table below compares the actual financial information of LATAM as of December 31, 2013 with the unaudited pro forma financial information of LATAM as at December 31, 2012.

The unaudited pro forma information has been prepared using the purchase method of accounting, with LAN treated as the acquirer of TAM. A reconciliation of the unaudited LATAM Pro Forma Financial Information to LATAM's audited consolidated income statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS, is included under "Item 5. Operating and Financial Review and Prospects—A. Operating Results—LATAM Airlines Group Financial Results Discussion: Year ended December 31, 2013 (Actual) compared to year ended December 31, 2012 (Pro forma)—Pro Forma Adjustments."

The LATAM unaudited Pro Forma Financial Information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of LATAM would have been had the proposed combination occurred on the date assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position of LATAM.

LATAM has incurred and expects to incur significant costs in the future associated with integrating the operations of LAN and TAM. The LATAM unaudited Pro Forma Financial Information does not reflect the costs of any integration activities that had not already been incurred as of dates for which financial information is presented or benefits that may result from realization of future cost savings from operating efficiencies or revenue synergies expected to result from the proposed combination. You should read the unaudited pro forma financial information below in conjunction with our audited consolidated financial statements and the notes thereto, as well as "Item 5. Operating and Financial Review and Prospects—A. Operating Results—LATAM Airlines Group Financial Results Discussion: Year ended December 31, 2013 (Actual) compared to year ended December 31, 2012 (Pro forma)—Pro Forma Adjustments," "Presentation of Information" and "Item 5. Operating and Financial Review and Prospects."

	Year ended December 31,	
	2013 (actual)	2012(1) (pro forma)
The Company (2)(3)		
Statement of Income Data:		
Operating revenues		
Passenger	11,061.6	11,017.0
Cargo	1,863.0	1,939.8
Total operating revenues	12,924.5	12,956.7
Cost of sales	(10,054.2)	(10,536.7)
Gross margin	2,870.4	2,420.1
Other operating income(4)	341.6	265.4
Distribution costs	(1,025.9)	(1,059.7)
Administrative expenses	(1,136.1)	(1,174.8)
Other expenses	(408.7)	(364.5)
Other gains/(losses)	(55.4)	(34.8)
Financial income	72.8	117.2
Financial costs	(462.5)	(444.2)
Equity accounted earnings	2.0	1.0
Exchange rate differences	(482.2)	(290.1)
Result of indexation units	0.2	(0.0)
Income before income taxes	(283.9)	(564.5)
Income tax	20.1	69.7
Net income for the period	(263.8)	(494.9)
Income attributable to the parent company's equity holders	(281.1)	(523.1)
Income attributable to non-controlling interests	17.3	28.3
Net income for the period	(263.8)	(496.7)
Earnings per share(5)		
Average number of Shares	487,930,977	476,293,870
Basic earnings per share (US\$)	(0.57613)	(1.26891)
Diluted earnings per share(US\$)	(0.57613)	(1.26891)

- (1) For more information regarding LATAM's historical income statements, on which this pro forma information is based, see "—LATAM's Historical Financial Information" above.
- (2) For more information on the subsidiaries included in this consolidated account, see Note 1 to our audited consolidated financial statements.
- (3) The addition of the items may differ from the total amount due to rounding.
- (4) Other income included in this Statement of Income Data consists of net income derived from Multiplus, duty free operations, aircraft leasing, logistics and courier operations, customs and warehousing operations, tours and other miscellaneous income. For more information, see Note 32 to our audited consolidated financial statements.
- (5) Earnings per share: Basic and diluted pro forma earnings per share have been calculated for the year ended December 31, 2012 based on the assumption that the shares issued in order to consummate the transaction had been issued at January 1, 2012.

The table below compares the unaudited operating data of LATAM as at December 31, 2013 with the unaudited pro forma operating data of LATAM as at December 31, 2012, which has been prepared by adding the operating data for TAM for the period between January 1, 2012 and June 22, 2012 to LAN's historical operating data for that period. LATAM believes this operating data is useful to report the operating performance of its business and may be used by certain investors in evaluating companies operating in the global air transportation sector. However these measures may differ from similarly titled measures reported by other companies, and should not be considered in isolation or as a substitute for measures of performance in accordance with IFRS. The unaudited operating data and the unaudited pro forma operating data is not included in or derived from LATAM's financial statements.

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Pro Forma Operating Data:	For the year ended and as at December 31,	
	2013	2012 ⁽¹⁾
	(actual)	(pro forma)
ASKs (million)	131,690.7	132,185.9
RPKs (million)	106,466.4	103,886.1
ATKs (million)	7,651.9	7,645.9
RTKs (million)	4,466.7	4,488.3
ASK Equivalent (million)	212,236.8	212,669.5

(1) The operating data for 2012 included in this annual report has been revised to reflect certain non-material changes to information previously published by LATAM. The changes were made as part of the correction of certain errors in the computation of LATAM's data.

Dividend Policy

In accordance with the *Ley sobre Sociedades Anónimas No. 18,046* (Chilean Corporation Act) and *Reglamento de Sociedades Anónimas* (Regulation to the Chilean Corporation Act) (collectively, the "Chilean Corporation Law"), we must pay annual cash dividends equal to at least 30.0% of our annual consolidated distributable net income each year (calculated in accordance with IFRS), subject to limited exceptions. LATAM Airlines Group's board of directors has the authority to declare interim dividends. Year-end dividends, if any, are declared by our shareholders at our annual meeting. For a description of our dividend policy, see "Item 8. Financial Information—A. Consolidated Financial Statements and Other Financial Information—Dividend Policy" and "Item 10. Additional Information—B. Memorandum and Articles of Association—Dividend and Liquidation Rights." LATAM did not pay an interim dividend in 2013.

We declare cash dividends in U.S. dollars, but make dividend payments in Chilean pesos, converted from U.S. dollars at the observed exchange rate two days prior to the day we first make payment to shareholders. Payments of cash dividends to holders of ADRs, if any, are made in Chilean pesos to the custodian, which converts those Chilean pesos into U.S. dollars and delivers U.S. dollars to the depository for distribution to holders. In the event that the custodian is unable to convert immediately the Chilean currency received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADRs may be adversely affected by a devaluation of the Chilean currency that may occur before such dividends are converted and remitted.

LATAM's Dividend Payments

The table below sets forth the cash dividends per common share and per ADS paid by LATAM, as well as the number of common shares entitled to such dividends, for the years indicated. Dividends per common share amounts have not been adjusted for inflation and reflect common share amounts outstanding immediately prior to the distribution of such dividend.

Dividend for year:	Payment date(s)	Total dividend payment	Number of common shares entitled to dividend	Cash dividend per common share	Cash dividend per ADS
		(U.S. dollars)	(in millions)	(U.S. dollars)	(U.S. dollars)
2009	August 20, 2009	34,621,043	338.79	0.10219	0.10219
	January 21, 2010	70,000,978	338.79	0.20662	0.20662
	May 20, 2010	10,939,558	338.79	0.03229	0.03229
2010	August 19, 2010	74,466,242	338.79	0.21980	0.2198
	January 13, 2011	125,000,294	338.79	0.36896	0.36896
	April 29, 2011	10,386,295	339.31	0.03061	0.03061
2011	September 15, 2011	56,594,769	339.36	0.16677	0.16677
	January 12, 2012	85,000,207	340.16	0.24988	0.24988
	May 17, 2012	18,461,735	341.00	0.05414	0.05414
2012	May 17, 2013	3,288,125	483.55	0.00680	0.00680

Chilean Peso Exchange Rates

The following table sets forth, for the periods indicated, the high, low, average and period-end observed exchange rate for the purchase of U.S. dollars, expressed in Chilean pesos per U.S. dollar. The rates have not been restated in constant currency units. On April 25, 2014 the observed exchange rate was Ch\$559.67= US\$1.00.

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Year Ended December 31,	Daily Observed Exchange Rate			
	High	Low	Average (1)	Period-End
	Ch\$ per US\$			
2008	676.75	431.22	528.88	629.11
2009	643.87	491.09	553.77	506.43
2010	549.17	468.37	511.20	468.37
2011	533.74	455.91	483.67	521.46
2012	519.69	469.65	486.75	478.60
2013	495.34	534.12	467.05	525.45
September	510.38	496.49	504.57	502.97
October	508.58	493.36	500.81	508.58
November	528.19	507.64	519.25	528.19
December	533.95	523.76	529.45	524.01
2014				
January	550.53	524.61	537.03	547.22
February	563.32	546.94	554.41	563.32
March	573.24	550.53	563.84	550.53
April(2)	563.76	544.96	553.72	559.67

Source: Central Bank of Chile

- (1) For each year, the average of the month-end exchange rates for the relevant year. For each month, the average daily exchange rate for the relevant month.
(2) Through April 25, 2014.

Brazilian Exchange Rates

TAM maintains its accounting records and prepares its financial statements in Brazilian reais. The following tables set forth, for the periods indicated, the high, low, average and period-end observed exchange rate for the purchase of U.S. dollars, expressed in Brazilian reais per U.S. dollar. The rates have not been restated in constant currency units. On April 25, 2014 the observed exchange rate was R\$2.231 = US\$1.00.

Year Ended December 31,	Daily Observed Exchange Rate			
	High	Low	Average (1)	Period-End
	R\$ per US\$			
2009	2.422	1.702	1.998	1.741
2010	1.881	1.655	1.759	1.666
2011	1.902	1.535	1.675	1.876
2012	2.112	1.702	1.955	2.043
2013	2.454	1.944	2.161	2.362
September	2.390	2.203	2.270	2.230
October	2.210	2.160	2.190	2.203
November	2.340	2.240	2.300	2.325
December	2.380	2.310	2.350	2.342
2014				
January	2.440	2,330	2,380	2,430
February	2.420	2.330	2.380	2.330
March	2.360	2.260	2.330	2.260
April(2)	2.280	2.168	2.232	2.231

Source: Central Bank of Brazil

- (1) For each year, the average of the month-end exchange rates for the relevant year. For each month, the average daily exchange rate for the relevant month.
(2) Through April 25, 2014.

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

We wish to caution readers that the following important factors, and those important factors described in other reports submitted to, or filed with, the Securities and Exchange Commission (“SEC”) among other factors, could affect our actual results and could cause our actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. In particular, as we are a non-U.S. company, there are risks associated with investing in our ADSs that are not typical for investments in the shares of U.S. companies. Prior to making an investment decision, you should carefully consider all of the information contained in this document, including the following risk factors.

Risks Relating to the Combination of LAN and TAM

LATAM Airlines Group may be unable to fully realize the anticipated benefits of the combination of LAN and TAM

In June 2012, LAN and TAM completed its business combination, which has required significant efforts in order to integrate both business practices and operations. The success of the combination will depend, in part, on the ability of LATAM Airlines Group to realize anticipated revenue synergies, cost savings and growth opportunities by combining the businesses of LAN and TAM. There is a risk, however, that LATAM Airlines Group may not be able to combine the businesses of LAN and TAM in a manner that permits LATAM Airlines Group to realize these revenue synergies, cost savings and growth opportunities in the time, manner or amounts it expects. Potential difficulties include the increased complexity associated with managing both companies, the need to integrate procedures and systems, potential loss of key employees, coordination, and potential unknown liabilities and one-time costs related to the business combination. In addition, the fact that LAN and TAM will continue to operate with different airline certificates may introduce other complexities in terms of the diversion of management’s attention; and each company’s standards, controls and procedures,

If LATAM fails to achieve the planned restructuring effectively within the time frame that is currently contemplated or to the extent that is currently planned, or if for any other reason the expected revenue synergies, cost savings and growth opportunities fail to materialize, the combination may not produce the benefits LATAM anticipates. As of December 2013 the merged company has established numerous initiatives in order to integrate both companies and generate the estimated synergies, but we cannot assure you that these initiatives will be successful.

LATAM has incurred and will continue to incur significant costs and expenses in connection with the combination and integration of the business operations of LAN and TAM

LATAM has incurred and will continue to incur expenses in connection with the combination and the integration of LAN and TAM. In 2012 and 2013, LATAM incurred US\$59.2 and US\$56.0 million, respectively, of non-recurring expenses in connection with the business combination and integration of LAN and TAM, principally relating to consulting fees and travel expenses. These costs and expenses included financial advisory, legal, accounting, consulting and other advisory fees and expenses, reorganization and restructuring costs, severance/employee benefit-related expenses, filing fees, printing expenses and other related charges. There are also a large number of processes, policies, procedures, operations, technologies and systems that must be integrated in connection with the combination. Any delay in the integration of the business operations of LAN and TAM or factors beyond LATAM’s control could affect the total amount or the timing of the integration and implementation expenses.

If additional unanticipated significant costs are incurred in connection with the combination or integration of these businesses, such costs and expenses could, particularly in the near term, exceed the savings that LATAM expects to achieve from the elimination of duplicative expenses and the realization of economies of scale, other efficiencies and cost savings. Although LATAM expects to achieve savings and economies of scale sufficient to offset these integration and implementation costs over time, this net benefit may not be achieved in the near term or at all.

LATAM does not control the voting shares or board of directors of TAM

Following the combination of LAN and TAM:

- Holdco I owns 100% of the TAM common shares previously outstanding;

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- TEP Chile S.A., a Chilean company that is wholly owned by the TAM Controlling Shareholders (“TEP Chile”), owns approximately 80.58% of the outstanding Holdco I voting shares and LAN owns the remaining outstanding Holdco I voting shares, due to a Brazilian restriction that prohibits non-Brazilians from owning more than 20% of a Brazilian airline;
- LATAM owns 100% of the outstanding Holdco I non-voting shares, which entitles it to essentially all of the economic rights in respect of the TAM common shares held by Holdco I; and
- LATAM owns 100% of the TAM preferred shares previously outstanding.

As a result of this ownership structure:

- TEP Chile, by virtue of its control of the voting shares of Holdco I and the boards of directors of each of Holdco I, TAM and each airline subsidiary of TAM, retain voting and board control of TAM and each airline subsidiary of TAM; and
- LATAM, by virtue of its ownership of all of the non-voting shares of Holdco I and TAM preferred shares, is entitled to all of the economic rights in TAM.

LATAM and TEP Chile and other parties have entered into shareholders’ agreements that establish agreements and restrictions relating to corporate governance in an attempt to balance LATAM’s interests, as the owner of substantially all of the economic rights in TAM, and the TAM controlling shareholders, as the continuing controlling shareholders of TAM under Brazilian law. See “Item 7. Controlling Shareholders and Related Party Transactions A. Major Shareholders—Shareholders’ Agreements.” These shareholders’ agreements prohibit the taking of certain specified material corporate actions and decisions without prior supermajority approval of the shareholders (5/6 of the total of the shareholders) and/or the board of directors of Holdco I or TAM. However, no assurances can be given that LATAM and the TAM controlling shareholders will be able to reach an agreement with respect to such supermajority voting or board matters in the future and if they do not, the businesses, financial condition, results of operations and prospects of the combined companies could be adversely affected. In addition, pursuant to these shareholder agreements, neither Holdco I, TAM nor TAM’s subsidiaries may take certain actions without the prior approval of a supermajority of the board of directors and/or the shareholders of Holdco I or TAM. As a result of these supermajority requirements, these actions will effectively require the prior approval of both LATAM and TEP Chile (which is wholly owned by the TAM controlling shareholders). Actions requiring supermajority approval by the board of directors of Holdco I or TAM include, among others, entering into acquisitions or business collaborations, amending or approving budgets, business plans, financial statements and accounting policies, incurring indebtedness, encumbering assets, entering into certain agreements, making certain investments, modifying rights or claims, entering into settlements, appointing executives, creating security interests, issuing, redeeming or repurchasing securities and voting on matters as a shareholder of subsidiaries of TAM. Actions requiring supermajority shareholder approval of Holdco I or TAM include, among others, certain changes to the by-laws of Holdco I, TAM or TAM’s subsidiaries or any dissolution/liquidation, corporate reorganization, payment of dividends, issuance of securities, disposal or encumbrance of certain assets, creation of securities interest or entering into guarantees and agreements with related parties.

Our assets include a significant amount of goodwill.

The assets of the LATAM Airlines Group included US\$3,728 million of goodwill as of December 31, 2013, US\$3,564 million of which results from the merger with TAM. Under IFRS, goodwill is subject to an annual impairment test and may be required to be tested more frequently if events or circumstances indicate a potential impairment. Any impairment could result in the recognition of a significant charge to earnings in LATAM’s statement of income, which could materially and adversely impact our consolidated results for the period in which the impairment occurs.

The financial results of LATAM are more exposed to foreign currency fluctuations following the combination with TAM.

The financial results of LATAM are more exposed to currency exchange rate fluctuations as a result of the combination with TAM and the resulting increase in the proportion of its assets, liabilities and earnings that are denominated in currencies other than U.S. dollars.

LATAM prepares and presents its consolidated financial statements in U.S. dollars, which was the functional and presentation currency of LAN. The combination of LAN and TAM has significantly increases the proportion of LATAM’s consolidated net assets, revenues and income in non-U.S. dollar currencies, primarily Chilean *pesos* and Brazilian *reais*. In particular, the majority of TAM’s revenues are denominated in Brazilian reais, while a significant portion of its operating expenses are denominated in, or linked to, the U.S. dollar or other foreign currencies. The consolidated financial condition and results of operations of LATAM will therefore be more sensitive to movements in exchange rates between the U.S. dollar and other currencies. A depreciation of non-U.S. dollar currencies relative to the U.S. dollar could have an adverse impact on the financial condition, results of operations and prospects of LATAM.

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Following the combination, Fitch Ratings Inc. (“Fitch”) lowered LATAM’s credit rating. This downgrade, or further downgrades from securities rating agencies, could have a negative effect on LAN’s business

Prior to the combination, TAM had a lower credit rating and was more leveraged than LAN. Following the combination, Fitch Ratings Inc. downgraded LATAM Airlines Group S.A.’s long-term foreign currency issuer default rating from BBB to BB+, which is below investment grade. Later, on May 3, 2013, Fitch downgraded LATAM’s rating again, to BB, citing the Company’s operational performance and the deterioration of its capital structure. The Fitch downgrade and any further securities rating agencies downgrades could increase LATAM’s financing costs and affect LATAM’s ability to finance future fleet acquisitions and could adversely affect the financial condition, results of operations and prospects of the combined companies.

It may take time to combine the frequent flyer programs of LAN and TAM

LAN and TAM each previously ran their own frequent flyer programs. While LATAM has integrated these programs so that passengers can use frequent flyer miles earned with either LAN or TAM interchangeably, there is no guarantee that full integration will be completed in the near term or at all. Even if the integration occurs, the successful integration of these programs will involve some time and expense. Until LATAM effectively combines these programs, passengers may prefer frequent flyer programs offered by other airlines, which may adversely affect our business.

TAM has left the Star Alliance and become a member of the oneworld® airline alliance. This change could adversely affect LATAM’s business if clients prefer other alliances.

LATAM announced on March 5, 2013 that TAM will leave Star Alliance and become a member of oneworld® airline alliance. On October 1, 2013 LATAM ratified oneworld® as the global alliance for its airline members. With this decision, TAM left Star Alliance on March 30, 2014 and joined oneworld® on March 31, 2014, complying with the requirement imposed on LATAM by the Chilean and Brazilian antitrust authorities in connection with the combination with TAM. The withdrawal from the Star Alliance may impede LATAM from providing customers with exactly the same benefits previously provided by LAN and TAM, such as the same travel destinations, combined reservation system, itinerary flexibility, among others. As a result, passengers may prefer alliances offered by LATAM’s competitors, and consequently decide to fly with them, which may adversely affect LATAM’s business.

Risks Related to our Operations and the Airline Industry

Our performance is heavily dependent on economic conditions in the countries in which we do business and negative economic conditions in those countries could have an adverse impact on our business.

Passenger and cargo demand is heavily cyclical and highly dependent on global and local economic growth, economic expectations and foreign exchange rate variations, among other things. In the past, our business has been negatively affected by global economic recessionary conditions, weak economic growth in Chile, recession in Argentina and poor economic performance in certain emerging market countries in which we operate. The occurrence of similar events in the future could adversely affect our business. In fact, starting as of late 2008, and during 2009, many of the countries we serve, including Chile, experienced economic slowdowns or recessions, which translated into a substantial weakening of passenger and cargo demand. We plan to continue to expand our operations based in Latin America and our performance will, therefore, continue to depend heavily on economic conditions in the region. Any of the following factors could adversely affect our business, financial condition and results of operations in the countries in which we operate:

- changes in economic or other governmental policies;
- weak economic performance, including, but not limited to, low economic growth, low consumption and/or investment rates, and increased inflation rates; or
- other political or economic developments over which we have no control.

No assurance can be given that capacity reductions or other steps we may take in response to weakened demand will be adequate to offset any future reduction in our cargo and/or air travel demand. Sustained weakened demand may adversely impact our revenues, results of operations or financial condition.

Our business is highly regulated and changes in the regulatory environmental in which we operate may adversely affect our business and results of operations.

Our business is highly regulated and depends substantially upon the regulatory environment in the countries in which we operate or intend to operate. For example, price controls on fares may limit our ability to effectively apply customer segmentation profit maximization techniques (“passenger revenue management”) (management techniques utilizing passenger demand forecasting and fare mix optimization techniques to maximize profit for an airline) and adjust prices to reflect cost pressures. High levels of government regulation may limit the scope of our operations and our growth plans, especially in the event of deterioration of the relations between the countries in which we operate or the public perception of foreign companies in local markets. Accordingly, regulatory issues could adversely affect our business and results of operations.

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Our business, financial condition and results of operations could be adversely affected if we or certain aviation authorities in the countries served by our airlines fail to maintain the required foreign and domestic governmental authorizations. In order to maintain the necessary authorizations issued by the corresponding local authorities of the countries in which we operate, we must continue to comply with applicable statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future.

We depend on strategic alliances or commercial relationships in many of the countries in which we operate and our business may suffer if any of our strategic alliances or commercial relationships terminates.

In many of the jurisdictions in which we operate, we have found it in our interest to maintain a number of alliances and other commercial relationships. These alliances or commercial relationships allow us to enhance our network and, in some cases, to offer our customers services that we could not otherwise offer. If any of our strategic alliances or commercial relationships and, in particular, with American Airlines, Iberia, Qantas or **oneworld**[®], Japan Airlines, Korean Airlines, Cathay Pacific, Alaska Airlines deteriorates, or any of these agreements are terminated, our business, financial condition and results of operations could be negatively affected.

Our business and results of operation may suffer if we fail to obtain and maintain routes, suitable airport access, slots and other operating permits.

Our business depends upon our access to key routes and airports. Our operations could be constrained by any delay or inability to gain access to key routes or airports, including:

- limitations on our ability to process more passengers;
- the imposition of flight capacity restrictions;
- the inability to secure or maintain route rights in local markets or under bilateral agreements; or
- the inability to maintain our existing slots and obtain additional slots.

We operate numerous international routes, subject to bilateral agreements, and also internal flights within Chile, Peru, Brazil, Argentina, Ecuador, Colombia and other countries, subject to local route and airport access approvals. Bilateral aviation agreements as well as local aviation approvals frequently involve political and other considerations outside of our control. See “Item 4. Information on the Company—B. Business Overview—Regulation.”

There can be no assurance that existing bilateral agreements between the countries in which our companies are based and permits from foreign governments will continue. A modification, suspension or revocation of one or more bilateral agreements could have a material adverse effect on our business, financial condition and results of operations. The suspension of our permission to operate in certain airports or destinations or the imposition of other sanctions could also have a material adverse effect. A change in the administration of current laws and regulations or the adoption of new laws and regulations in any of the countries in which we operate that restricts our route, airport or other access may have a material adverse effect on our business, financial condition and results of operations.

If we are unable to obtain favorable take-off and landing authorizations at certain high-density airports, our business, financial condition and results of operations could be adversely affected. There can be no assurance that we will be able to obtain all requested authorizations and slots in the future because, among other factors, government policies regulating the distribution of the authorizations and slots are subject to change.

A failure to successfully implement our growth strategy would harm our business and the market value of the ADSs and our common shares.

Our growth strategy involves increasing the frequency of flights to the markets we currently serve and expanding our service to new markets. In order to carry out this strategy, we must be able to identify the appropriate geographic markets upon which to focus and to gain suitable airport access and route approval in these markets. There can be no assurance that the new markets we enter or in which we are seeking to expand our operations will provide passenger and cargo traffic that is sufficient to make our operations in those new markets profitable.

The expansion of our business will also require additional skilled personnel, equipment and facilities. An inability to hire and retain skilled personnel or secure the required equipment and facilities efficiently and cost-effectively may adversely affect our ability to execute our growth strategy. Expansion of our markets and flight frequencies may also strain our existing management resources and operational, financial and management information systems to the point that they may no longer be adequate to support our operations, requiring us to make significant expenditures in these areas.

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Our business may be adversely affected by a downturn in the airline industry caused by exogenous events that affect travel behavior or increase costs, such as outbreak of disease, weather conditions and natural disasters, war or terrorist attacks.

Demand for air transportation may be adversely impacted by exogenous events, such as adverse weather conditions and natural disasters, epidemics, terrorist attacks, war or political and social instability. Situations such as these in one or more of the markets in which we operate could have a material impact on our business, financial condition and results of operations. Furthermore, these types of situations could have a prolonged effect on air transportation demand and on certain cost items.

Revenues for airlines depend on the number of passengers carried, the fare paid by each passenger and service factors, such as the timeliness of flight departures and arrivals. During periods of fog, ice, low temperatures, storms or other adverse weather conditions, some or all of our flights may be cancelled or significantly delayed, reducing our revenues. For example, in January 2010, extreme floods affected the city of Cuzco in Peru, causing important human and material damage and severely affecting this tourist destination. This affected our operations, which led us to decrease our capacity in order to improve load factors. We estimated the net impact of decreased passenger operations due to this weather event to have been approximately US\$15.0 million. In addition, on February 27, 2010, an earthquake struck Chile causing major damages mainly in the southern regions of the country. This earthquake damaged the terminal building at the Santiago International Airport causing the suspension of LAN's passenger services to and from Chile until March 1, 2010 and reduced passenger operations until March 28, 2010. We estimated the net impact of decreased passenger operations due to the earthquake to have been approximately US\$30 million. In 2011, the Company was also impacted by the presence of volcanic ash on certain routes in Chile and other destinations, which we estimate resulted in US\$36.6 million in losses, in addition to forgone revenue.

As for year 2014, the World Cup in Brazil could affect adversely our normal operations. Increasing traffic to Brazil during the month of the event will create operational challenges and could result in increased delays. In addition, during the month of the event, we expect a strong decrease in corporate traffic, although we expect this decrease to be offset by an increase in leisure traffic, the net effect on our revenues and yields could be negative. Our LATAM Airlines brand could be damaged if we do not fully comply with our passenger's requirements during that month or if infrastructure deficits at some of Brazil's main airports that hinder our normal operations are associated with the Company.

Terrorist attacks may also have a severe adverse impact on the airline industry. For example, the terrorist attacks in the United States on September 11, 2001 substantially affected the airline industry, particularly foreign air carriers operating international service to and from the United States. Throughout South America, passenger traffic also decreased substantially, although the decrease was less severe than that in the United States. The airline industry experienced increased costs following the September 11, 2001 terrorist attacks. Airlines have been required to adopt additional security measures and may be required to comply with more rigorous security guidelines in the future.

In addition, fuel prices and supplies, which constitute a significant cost for us, may increase as a result of any future terrorist attacks, a general increase in hostilities (for example, the current conflict between Russia and Ukraine) or a reduction in output of fuel, voluntary or otherwise, by oil-producing countries. Such increases may result in both higher airline ticket prices and decreased demand for air travel generally, which could have an adverse effect on our revenues and results of operations.

A significant portion of our cargo revenues comes from relatively few product types and may be impacted by events affecting their production or trade.

Our cargo demand, especially from Latin American exporters, is concentrated in a small number of product categories, such as exports of fish, sea products and produce from Chile and Peru, and exports of fresh flowers from Ecuador and Colombia. Events that negatively affect the production or trade of these goods may adversely affect the volume of goods that we transport and may have a significant impact on our results of operations. Some of our cargo products are sensitive to foreign exchange rates and, therefore, traffic volumes could be impacted by the appreciation or depreciation of local currencies.

Our operations are subject to fluctuations in the supply and cost of jet fuel, which could negatively impact our business.

Higher jet fuel prices or a shortage in the supply of fuel could cause a reduction in our scheduled service and could have a materially negative effect on our business, financial condition and results of operations. Jet fuel costs have historically accounted for a significant amount of our operating expenses, and accounted for approximately 35% of our operating expenses in 2013. Both the cost and availability of fuel are subject to many economic and political factors and events that we can neither control nor predict. We have entered into fuel hedging arrangements, but there can be no assurance that such arrangements will be adequate to protect us from a significant increase in fuel prices in the near future or in the long term. Also, while these hedging arrangements are designed to limit the effect of an increase in fuel prices, some of our hedging methods may also limit our ability to take advantage of any decrease in fuel prices. Although we have implemented measures to pass a portion of incremental fuel costs to our customers, our ability to lessen the impact of any increase using these types of mechanisms may be limited.

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We rely on maintaining a high daily aircraft utilization rate to increase our revenues, which makes us especially vulnerable to delays.

One of the key elements of our business strategy is to maintain a high daily aircraft utilization rate, which measures the number of flight hours we use our aircraft per day. High daily aircraft utilization allows us to maximize the amount of revenue we generate from our aircraft and is achieved, in part, by reducing turnaround times at airports and developing schedules that enable us to increase the average hours flown per day. Our rate of aircraft utilization could be adversely affected by a number of different factors that are beyond our control, including air traffic and airport congestion, adverse weather conditions and delays by third-party service providers relating to matters such as fueling and ground handling.

Furthermore, high aircraft utilization rates increase the risk that, if an aircraft falls behind schedule, it could remain behind schedule for up to two days. Such delays could result in a disruption in our operating performance, leading to customer dissatisfaction due to any resulting delays or missed connections.

We fly and depend upon Airbus and Boeing aircraft, and our business is at risk if we do not receive timely deliveries of aircraft, if aircraft from these companies becomes unavailable or if the public negatively perceives our aircraft.

As our fleet has grown, our reliance on Airbus and Boeing has also grown. As of January 31, 2014, we operated a fleet of 243 Airbus, 72 Boeing and 7 Dash aircraft. These risks include:

- our failure or inability to obtain Airbus or Boeing aircraft, parts or related support services on a timely basis because of high demand or other factors;
- the interruption of fleet service as a result of unscheduled or unanticipated maintenance requirements for these aircraft;
- the issuance by Chilean or other aviation authorities of other directives restricting or prohibiting the use of Airbus or Boeing aircraft, or requiring time-consuming inspections and maintenance;
- the adverse public perception of a manufacturer as a result of an accident or other negative publicity; or
- delays between the time we realize the need for new aircraft and the time it takes us to arrange for Airbus and Boeing or from a third-party provider to deliver this aircraft.

The occurrence of any one or more of these factors could restrict our ability to use aircraft to generate profits, respond to increased demands, or could otherwise limit our operations and adversely affect our business.

We have invested in new Boeing 787 “Dreamliner” aircraft.

In 2012, LATAM received the first three Boeing 787-8 Dreamliners, and became the first airline in the Americas (and one of the first in the world) to operate this modern and efficient aircraft. The incorporation of the Boeing 787-8 Dreamliners into our fleet is part of our strategic objective to incorporate new, modern and fuel efficient aircraft into our existing fleet.

During January 2013, two incidents occurred with Boeing 787 aircraft operated by Japan Airlines, involving a fire risk to the battery of the aircraft. By recommendation of the FAA, LATAM ceased operations of its three Dreamliner aircraft in January 2013. On April 19, 2013, the FAA approved a solution proposed by Boeing to address the battery problems, and subject to the implementation of this corrective solution and approval from safety regulators, LATAM and other airline groups were able to resume operations with Dreamliner aircraft. As of May 2013, LATAM resumed normal operations of the Boeing 787. However, new problems could be discovered that adversely affect the our ability to use the Boeing 787 in our operations.

Losses and liabilities in the event of an accident involving one or more of our aircraft could materially affect our business.

We are exposed to potential catastrophic losses in the event of an aircraft accident, terrorist incident or any other similar event. There can be no assurance that, as a result of an aircraft accident or significant incident:

- we will not need to increase our insurance coverage;
- our insurance premiums will not increase significantly;
- our insurance coverage will fully cover all of our liability; or
- we will not be forced to bear substantial losses.

Substantial claims resulting from an accident or significant incident in excess of our related insurance coverage could have a material adverse effect on our business, financial condition and results of operations. Moreover, any aircraft accident, even if fully insured, could cause the negative public perception that our aircraft are less safe or reliable than those operated by other airlines, which could have a material adverse effect on our business, financial condition and results of operations.

Insurance premiums may also increase due to an accident or incident affecting one of our airline affiliates or alliance partners or affecting other airlines.

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High levels of competition in the airline industry may adversely affect our level of operations.

Our business, financial condition and results of operations could be adversely affected by high levels of competition within the industry, particularly the entrance of new competitors into the markets in which we operate. Airlines compete primarily over fare levels, frequency and dependability of service, brand recognition, passenger amenities (such as frequent flyer programs) and the availability and convenience of other passenger or cargo services. New and existing airlines could enter our markets and compete with us on any of these bases, including by offering lower prices, more attractive services or increasing their route capacities in an effort to gain greater market share. Competing carriers include investor-owned, government-subsidized and national flag carriers of foreign countries as well as low-cost carriers offering discounted fares. The U.S.-Chile and other open skies agreements may subject us to further competition from international carriers. In addition, the Brazilian Government is considering raising the regulatory limitation on foreign capital investments in the Brazilian airline industry from 20% to 49% of voting capital, which could lower barriers to entry and increase competition in this market.

In addition to traditional competition among airline companies, we face competition from companies that provide ground transportation, especially in our domestic cargo and passenger businesses, as well as sea transportation for our cargo business. Competition could reduce our passenger traffic and cargo demand, forcing us to reduce our fare levels, which could have a material adverse effect on our revenues and level of operations.

Chile may open its domestic aviation industry to foreign airlines without restrictions, which may change the competitive landscape of the domestic Chilean aviation sector and affect our business and results of operations

Currently, Chilean laws and regulations permit foreign airlines to operate domestic flights in Chile. Nevertheless, the rules currently prevent foreign-based carriers from flying within Chile without setting up a Chilean subsidiary first. There are currently no foreign airlines participating in the Chilean domestic market. However, on January 18, 2012, both the Secretary of Transportation and the Secretary of Economics of Chile announced steps towards unilaterally opening the Chilean domestic skies in the near term. Chilean Domestic Unilateral Open Skies Rule may change the competitive landscape of the Domestic Chilean Aviation Sector, as it will be easier for foreign companies in the future to freely operate in the Chilean territory, which may subject us to further competition. Competition from international carriers in the Chilean market may affect the competitive dynamics of our industry by reducing our passenger traffic and cargo demands, forcing us to reduce our fare levels, which could have a material adverse effect on our revenues and level of operations.

A recent proposal by the Brazilian government would result in the reallocation of certain takeoff and landing slots at Brazilian airports; if this proposal is enacted in its current form, it would reduce our access to important airport infrastructure and adversely affect our results of operations.

The Brazilian government has proposed, but has not yet implemented, regulations to reallocate existing takeoff and landing slots at major airports in Brazil from TAM and our competitor, GOL, to smaller airlines and new market entrants, in order to stimulate small airline access to airport infrastructure. These proposed regulations also focus on operational efficiency, and require airlines to meet specified punctuality and frequency benchmarks. We rely on access to takeoff and landing slots at the Guarulhos and Congonhas airports in Sao Paulo, as well as other major airports in Rio de Janeiro and throughout Brazil, to conduct our Brazilian passenger operations. The reallocation of any of our slots to other market participants could adversely affect our operations, particularly at the Congonhas airport where we currently utilize almost half of the existing slots to service our scheduled capacity.

Some of our competitors may receive external support which could negatively impact our competitive position.

Some of our competitors may receive support from external sources, such as their national governments, which may be unavailable to us. Support may include, among others, subsidies, financial aid or tax waivers. This support could place us at a competitive disadvantage and adversely affect our operations and financial performance.

If we are unable to incorporate leased aircraft into our fleet at acceptable rates and terms in the future, our business could be adversely affected.

A large portion of our aircraft is subject to long-term operating leases. Our operating leases typically run from three to twelve years from the date of delivery. We may face more competition for, or a limited supply of, leased aircraft, making it difficult for us to negotiate on competitive terms upon expiration of our current operating leases or to lease additional capacity required for our targeted level of operations. If we are forced to pay higher lease rates in the future to maintain our capacity and the number of aircraft in our fleet, our profitability could be adversely affected.

Our business may be adversely affected if we are unable to meet our significant future financing requirements.

We require significant amounts of financing to meet our aircraft capital requirements and may require additional financing to fund our other business needs. We cannot guarantee that we will have access to or be able to arrange for financing in the future on favorable terms. If we are unable to obtain financing for a significant portion of our capital requirements, our ability to acquire new aircraft or to expand operations could be impaired and our business negatively affected.

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Our business may be adversely affected by our high degree of debt and aircraft lease obligations compared to our equity capital.

We have a high degree of debt and payment obligations under our aircraft operating leases compared to equity capital. In order to finance our debt, we depend in part on our cash flow from operations. In the combination of LAN and TAM, the LATAM Airlines Group assumed debt and payment obligations, including under aircraft lease obligations, of TAM, and as a result we have significantly increased our leverage. We cannot assure you that in the future we will be able to meet our payment obligations. In addition, the majority of our property and equipment is subject to liens securing our indebtedness. In the event that we fail to make payments on the secured indebtedness, creditors' enforcement of liens could limit or end our ability to use the affected property and equipment to fulfill our operational needs and thus generate revenue.

Variations in interest rates may have adverse effects on our interest payments business, financial condition, results of operations and prospects and the trading price of our ADRs and BDRs and preferred shares.

We are exposed to the risk of interest rate variations, principally in relation to the U.S. dollar London Interbank Offer Rate ("LIBOR"), as well as the Long Term Interest Rate (Taxa de Juros de Longo Prazo, or TJLP), with respect to TAM's loans denominated in reais. Many of our operating and financial leases are denominated in U.S. dollars and bear interest at a floating rate. Following the combination of LAN and TAM, LATAM is more exposed to fluctuations of interest rates, as more than half of TAM's outstanding debt, principally, its financial leases, as well as its operating leases, bears interest at a floating rate. Approximately 30% of LATAM's outstanding debt as of December 31, 2013 bears interest at a floating rate. Out of this floating rate debt, 19% is hedged to a fixed rate using derivative instruments.

Volatility in LIBOR or the TJLP could increase our periodic interest and lease payments and have an adverse effect on our total financing costs. We may be unable to adequately adjust our prices to offset any increased financing costs, which would have an adverse effect on our revenues and our results of operations.

In addition, concerns have been expressed that some of the member banks surveyed by the British Bankers' Association (the "BBA") in connection with the calculation of LIBOR rates may have been under-reporting the interbank lending rates applicable to them in order to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may result from reporting higher interbank lending rates. Some member banks have admitted to under-reporting, and under-reporting may have resulted in LIBOR rates being artificially low. The BBA in June 2008 announced changes to the LIBOR rate-fixing process including tighter scrutiny of rates contributed by member banks into the rate-fixing mechanism and increasing the number of institutions surveyed to set LIBOR rates, and is continuing its consideration of ways to strengthen the oversight of the rate calculation process. On July 9, 2013, it was reported that NYSE Euronext had been awarded the contract to administer LIBOR beginning in 2014. It is not possible to predict the effect of any changes in the methods pursuant to which LIBOR is determined, the administration of LIBOR by NYSE Euronext and any other reforms to LIBOR that will be enacted in the United Kingdom and elsewhere. Uncertainty as to the nature of any potential changes in, or volatility in the calculation of, LIBOR may adversely affect our interest and lease payments for obligations which bear interest using LIBOR as a reference rate, including our fleet financing arrangements.

Increases in insurance costs and/or significant reductions in coverage could harm our financial condition and results of operations.

Major events affecting the aviation insurance industry (such as terrorist attacks, hijackings or airline crashes) may result in significant increases of the airlines' insurance premium or in significant decreases of insurance coverage, as occurred after the September 11, 2001 terrorist attacks. Increases in insurance costs and/or significant reductions in coverage could harm our financial condition and results of operations and increases the risk that we experience uncovered losses.

Problems with air traffic control systems or other technical failures could interrupt our operations and have a material adverse effect on our business.

Our operations, including our ability to deliver customer service, are dependent on the effective operation of our equipment, including our aircraft, maintenance systems and reservation systems. Our operations are also dependent on the effective operation of domestic and international air traffic control systems and the air traffic control infrastructure in the markets in which we operate. Equipment failures, personnel shortages, air traffic control problems and other factors that could interrupt operations could adversely affect our operations and financial results as well as our reputation.

Our financial success depends on the availability and performance of key personnel, who are not subject to non-competition restrictions.

Our success depends to a significant extent on the ability of our senior management team and key personnel to operate and manage our business effectively. Our employment agreements with key personnel do not contain any non-competition provisions applicable upon termination. Competition for highly qualified personnel is intense. If we lose any executive officer, senior manager or other key employee and are not able to obtain an adequate replacement, or if we are unable to attract and retain new qualified personnel, our business, financial condition and results of operations could be materially adversely affected.

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Our business may experience adverse consequences if we are unable to reach satisfactory collective bargaining agreements with our unionized employees.

As of December 31, 2013 approximately 31% of LATAM's employees, including administrative personnel, cabin crews, flight attendants, pilots and maintenance technicians are members of unions and have contracts and collective bargaining agreements which expire on a regular basis. Our business, financial condition and results of operations could be materially adversely affected by a failure to reach agreement with any labor union representing such employees or by an agreement with a labor union that contains terms that are not in line with our expectations or that prevent us from competing effectively with other airlines.

Collective action by employees could cause operating disruptions and negatively impact our business.

Certain employee groups such as pilots, flight attendants, mechanics and our airport personnel have highly specialized skills. As a consequence, actions by these groups, such as strikes, walk-outs or stoppages, could severely disrupt our operations and negatively impact our operating and financial performance, as well as how our customers perceive us.

Increases in our labor costs, which constitute a substantial portion of our total operating expenses, could directly impact our earnings.

Labor costs constitute a significant percentage of our total operating expenses (20% in 2013) and at times in our operating history we have experienced pressure to increase wages and benefits for our employees. A significant increase in our labor costs above the assumed costs could result in a material reduction in our earnings.

We may experience difficulty finding, training and retaining employees.

Our business is labor intensive. We employ a large number of pilots, flight attendants, maintenance technicians and other operating and administrative personnel. The airline industry has, from time to time, experienced a shortage of qualified personnel, specifically pilots and maintenance technicians. In addition, as is common with most of our competitors, we may, from time to time, face considerable turnover of our employees. Should the turnover of employees, particularly pilots and maintenance technicians, sharply increase, our training costs will be significantly higher. We cannot assure you that we will be able to recruit, train and retain the qualified employees that we need to continue our current operations or replace departing employees. A failure to hire and retain qualified employees at a reasonable cost could materially adversely affect our business, financial condition and results of operations.

The regulatory structure of Brazilian civil aviation is undergoing change and we have not yet been able to evaluate the results of this change on our business and results of operations.

Scheduled air transportation services are considered public utilities in Brazil and are subject to extensive regulation by the Brazilian government. Over recent years, the Brazilian regulatory authorities have taken a more proactive role in monitoring the development of the Brazilian civil aviation market. For example, in an effort to prevent excess supply, the authorities have established rigorous criteria for air transport companies to follow when creating new routes or increasing flight frequencies.

Operation of air transportation services, as well as airport infrastructure, is an exclusive right of the Brazilian government, which may choose to provide these services directly or through third parties by means of concessions or permits. TAM's concession to operate public air transportation was obtained on December 9, 1996 and renewed on December 9, 2011, and it is valid until December 9, 2021. We cannot assure you that we will be able to automatically renew TAM's concession when it expires. See "Item 4. Information on the Company—B. Business Overview—Regulation—Brazil—Aeronautical Regulation."

Additionally, our capacity to grow our Brazilian operations is dependent on receiving the necessary authorizations from ANAC and the Bureau of International Relations (Superintendência de Relações Internacionais, or "SRI"). We cannot assure you that we will obtain all necessary authorizations in the future and any failure to do so would require us to re-evaluate our strategies.

Our operations are subject to local, national and international environmental regulations; costs of compliance with applicable regulations, or the consequences of noncompliance, could adversely affect our results, our business or our reputation.

Our operations are covered by environmental regulations at local, national and international levels. These regulations cover, among other things, emissions to the atmosphere, disposal of solid waste and aqueous effluents, aircraft noise and other activities incident to our business. Future operations and financial results may vary as a result of such regulations. Compliance with these regulations and new or existing regulations that may be applicable to us in the future could increase our cost base and adversely affect our operations and financial results. In addition, failure to comply with these regulations could adversely affect us in a variety of ways, including adverse effects on our reputation.

The European Union ("EU") has adopted a directive under which the existing emissions trading scheme (the "ETS") in each EU member state is to be extended to airlines. This directive would require us to submit annual emission allowances in order to operate routes to and from EU member states. The ETS's application to flights was scheduled to begin in 2012, however, its implementation

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to international flights has been delayed by the EU and the EU did not collect allowances from airlines in 2013 (it was enforced only with respect to airlines that conducted intra-European flights during 2012). Although it is uncertain when and if the ETS will be implemented, it is increasingly likely that we will be required to participate in some form of an international aircraft emissions program in the future. Currently, we operate 6 routes to and from Europe, and service additional destinations through our code-share agreements. The cost of compliance with any international emissions program, including the ETS, is difficult to estimate; however, these costs could be significant and could require us to reduce our emissions, purchase allowances or otherwise pay for our emissions, which could have a significant impact on our operating costs or impact the frequency of our flights to and from EU member states.

Risks Related to Chile, Brazil and Other Emerging Market Countries in which we Operate

Developments in Latin American countries and other emerging market countries may adversely affect the Chilean economy, negatively impact our business and results of operations and cause the market price of our common shares and ADSs to decrease.

We conduct a significant portion of our operations in emerging market countries, particularly in Latin America. As a result, economic and political developments in these countries, including future economic crises and political instability, could impact the Chilean economy or the market value of our securities and have a material adverse effect on our business, financial condition and results of operations. Beginning late 2008, and continuing during 2009, many of the countries we serve, including Chile, experienced economic slowdowns or recessions, which resulted in a substantial weakening of demand. Although economic conditions in other emerging market countries may differ significantly from economic conditions in Chile, we cannot assure that events in other countries, particularly other emerging market countries, will not adversely affect the market value of, or market for, our common shares or ADSs.

Changes in the Chilean corporate tax rate or tax regime could adversely affect our financial results.

On December 2013, Ms. Bachelet won the Chilean Presidential elections with a healthy parliamentary majority. Ms Bachelet's campaign proposed a raise in the Chilean corporate tax, which is currently at 20%. Such an increase, if implemented, would adversely affect the tax provision for Chilean companies, including LATAM, and would also require an adjustment in deferred taxes to reflect the higher tax rate. This change, as well as any other change in the Chilean tax regime, could adversely affect the financial results of the Company.

Fluctuations in the value of the Chilean peso, Brazilian real and other currencies in the countries in which we operate may adversely affect our revenues and profitability.

We operate in numerous countries and face the risk of variation in foreign currency exchange rates against the U.S. dollar or between the currencies of these various countries. Changes in the exchange rate between the Chilean peso and the U.S. dollar or other currencies in the countries in which we operate could adversely affect our business, financial condition and results of operations. Approximately 75% of our indebtedness at December 31, 2013 was denominated in U.S. dollars, and 42% of our revenues and 60% of our operating expenses in 2013 were denominated in currencies other than the U.S. dollar, mainly the Chilean peso and the Brazilian real. If the value of the peso, or of other currencies in which revenues are denominated, declines against the U.S. dollar, we will need more pesos or other local currency to repay the same amount of U.S. dollars. The Chilean peso has experienced volatility in recent years, including an average nominal appreciation of 5.3% against the U.S. dollar in 2011, an average nominal depreciation of 0.7% against the U.S. dollar in 2012 and an average nominal depreciation of 1.9% in 2013.

Following the combination of LAN and TAM, our exposure to the Brazilian real has increased, as a significant proportion of TAM's revenues are denominated in reais. The Brazilian real has also experienced volatility and depreciated frequently over the past decade, including appreciation of 25.5% and 4.3% against the U.S. dollar in 2009 and 2010, respectively, a depreciation of 12.6% against the U.S. dollar in 2011, a depreciation of 16.7% in 2012 and a depreciation of 10.4% in 2013. The exchange rate of the Chilean peso, Brazilian real and other currencies against the U.S. dollar may fluctuate significantly in the future. Changes in Chilean, Brazilian and other governmental economic policies affecting foreign exchange rates could also adversely affect our business, financial condition, results of operations and the return to our shareholders on their common shares or ADSs.

Exchange controls in Venezuela delay our ability to repatriate cash generated from operations in Venezuela. They also increase our exposure to exchange rate losses due to potential devaluations of the Venezuelan bolivar *vis à vis* the U.S. dollar during the period of time between the time we are paid in Venezuelan bolivares and the time we are able to repatriate such revenues in U.S. dollars. See "Item 5. Operating and Financial Review and Prospects A. Operating Results —LATAM's Financial Results Discussion: Year ended December 31, 2012 (actual) compared to year ended December 31, 2011 (actual)." As of December 31, 2013, the devaluation of the Venezuelan bolivar had a cash impact of US\$11.0 million on our results.

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The Brazilian government has exercised, and may continue to exercise, significant influence over the Brazilian economy, which may have an adverse impact on our business, financial condition and results of operations.

The Brazilian economy has been characterized by the significant involvement of the Brazilian government, which often changes monetary, credit, fiscal and other policies to influence Brazil's economy. The Brazilian government's actions to control inflation and implement other policies have involved wage and price controls, depreciation of the real, controls over remittance of funds abroad, intervention by the Central Bank to affect base interest rates and other measures. We have no control over, and cannot predict what measures or policies the Brazilian government may take in the future. Following the combination of LAN and TAM, our operations in Brazil have increased significantly. As a result, our business, financial condition, results of operations and prospects, and the trading price of our common shares and ADSs, may be adversely affected by changes in Brazilian governmental policies relating to Brazilian economic growth, inflation, interest rates, exchange control policies, fiscal policy and changes in tax law, liquidity of domestic capital and lending markets, government control of oil production activities and oil refinement and other general economic factors.

We are not required to disclose as much information to investors as a U.S. issuer is required to disclose and, as a result, you may receive less information about us than you would receive from a comparable U.S. company.

The corporate disclosure requirements that apply to us may not be equivalent to the disclosure requirements that apply to a U.S. company and, as a result, you may receive less information about us than you would receive from a comparable U.S. company. We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The disclosure requirements applicable to foreign issuers under the Exchange Act are more limited than the disclosure requirements applicable to U.S. issuers. Publicly available information about issuers of securities listed on Chilean stock exchanges also provides less detail in certain respects than the information regularly published by listed companies in the United States or in certain other countries. Furthermore, there is a lower level of regulation of the Chilean securities markets and of the activities of investors in such markets as compared with the level of regulation of the securities markets in the United States and in certain other developed countries.

Risks Related to our Common Shares and ADSs

Our controlling shareholders may have interests that differ from those of our other shareholders.

We have two groups of major shareholders—the Cueto Group (the “LATAM Controlling Shareholders”) and the Amaro Group (the “TAM Controlling Shareholders”). As of January 31, 2014, the LATAM Controlling Shareholders, in the aggregate, beneficially owned 25.5% of our voting common shares, and the TAM Controlling Shareholders, in the aggregate, beneficially owned 12.0% of our voting common shares. The LATAM Controlling Shareholders are in a position to elect three of the nine members of our board of directors and are in a position to direct our management. In addition, the LATAM Controlling Shareholders have entered into a shareholders agreement with the TAM Controlling Shareholders, pursuant to which these controlling shareholders have agreed to vote together to elect individuals that the TAM Controlling Shareholders nominate to our board of directors. See “Item 7. Controlling Shareholders and Related Party Transactions—A. Major Shareholders.”

Under the terms of the deposit agreement governing the ADSs, if holders of ADSs do not provide JP Morgan Chase Bank, N.A., in its capacity as depository for the ADSs, with timely instructions on the voting of the common shares underlying their ADRs, the depository will be deemed to have been instructed to give a person designated by the board of directors the discretionary right to vote those common shares. The person designated by the board of directors to exercise this discretionary voting right may have interests that are aligned with our controlling shareholders, which may differ from those of our other shareholders. Historically, our board of directors has designated its chairman, who currently is Mauricio Amaro, to serve in this role.

Trading of our ADSs and common shares in the securities markets is limited and could experience further illiquidity and price volatility.

Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. In addition, Chilean securities markets may be materially affected by developments in other emerging markets, particularly other countries in Latin America. Accordingly, although you are entitled to withdraw the common shares underlying the ADSs from the depository at any time, your ability to sell the common shares underlying ADSs in the amount and at the price and time that you wish to do so may be substantially limited. This limited trading market may also increase the price volatility of the ADSs or the common shares underlying the ADSs.

Holders of ADSs may be adversely affected by currency devaluations and foreign exchange fluctuations.

If the Chilean peso exchange rate falls relative to the U.S. dollar, the value of the ADSs and any distributions made thereon from the depository could be adversely affected. Cash distributions made in respect of the ADSs are received by the depository (represented by the custodian bank in Chile) in pesos, converted by the custodian bank into U.S. dollars at the then prevailing exchange rate and distributed by the depository to the holders of the ADRs evidencing those ADSs. In addition, the depository will incur foreign currency conversion costs (to be borne by the holders of the ADRs) in connection with the foreign currency conversion and subsequent distribution of dividends or other payments with respect to the ADSs.

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Future changes in Chilean foreign investment controls and withholding taxes could negatively affect non-Chilean residents that invest in our shares.

Equity investments in Chile by non-Chilean residents have been subject in the past to various exchange control regulations that govern investment repatriation and earnings thereon. Although not currently in effect, regulations of the Central Bank of Chile have in the past required, and could again require, foreign investors acquiring securities in the secondary market in Chile to maintain a cash reserve or to pay a fee upon conversion of foreign currency to purchase such securities. Further, future changes in withholding taxes could negatively affect non-Chilean residents that invest in our shares.

When we established our ADS facility as part of our initial public offering in 1997, there were foreign exchange controls in Chile. At that time, in order to allow the depositary and investors to be able to enter into foreign exchange transactions to repatriate from Chile amounts they received in connection with the deposited shares of common stock (including dividends and proceeds from the sale in Chile of the underlying shares of common stock and any rights with respect thereto), we entered into a foreign investment contract (the “Foreign Investment Contract”) with the Central Bank and the depositary. The Foreign Investment Contract guaranteed ADS investors and the depositary access to the Formal Exchange Market to convert amounts from Chilean pesos into U.S. dollars and to repatriate such amounts.

In 2001, a new Compendium of Foreign Exchange Regulations (the “New Compendium”) removed exchange controls and many other barriers to investment. However, even though there are no longer foreign exchange controls in Chile, all foreign investment contracts (including the Foreign Investment Contract), continue to remain in full force.

We cannot assure you that additional Chilean restrictions applicable to the holders of ADRs, the disposition of the common shares underlying ADSs or the repatriation of the proceeds from an acquisition, a disposition or a dividend payment, will not be imposed or required in the future, nor could we make an assessment as to the duration or impact, were any such restrictions to be imposed or required. For further information, see “Item 10. Additional Information—D. Exchange Controls—Foreign Investment and Exchange Controls in Chile.”

Our ADS holders may not be able to exercise preemptive rights in certain circumstances.

The Chilean Corporation Law provides that preemptive rights shall be granted to all shareholders whenever a company issues new shares for cash, giving such holders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. We will not be able to offer shares to holders of ADSs and shareholders located in the United States pursuant to the preemptive rights granted to shareholders in connection with any future issuance of shares unless a registration statement under the U.S. Securities Act of 1933, as amended, (the “Securities Act”), is effective with respect to such rights and shares, or an exemption from the registration requirements of the Securities Act is available. At the time of any rights offering, we will evaluate the potential costs and liabilities associated with any such registration statement in light of any indirect benefit to us of enabling U.S. holders of ADRs evidencing ADSs and shareholders located in the United States to exercise preemptive rights, as well as any other factors that may be considered appropriate at that time, and we will then make a decision as to whether we will file a registration statement. We cannot assure you that we will decide to file a registration statement or that such rights will be available to ADS holders and shareholders located in the United States.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

General

LATAM Airlines Group is a Chilean-based airline holding company formed by the merger of LAN of Chile and TAM of Brazil in 2012. Following the combination, LAN Airlines S.A. became “LATAM Airlines Group S.A.” and TAM continues to exist as a subsidiary of Holdco I and a subsidiary of LATAM. LATAM is primarily involved in the transportation of passengers and cargo and operates as one unified, merged business enterprise with two separate brands: LAN and TAM.

LATAM is a publicly traded corporation listed in the Santiago Stock Exchange (“SSE”), the Valparaiso Stock Exchange, the Chilean Electronic Exchange, the New York Stock Exchange (“NYSE”) and the Brazilian Stock Exchange (“Bovespa”).

LATAM’s history goes back to 1929, when the Chilean government founded LAN. LAN was a government-owned company from 1929 until its incorporation in 1983. The company began international service to Buenos Aires, Argentina in 1946, to the United States in 1958 and to Europe in 1970. In 1989, the Chilean government sold 51.0% of LAN’s capital stock to Chilean investors and to Scandinavian Airlines System. In 1994, controlling shareholders together with other major shareholders acquired 98.7% of LAN’s stocks, including the remaining stocks held by the Chilean government, in a series of transactions. In 1997, LAN was listed on the New York Stock Exchange, becoming the first Latin American airline to trade its ADRs on this financial market.

Over the past decade, LAN has significantly expanded its operations in Latin America, initiating services in Peru in 1999, in Argentina in 2005 and in Colombia in 2010 through the acquisition of Aerovias de Integracion Regional, Aires S.A. (dba “LAN Colombia”). The combination of LAN and TAM in June 2012 continued to expand the Company’s operations in Brazil, where TAM is a leading domestic and international airline, offering flights throughout Brazil with a strong domestic market share, international

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passenger services and significant cargo operations. TAM was founded in May 1997 (under the name CIT—Companhia de Investimentos em Transportes), for the purpose of participating in, managing and consolidating shareholdings in airlines. TAM began international services to Miami on 1998 and to Europe (Paris) in 1999. In September 2002, the name was changed to TAM S.A. and its shares began to be publicly traded on Bovespa in June 2005. In 2006 TAM was also listed in the NYSE.

Following the combination, LATAM’s airline holdings include LAN and its subsidiaries in Peru, Argentina, Colombia and Ecuador; TAM and its subsidiaries, including TAM Linhas Aereas, TAM Mercosur, TAM Airlines (Paraguay) and Multiplus; and LAN Cargo and its regional affiliates, which include ABSA (in Brazil), MasAir (in Mexico) and LANCO (in Colombia).

This association creates one of the largest airline groups in the world in terms of network connections, providing passenger transport services to approximately 134 destinations in 22 countries and cargo services to approximately 143 destinations in 27 countries, with a fleet of 339 aircraft and a set of bilateral alliances. In total, LATAM Airlines Group has more than 52,000 employees.

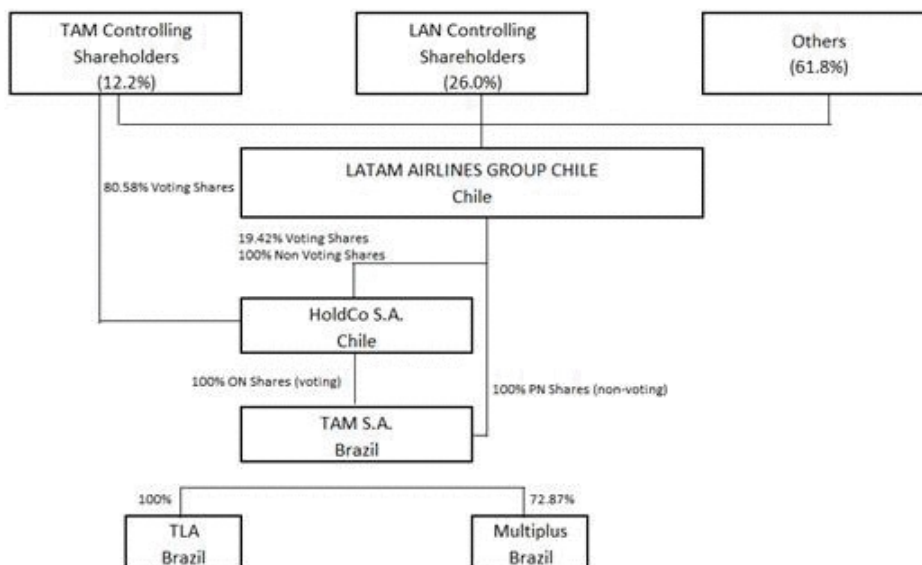
Our principal executive offices are located at Presidente Riesco 5711, 20th floor, Las Condes, Santiago, Chile and our general telephone number at this location is (56-2) 565-2525. We have designated LATAM Airlines Group as our agent in the United States, located at 970 South Dixie Highway, Miami, Florida 33156. Our website address is www.latamairlinesgroup.net. Information obtained on, or accessible through, this website is not incorporated by reference herein and shall not be considered part of this annual report. For more information contact Gisela Escobar, Director of Investor Relations at gisela.escobar@lan.com.

Combination of LAN and TAM

On June 22, 2012, LAN and TAM successfully completed an exchange offer resulting in the combination of the two businesses and the creation of LATAM Airlines Group.

Following the combination, on July 18, 2012, the registration of TAM as a publicly listed company in Brazil was cancelled and TAM was delisted from Bovespa.

In order to implement this combination, the TAM controlling shareholders formed four new *sociedades anónimas cerradas* with limited liability under the laws of Chile: TEP Chile, Holdco I, Holdco II and Sister Holdco. After the transaction was completed, Holdco II and Sister Holdco ceased to exist, and the ownership and organizational structure of LATAM Airlines Group as of December 31, 2013 was as follows:



TAM S.A., the holding company, has two significant operating subsidiaries, TAM Linhas Areas S.A. (“TLA”) and Multiplus S.A.

LATAM Airlines Group has begun integrating its business units and the transformation necessary to achieve the expected merger synergies, including the implementation of adjustments to its commercial practices and alignment of its international and domestic passenger operations. LATAM expects to fully achieve its estimated predicted merger synergies over the next four years; however, the Company’s short term results are expected to continue to reflect the transition costs as the business becomes fully integrated.

Capital Expenditures

For a description of our capital expenditures, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Expenditures.”

B. BUSINESS OVERVIEW

General

We are the leading passenger airline group in South America and the main air cargo operator in the region. We currently provide domestic and international passenger services in Chile, Peru, Ecuador, Argentina, Colombia and Brazil. We carry out our cargo operations through the use of belly space on our passenger flights and dedicated cargo operations using freighter aircraft through our cargo airlines in Chile, Brazil, Colombia and Mexico.

As of January 31, 2014, we serviced 16 destinations in Chile, 14 destinations in Peru, 6 destinations in Ecuador, 14 destinations in Argentina, 20 destinations in Colombia, 40 destinations in Brazil, 11 destinations in other Latin American countries and the Caribbean, 5 destinations in the United States, 5 destinations in Europe and 3 destinations in the South Pacific. In addition, as of January 31, 2014, through our various code-share agreements, we offer service to 78 additional destinations in North America, 34 additional destinations in Europe, 33 additional destinations in Latin America and the Caribbean (including Mexico), 4 destinations in Africa and 7 destinations in Asia. We provide cargo service to all our passenger destinations and to approximately 9 additional destinations served only by freighter aircraft. We also offer other services, such as ground handling, courier, logistics, and maintenance.

Competitive Strengths

Our strategy is to maintain LATAM Airlines Group as the leading airline in South America and to maximize shareholder value by increasing revenues and profitability through leveraging the operational efficiencies between our cargo and passenger divisions, thoroughly planning for our expansion efforts and carefully controlling costs. We plan to accomplish these goals by both focusing on our existing competitive strengths and implementing new strategies to fuel our future growth. We believe our most important competitive strengths are:

Leading Presence in South America

Through a successful regional expansion strategy, LATAM Airlines Group has become the leading international and domestic passenger airline group in South America, as well as the largest cargo operator in Latin America. We have domestic passenger operations in Chile, Brazil, Peru, Argentina, Colombia and Ecuador. These six countries are the most relevant passenger markets in South America (excluding Venezuela) and represent approximately 90% of the passengers in the region. We are also the largest operator of intra-regional routes, connecting the main cities in South America. Furthermore, through our significant presence in the largest hubs in South America—Lima and Sao Paulo—we are able to offer the best connectivity between South America and the rest of the world. Finally, the cargo companies of LATAM Airlines Group are the largest air cargo operators within, to and from Latin America, particularly in Brazil, where we consolidated our position during 2013 through combining the operations of TAM Cargo and ABSA, bringing together their highly complementary capacities and networks.

Geographically Diversified Revenue Base, including both Passenger and Cargo Operations

The operations of the LATAM Airlines Group are highly geographically diversified, including domestic operations in six different countries, as well as operations within South America and connecting South America with various international destinations. This provides resilience to external shocks that may occur in any particular market. Furthermore, we believe that one of our distinct competitive advantages is our ability to profitably integrate our scheduled passenger and cargo operations. We take into account potential cargo services when planning passenger routes, and also serve certain dedicated cargo routes using our freighter aircraft, when needed. By adding cargo revenues to our existing passenger service, we are able to increase the productivity of our assets and maximize revenue, which has historically covered fixed operating expenses per flight, lowered break-even load factors and enhanced per flight profitability. Additionally, this revenue diversification helps offset seasonal revenue fluctuations and reduces the volatility of our business over time. For the year ended December 31, 2013, passenger revenues accounted for 86% of total revenues and cargo revenues accounted for 14% of total revenues.

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“Low Cost” Business Model in Domestic Operations

We continue to utilize the business model LAN launched in 2007 to increase the efficiency of our domestic operations in Chile, Brazil, Peru, Ecuador, Colombia, and, subject to certain regulatory restrictions, in Argentina. In addition, we apply these initiatives on certain regional routes within Latin America and we are exploring opportunities to apply aspects of this model to the domestic passenger operations in Brazil. A key objective of this business model has been to increase the utilization of our fleet through modified itineraries that include more point-to-point and overnight flights and faster turnaround times. LATAM operates Airbus A320-Family Aircraft on all domestic and regional routes except some routes served by LAN Colombia. This fleet has increased efficiency and improved the margins of our short-haul operations. In addition, our modern fleet allows for lower unscheduled maintenance costs, lower fuel consumption, and operational and cost efficiencies achieved through operating fewer fleet types. Other key objectives of this business model include a reduction in sales and distribution costs through increased Internet penetration, reduced agency commissions, and increased self check-in service through web check-in and airport kiosks. We expect that these initiatives, together with simplifications in back-office and support functions, will continue to help us expand operations while controlling fixed costs, spurring a reduction in overhead costs per ASK. We pass on a portion of these operating efficiencies to consumers through fare reductions, which has stimulated additional demand and enhanced our overall profitability.

Modern Fleet and Optimized Fleet Strategy

The average age of our fleet is less than 7.0 years, making our fleet one of the most modern in Latin America and in the world. A younger fleet makes us more cost competitive because it reduces fuel consumption and maintenance costs, and enables us to enjoy a high degree of performance reliability. In addition, a modern and fuel efficient fleet reflects our strong commitment to the environment as new aircraft incorporate the industry’s latest technology, allowing for a substantial reduction in emissions, while also decreasing noise levels.

We optimize our fleet structure through the careful selection of modern aircraft models and staggered lease maturities. We select our aircraft based on their ability to effectively and efficiently serve our short- and long-haul flight needs, while still striving to minimize the number of different aircraft types we operate. For short-haul flights, we principally operate the Airbus A320-Family Aircraft. We are in the process of replacing the fleet used by LAN Colombia—which is our only domestic short-haul fleet that includes Boeing 737 and Dash 8-200 aircraft—with more modern and efficient Airbus A320 Family aircraft. This process of fleet change is expected to be finished during 2014 and will allow us to generate important cost savings. For long-haul passenger flights, we operate the Boeing 767-300, Airbus A330, Airbus A340-300 and Boeing 777 aircrafts, and, in October 2012, we started operations with the new modern and efficient Boeing 787 Dreamliner, becoming the first airline in the Americas to operate this brand new aircraft. This aircraft has new technologies in aerodynamics, materials and coatings which allows us to achieve important savings on fuel consumption and also achieve sustainable expansion of our fleet (as the Dreamliner produces up to 20% less CO₂ than similar aircraft) while incorporating modern technology to deliver the best travel experience for LATAM’s passengers. Our current fleet plan also includes the delivery starting in 2016 of Airbus A350 passenger aircraft, a new aircraft type that is expected to further improve the efficiency of the existing fleet.

Following the combination of LAN and TAM, we are focused on the rationalization of the LAN and TAM fleets and as we acquire additional aircraft, we will use the same configurations across our various airlines to unify our product offerings and reach higher levels of efficiency.

Efficient Processes

We continue to implement LEAN, a system that seeks to improve our processes by eliminating activities that do not add value (thus increasing the value of each activity and suppressing those that are superfluous), which reduces costs, improves efficiency and increases customer satisfaction. Internationally, the LEAN system has been recognized as a methodology for achieving excellence and continuous improvement. The adoption of this system constituted a redesigning of processes to enable us to solve problems that may occur during the execution of any process, such as aircraft maintenance. The foregoing renders the daily tasks and processes carried out within LATAM more efficient. Since the merger, we have achieved important fuel savings by implementing the LEAN fuel program in TAM’s operations, resulting in more than 7.4 million gallons saved in the year ended December 31, 2013. LEAN also supports the Company’s growth plans by streamlining the pilot training process, which results in more pilots trained during the year. By establishing clear roles, challenges and achievements, the implementation of LEAN has also had an important benefit in terms of employee motivation.

Strong Brands Teamed with Key Global Strategic Alliances

Following the business combination, both LAN and TAM continue to operate under their existing brands in the same way as they have done until previously. We believe that both the LAN and TAM brands are associated with superior service, aircraft and technologically-advanced operations, and are well recognized and respected in their respective markets. In 2013, we also focused on enhancing our corporate image as LATAM Airlines Group, which allows us to unify marketing efforts as we continue to expand in our existing and new markets.

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Our strategic global alliances and existing commercial agreements provide our customers with access to approximately 163 destinations worldwide, a combined reservations system, itinerary flexibility and various other benefits, which substantially enhance our competitive position within the Latin American market. In addition, in 2012, we entered into new bilateral agreements with strategic partners such as American Airlines which signed new agreements with LAN Colombia and TAM, and broadened our network of alliances in the combination with TAM, which maintains commercial agreements with a number of leading airlines. Lan Colombia joined **oneworld**[®] on October 1, 2013 and TAM joined **oneworld**[®] on March 31, 2014.

Track Record of Growth, Profitability and Access to Financing

We have historically managed our business to maintain financial flexibility and a strong balance sheet in order to accommodate our growth objectives while being able to respond to changing market conditions. Our financial flexibility has allowed us to secure large aircraft orders, including an important part of our current re-fleeting program, at attractive financing rates.

Recognized Loyalty Programs

TAM Fidelidade and LANPASS together represent the leading frequent flyer programs in South America, with strong participation rates and brand recognition by our customers. Customers in each program earn points or kilometers based on distance flown and class of ticket purchased, or by using other services of partners in the program. In addition, TAM's Multiplus program, which was launched in 2009, allows members to accumulate points not just by flying with TAM, but also by making purchases through credit cards or using services and products at partner establishments, and to redeem points for TAM flights and other products at partner establishments. At the end of 2013, Multiplus had 472 partner establishments, including the TAM Fidelidade Program. Following the business combination between LAN and TAM, we have begun to harmonize the two airlines' frequent flyer programs to make them fully fungible for our customers, and have advanced cost initiatives related to the contract renegotiations and process standardization.

We regard both of our frequent flyer programs as strong relationship tools and we believe that these flexible programs are attractive to customers because they do not impose restrictions on flights for which points can be redeemed or the number of seats available to members using the loyalty program for any particular flight. LANPASS members can accrue and redeem points for flights with any of LAN's alliance carriers, including on **oneworld**[®] flights, and TAM Fidelidade members can accrue and redeem points for flights with any of TAM's alliance carriers, including members of the Star Alliance (through 2014). During 2013, LANPASS reached new agreements with several partners in each specific market in which LAN operates, creating a strong position in the Spanish-speaking Latin American markets.

Business Strategy

The principal areas in which we plan to focus our efforts going forward are as follows:

Achieve the Successful Integration of LAN and TAM, and Realize Merger Synergies

The Company has successfully completed the integration of the corporate functions and of the commercial areas of both cargo and international passenger operations, which we believe will result in significant operational efficiencies, incremental revenues and a strong improvement in the cash flow generation of the combined business. In addition, we have harmonized the airlines' frequent flyer programs, and have made significant progress in contract renegotiations and procurement standardization, and are in the process of implementing a plan to transfer best practices across multiple areas of the Company. We strongly believe that passengers of both LAN and TAM are directly benefiting from improved connectivity, cross-selling and easier access to more destinations via LATAM's expanded network and code-share destinations. LATAM has established new and improved agreements with international carriers, has aligned certain commercial practices and aspects of the on-board product for certain routes, and implemented new operations on regional routes. Regarding synergy capture, the Company has successfully implemented all the synergy and efficiency initiatives and continues working to fully achieve the run rate of these initiatives, therefore, we remain confident in our synergy target of between US\$600 and US\$700 million, to be fully achieved by the fourth year after the merger (June 2016).

Fleet Restructuring Plan

After a process of reviewing its post-merger fleet plan and fleet requirements, during the second half of 2013 LATAM decided to undertake a broad fleet restructuring plan with the aim of reducing the number of models operated, phasing out less efficient models and allocating aircraft best suited to each one of its markets. As a result, beginning in the fourth quarter of 2013 and for approximately the next thirty months, the Company will phase out all of its A330s, A340s, B737s and Q400 and Q200s. During the fourth quarter of 2013 this process has generated non-recurring costs of US\$17.5 million resulting from penalties related to anticipated redeliveries and other redelivery expenses. For the full year, these costs reached US\$29 million. These initiatives are part of a long term strategy which we believe is key in order to have a cost efficient operation, increasing LATAM's competitiveness in the long term.

Improve our Capital Structure

LATAM Airlines Group is focused on developing a solid balance sheet, which we believe is a competitive advantage in the airline industry to facilitate access to fleet financing and provide resilience to the volatility inherent to airline operations. Following the business combination between LAN and TAM, we have significantly increased our outstanding indebtedness and aircraft purchase obligations. In the near-term, we are focused on improving our capital structure, by improving cash flow generation of the business and actively managing capacity in our passenger and cargo businesses. The near-term fleet plans of LAN and TAM, including for the 2013 and 2014 years, were developed separately, prior to the association of these airlines. LATAM Airlines Group has rationalized the fleet plans of LAN and TAM into a joint fleet management plan, which we expect to result in a decrease in expected fleet capital expenditures for the coming years. This reduction in capital expenditures reflects capacity reductions in the domestic Brazil operations, as well as reduced growth estimates for our international passenger business.

In December of 2013, LATAM issued 51,685,128 shares by way of an equity rights offering, for total consideration of \$784 million (before offering expenses). In January 2014, LATAM issued an additional 10,314,872 million shares that were not subscribed for in the rights offering through a subsequent auction, for total consideration of \$156.5 million (before offering expenses). Approximately 50% of the net proceeds from the rights offering and subsequent auction were used to pre-pay short term financial liabilities of the Company.

Maintain Excellent Customer Satisfaction

In both our passenger and cargo businesses, we focus on delivering high quality services that are valued by our customers. In our passenger businesses we strive to achieve high on-time performance, world-class on-board service on long-haul flights, attractive and convenient pricing, quick check-in for short-haul flights, and the comfort afforded by a modern fleet. During the first half of 2009 LAN completed the reconfiguration of the cabins of all its long-haul aircraft, including both the Boeing 767 and the Airbus A340 passenger aircraft, in order to incorporate our new Premium Business Class including full-flat seats, as well as improvements in economy class which include a state-of-the-art on-board entertainment system. This high quality standard is shared by TAM, which currently offers first and business class in all its long haul flights as well as in some regional routes. Our frequent flyer programs, LANPASS and TAM Fidelidade, provide travel benefits and rewards to more than 8.5 million loyal customers in Chile, Argentina, Peru, Ecuador and Colombia as well to more than 12.2 million members in Brazil. In the cargo business, we focus on providing reliable service, taking advantage of our ability to handle different types of cargo as well as significant cargo volumes, and leveraging our facilities in key gateways, such as Miami, to ensure optimal handling of our customers' needs. We continually assess opportunities to incorporate service improvements in order to respond effectively to our customers' needs.

Focus on Efficiency and Sustainability

We are increasingly focused on improving efficiency through a series of fleet initiatives that seek to reduce fuel consumption. The most significant is our ongoing fleet renewal and growth plan, through which we expect to incorporate 157 new aircraft between 2014 and 2019, which we expect will contribute to lower costs per ASK. As an example, we estimate that the Boeing 787 Dreamliner operates with costs per ASK that are approximately 12% lower than other long haul passenger aircraft, the new Boeing 777 freighter operates with costs per ATK that are approximately 17% lower than the Boeing 767 freighter, and the Airbus A350 will operate with costs per ASK that are approximately 25% lower than the Airbus A330. In addition, we completed the installation of winglets on all of LAN's existing Boeing 767 aircraft, achieving average fuel efficiencies of approximately 5% per aircraft per year since implementation. We are also in the process of installing sharklets (a type of winglet) in our Airbus A320 Family fleet, which we expect to result in further fuel efficiencies in this fleet.

In order to mitigate the environmental impact of our operations we seek to operate in a sustainable manner by reducing our fuel consumption and related emissions. We also continue to focus on adjusting the configuration of our aircraft to market demand by, for example, adjusting the configuration of certain Boeing 767s by reducing the number of Premium Business seats and increasing the number of Economy class seats.

During 2012, LAN also replaced its passenger service system, containing the reservation, inventory and departure control systems of the airline, with a new system provided by Sabre. The conversion process involved moving from two suppliers (Amadeus and Resiber), whose systems were previously required to cover the complete role of the passenger service system, to a single supplier (Sabre), and is expected to result in substantial savings over the coming years. For the near future, we are contemplating the migration of TAM's reservation system to Sabre in order to achieve the synergies of having a unified passenger service system.

Airline Operations and Route Network

The following table sets forth our operating revenues by activity for the periods indicated, which for the year ended December 31, 2013 includes LATAM's total revenues; for the year ended December 31, 2012 includes TAM's revenues since June 23, 2012; and for the year ended December 31, 2011, represents the historical consolidated revenues of LAN:

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	Year ended December 31,		
	2013	2012	2011
	LATAM	LATAM	LAN
	(in US\$ millions)		
Total passenger revenues	11,061.6	7,966.8	4,008.9
Total cargo revenues	1,863.0	1,743.5	1,576.5
Total traffic revenues	12,924.5	9,710.4	5,585.4

The following table sets forth our operating revenues by point of sale, which for the year ended December 31, 2013 includes LATAM's total revenues; for the year ended December 31, 2012 includes TAM's revenues since June 23, 2012; and for the year ended December 31, 2011, represent the historical consolidated revenues of LAN:

	Year ended December 31,		
	2013	2012	2011
	LATAM	LATAM	LAN
	(in US\$ millions)		
Peru	646.2	620.3	557.5
Argentina	950.6	890.2	616.6
U.S.A.	1,290.5	1,268.6	1,135.9
Europe	937.5	738.8	523.7
Colombia	388.0	366.7	367.6
Brazil	5,572.9	3,322.4	258.3
Ecuador	273.7	266.3	228.9
Chile	1,698.5	1,525.0	1,312.4
Asia Pacific and rest of Latin America	1,166.6	712.2	584.4
Total Operating Revenues	12,924.5	9,710.4	5,585.4

Passenger Operations

General

As of December 31, 2013, our passenger operations were performed through airlines in Chile, Brazil, Peru, Argentina, Colombia and Ecuador, where we operate both domestic and international services.

The following table sets forth certain of our passenger operating statistics on an actual and pro forma basis (except where noted) for international and domestic routes for the periods indicated:

	Year ended and as at December 31, (1)		
	2013	2012	2011
	LATAM (actual)	LATAM (pro forma)	LAN (actual)
ASKs (million) (at period end)			
International	67,162.3	65,627.8	32,086.7
Domestic	64,528.5	66,558.3	16,052.9
Total	131,690.9	132,186.0	48,139.6
RPKs (million)			
International	55,274.3	53,957.4	25,935.6
Domestic	51,192.2	49,928.7	12,487.3
Total	106,466.5	103,886.1	38,422.9
Passengers (thousands)			
International	13,506	13,134	7,076.2
Domestic	53,189	51,544	15,514.7
Total	66,696	64,677	22,509.9
Passenger yield (passenger revenues/RPKs, in US cents)			
International	US¢9.6	US¢9.6	US¢9.5
Domestic	US¢11.7	US¢12.3	US¢12.3

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	Year ended and as at December 31, (1)		
	LATAM 2013	LATAM 2012	LAN 2011
	(actual)	(pro forma)	(actual)
Combined yield(2)	US¢10.4	US¢10.6	US¢10.4
Passenger load factor (%)			
International	82.3%	82.2%	80.8%
Domestic	79.3%	75.0%	77.8%
Combined load factor	80.8%	78.6%	79.8%

- (1) Pro forma operating data for the year ended and as of December 31, 2012 has been prepared to include historical operating statistics of TAM for the period, and also includes the operating data of LAN Ecuador, LAN Argentina, LAN Peru and LAN Colombia. See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—LATAM Airlines Group Financial Results Discussion: Year ended December 31, 2013 (Actual) compared to year ended December 31, 2012 (Pro forma)” for a discussion of our pro forma operating revenue for the year ended December 31, 2012.
- (2) The combined yield for LATAM is calculated by dividing passenger revenues (includes ticket revenue, breakage, excess baggage fee, frequent flyer program revenues and other revenues) by total passenger ASKs. Yields for 2012 pro forma have been calculated using pro forma revenues and statistics for LAN and TAM.

International Passenger Operations

Our international network combines our Chilean, Peruvian, Ecuadorian, Argentinean, Colombian and Brazilian subsidiaries. We have operated international services out of Chile since 1946. Over time we have greatly expanded our international services, offering flights out of Peru with the creation of LAN Peru in 1999, out of Ecuador through the creation of LAN Ecuador in 2003, and out of Argentina with LAN Argentina in August 2006, which until then had only been offering domestic flights, and out of Colombia in 2010 through LAN Colombia, following the acquisition of Aires. Most recently, our international services grew significantly with the business combination between LAN and TAM in June of 2012. As of January 31, 2014, we now offer 24 international destinations.

Our strategy to generally expand our international network is aimed at enhancing our value proposition by offering customers more destinations and routing alternatives, maximizing aircraft utilization, increasing load factors, leveraging complementary seasonal patterns, and optimizing our commercial efforts. Our sustained development of our international network has been a crucial factor in our long-term growth. We provide long-haul services out of our seven main hubs in Santiago, Lima, Guayaquil, Buenos Aires, Bogota, Sao Paulo and Rio de Janeiro. We also provide regional services from Chile, Peru, Ecuador, Argentina, Colombia and Brazil. Since 2004, we have continued to consolidate our hub in Lima, which serves as the center of our Latin American network and also complements our intercontinental network, by opening new routes and increasing flights on existing routes out of Lima. After LAN and TAM’s combination in 2012, we have been also focused in building a new regional hub at Sao Paulo, Guarulhos airport, which we see is becoming one of the most important gateways into South America and where we have seen an increase in international traffic in the last years. In regard to this new hub, ongoing infrastructure investments plus the recent approval from Brazilian authorities to reallocate our airport slots at Guarulhos are facilitating the construction of this hub for LATAM Airlines.

The following table sets forth the international destinations served from each of the aforementioned countries as of January 31, 2014:

<u>Country of Origin</u>	<u>Destination</u>	<u>Number of Destinations</u>
Chile	Argentina	3
	Australia	1
	Bolivia	2
	Brazil	2
	Colombia	1
	Ecuador	1
	Peru	1
	Uruguay	1
	Venezuela	1
	Dominican Republic	1
	Mexico	2
	United States	3
	Spain	1
	Germany	1

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<u>Country of Origin</u>	<u>Destination</u>	<u>Number of Destinations</u>
	New Zealand	1
	Falkland Islands	1
	French Polynesia	1
Peru	Argentina	1
	Bolivia	2
	Brazil	1
	Chile	1
	Colombia	3
	Cuba	1
	Ecuador	2
	Venezuela	1
	Mexico	2
	United States	4
	Dominican Republic	1
	Spain	1
Brazil	Argentina	1
	Chile	2
	Colombia	1
	Peru	1
	Uruguay	1
	Venezuela	1
	Paraguay	2
	Mexico	1
	United States	4
	France	1
	Germany	1
	United Kingdom	1
	Italy	1
Ecuador	Argentina	1
	Chile	1
	United States	2
	Peru	1
	Spain	1
Argentina	Brazil	1
	Chile	1
	Dominican Republic	1
	United States	1
Colombia	Brazil	1
	Chile	1
	United States	1

In line with our long-standing commitment to provide customers with superior service and the best products on the market, in May 2009 we completed the retrofit of all of our long-haul fleet (including our Boeing 767 and Airbus A340 passenger aircraft) with the new Premium Business class and improved Economy class. Combining the best features of the traditional First and Business classes, the new Premium Business includes 180 degrees recline full-flat seats which allow passengers to sleep with the maximum comfort and privacy. Premium Business also includes top-level personalized in-flight service. Changes in Economy class include new seats with a greater recline angle, a cushion that slides forward for increased comfort and convenience, and larger individual video monitors for each seat.

During 2013, LATAM received two additional Boeing 787-8 Dreamliners, ending the year with five aircraft of this model, out of an order of 32. The configuration of the cabin on the Boeing 787-8 aircraft includes 217 economy class seats and 30 seats for Premium Business class. One of the new features offered in the new Premium Business class cabin is a 100% horizontal full flat seat with the same dimensions of our current seat that includes foot support, a memory system that records the seat position chosen by the user and lumbar massage, and our new Economy class features reclining ergonomic seats. The incorporation of the Boeing 787-8 Dreamliners into our fleet will allow us to achieve important savings on fuel consumption and the sustainable expansion of our fleet (as the Dreamliner produces up to 20% less CO₂ than similar aircraft), while incorporating modern technology to deliver the best travel experience for our passengers. See “Item 3. Key Information—D. Risk Factors—Risks Related to our Operations and the Airline Industry—We have invested in new Boeing 787 “Dreamliner” aircraft.”

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As part of its mission, LATAM seeks to promote tourism to South America. Due to its large network of services, visitors from around the world can experience world renowned destinations such as Cusco, Easter Island, the Galapagos Islands, Iguazu Falls in Brazil, or Patagonia in Chile and Argentina, including the cities of Punta Arenas, Ushuaia, El Calafate and Bariloche.

Chile

According to the Chilean JAC data, Chilean international air passenger traffic increased 2.7% from 2012 to 2013 as measured in RPK, totaling approximately 7.0 million passengers in 2013. We had 52.4% of the international market share in Chile in 2013, which was a decrease compared to 54.4% in 2012 as measured in RPK. Our Chilean international operations can be divided into four main segments based on destination: to North America, to Europe, to other countries in Latin America, and to the Pacific. As of January 31, 2014, our main competitors on direct routes between Chile and North America included American Airlines, Delta Airlines, Avianca-Taca, Air Canada and Aeromexico. COPA also participated in the Chile-North American markets with stopovers in its Central American hub in Panama City. Our main competitors on routes between Chile and Europe were Air France-KLM and Iberia. On regional routes our main competitors included Aerolíneas Argentinas, Air Canada, Avianca-Taca and GOL.

Peru

According to Peruvian DGAC data, Peruvian international air passenger traffic increased 10.5% from 2012 to 2013 as measured in passengers transported, totaling approximately 7.5 million passengers in 2013. We had 46.3% of the international market share in Peru in 2013, which was a decrease compared to 47.5% in 2012 as measured by number of passengers. Our Peruvian international operations can be divided into three main segments based on destination: to North America, to Europe and to other countries in Latin America. As of January 31, 2014, our main competitors on direct routes between Peru and North America included American Airlines, United Airlines, Delta Airlines, Avianca-Taca, Aeromexico and Air Canada. COPA also participated in the Peru-North American markets with stopovers in its respective Central American hub. On routes to Europe, our main competitors were Air France-KLM and Iberia. On regional routes our main competitors included Avianca-Taca and Aerolíneas Argentinas.

Ecuador

According to our internal estimates and travel agency statistics (captured through IATA Billing Settlement Plan or “BSP”), Ecuadorian international air passenger traffic increased 4.0% from 2012 to 2013, as measured in passengers transported totaling approximately 3.23 million passengers in 2013. We had 32.6% of the international market share as measured in ASKs in LATAM routes from Ecuador in 2013, a decrease of 1.3 percentage points compared to 33.9% in 2012. Our Ecuadorian international operations can be divided into three main segments, based on the destination: to North America, Europe to other countries in Latin America. As of January 31, 2014, our main competitors on direct routes between Ecuador and North America included American Airlines, Continental Airlines, Delta Airlines; Avianca-Taca and COPA also participate in the Ecuador-North American markets with stopovers in their respective Central American hubs. On routes to Europe, our main competitors included Iberia, KLM and Avianca-Taca. On regional routes, our main competitors included Avianca-Taca and Copa.

Argentina

According to our internal estimates and travel agency statistics (captured through BSP), Argentinean international air passenger traffic increased more than 10.0% from 2012 to 2013 as measured in passengers transported, totaling approximately 5.2 million passengers in 2013. LATAM Airlines had 24% of the international market share as measured in passengers transported in Argentina in 2013, which was a decrease as compared to 28% in 2012. The Argentinean international operations can be divided into two main segments based on destination: to North America and to other countries in Latin America. As of January 31, 2014, the main competitors on the Buenos Aires-Miami route included American Airlines and Aerolíneas Argentinas. Avianca-Taca and COPA also participated in the Argentina-North American markets with stopovers in their respective hubs. The main competitors on the Buenos Aires-Dominican Republic route included COPA and American Airlines. The main competitors on the Buenos Aires-Sao Paulo route included GOL and Aerolíneas Argentinas. The main competitors on the Buenos Aires-Lima route included Avianca-Taca and Aerolíneas Argentinas. The main competitors on the Buenos Aires-Santiago route included Aerolíneas Argentinas and Air Canada and Sky Airline.

Colombia

According to *Aeronautica Civil* (Colombian Civil Aeronautics), the Colombian international market increased 11.5% from 2012 to 2013 as measured in RPKs (for the period January-November), from 7.8 million passengers to approximately 8.8 million passengers in 2013. LAN Colombia had a 4.4% share of the international market share in Colombia in the first eleven months of 2013,

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as measured in RPK. During the second quarter of 2013, LAN Colombia began to operate two Boeing 767s on weekly routes to Miami and Sao Paulo, which allowed LAN Colombia to significantly improve international options by offering Premium Business on these flights, and strengthen its international market position. The international operations in Colombia can be divided in two business segments based on destination: to North America and to other countries in Latin America. As of January 31, 2014, the main competitors on direct routes between Colombia and North America included Avianca-Taca, American Airlines, United Airlines, Air Canada, Delta Airlines and Aeromexico. COPA also participated in the Colombia-North American markets with stopovers in its Central American hub. On regional routes, the main competitors included Avianca-Taca and COPA.

Brazil

According to Brazilian ANAC data, Brazilian international air passenger traffic increased 5.1% from 2012 to 2013 as measured in RPKs, totaling more than 6.0 million passengers in 2013. TAM had 87.5% of the international market share in Brazil in 2013 when considering only Brazilian airlines, which was a decrease compared to 89.4% in 2012. Our Brazilian international operations can be divided into three main segments, based on destination: to North America, to Europe and to other countries in Latin America. As of January 31, 2014, the main competitors on direct routes between Brazil and North America included American Airlines, United Airlines, Delta Airlines, Air Canada and Aeromexico. Avianca-Taca also participated in the Brazil-North American markets with stopovers in its Central American hub. On routes to Europe, the main competitors were Iberia, Air France-KLM, Lufthansa, TAP and Air Europa. On regional routes the main competitors included Aerolineas Argentinas, Avianca-Taca and GOL.

Domestic Passenger Operations

LATAM provides domestic passenger services within Chile, Peru, Ecuador, Argentina and Colombia, through LAN, LAN Express and regional subsidiaries, including LAN Peru, LAN Ecuador, LAN Argentina and LAN Colombia, and, in Brazil, through TAM Linhas Aereas.

Business Model for Domestic Operations

In 2007, we initiated a new business model to redesign our domestic business operations with the goal of developing the industry and increasing efficiency of LAN's short-haul operations, specifically with respect to the domestic operations in Chile and Peru. A key element of this business model has been to significantly increase the utilization of our narrow body fleet, which we have been successfully achieving through modified itineraries including more point-to-point and overnight flights. We removed the Boeing 737-200 aircraft from our fleet in favor of the new more efficient Airbus A320-Family Aircraft. The Airbus A320-Family Aircraft fleet utilization reached approximately 9.4 block hours per day in 2012. The transition to a newer fleet allows for lower unscheduled maintenance costs as well as cost efficiencies achieved through operating fewer fleet types and operational efficiencies, including lower fuel consumption.

Another key element of this business model is the reduction in sales and distribution costs through higher internet penetration and reduced agency commissions, a faster turnaround time and increased self-check-in service through web check-in and kiosks at airports. These initiatives, together with simplifications in back-office and support functions, will continue to allow us to expand operations while controlling fixed costs, spurring a reduction in overhead costs. We have begun to pass on these operating efficiencies to consumers through significant fare reductions, which have a strong effect in stimulating new demand. In 2007, we implemented all aspects of this new business model in the Chilean and Peruvian domestic markets, and began to implement the business model in Argentina that same year. In 2009 we began to implement this business model in Ecuador as well.

As a result of the implementation of this business model, the number of passengers transported has increased:

- 280% (from 2.5 million to 9.5 million) in Chile, from 2006 to 2013,
- 388% (from 1.7 million to 8.3 million) in Peru, from 2006 to 2013,
- 283% (from 0.6 million to 2.3 million) in Argentina, from 2006 to 2013, and
- 21% (from 3.3 million to 4.0 million) in Ecuador, from 2009 to 2013.

We plan to continue with the implementation of this business model during 2014 in Colombia and Brazil and we have started its implementation in some regional routes, as we look for ways to increase operational efficiency, encourage direct sales and self check-in, and implement new sales strategies aimed at stimulating demand.

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Operations within Chile

Through LAN and LAN Express, we are the leading domestic passenger airline in Chile. We have operated domestic flights in Chile since the Company's creation in 1929. During 2013, we flew to 16 destinations within Chile (including Santiago, but not including Easter Island, which we consider an international destination even though it is a part of Chile, because we serve it with long-haul aircraft) as well as some seasonal destinations. LAN and LAN Express have integrated passenger operations, including operations under the same two-letter "designator reservation code," and have coordinated fare structures, scheduling and other commercial matters in order to maximize cooperative benefits and revenues for the two carriers. Our strategy is based on providing frequent service to Chile's main destinations, offering a reliable and high quality service, and leveraging our strong brand position in Chile and abroad. We evaluate our network of domestic routes on an ongoing basis in order to achieve optimal operational efficiency and profitability. Our strategic objective is to maintain our leadership position in our domestic routes.

During 2013 we operated an average fleet of 22 Airbus A320-Family Aircraft in the Chilean domestic market, and we plan to operate an average fleet of 26 Airbus A320-Family Aircraft in 2013. Domestic operations in Chile have been positively affected by the greater utilization of the latest-generation Airbus fleet and the retirement of the Airbus A318-100s. Currently, LATAM's domestic fleet in Chile has an average age of 2 years.

According to JAC data, the Chilean domestic market as a whole transported approximately 9.5 million passengers in 2013, an increase of 13.7% from 8.3 million passengers transported in 2012. Our domestic passenger market share in Chile was 76.8% in 2013 as measured in revenue passenger kilometer (RPK). During 2013, our main competitors in the domestic market were Sky Airlines and PAL Airlines with domestic passenger market shares as measured in RPKs of 19.4% and 3.0% respectively.

There are currently no foreign airlines participating in the Chilean domestic market. Chile permits foreign airlines to operate in Chile. Additionally, there are no regulatory barriers that prevent a foreign airline from creating a Chilean subsidiary and entering the Chilean domestic market using that subsidiary.

Operations within Peru

LAN Peru started operations in 1999 with both domestic and international flights from Lima. During the last ten years LAN Peru has expanded consistently, consolidating its domestic operations and coverage of the relevant markets with a continuous focus on improving our excellence for service. Self-check-in levels have grown steadily in recent years, reaching 80% for domestic routes in 2013.

Peru has tremendous potential, compared to other Latin American markets, based on per capita travel ratios. In 2013, the domestic market in Peru reached 8.3 million passengers, an increase of 14.8% from 7.2 million passengers transported in 2012. During 2013, LAN Peru increased daily frequencies in some flights from Lima to destinations such as Piura, Chiclayo and Iquitos; added some new direct flights between Cusco and Arequipa and Puerto Maldonado; and added new nightly flights to Cusco, the country's most important tourist destination, being the only airline providing this flight schedule. LAN Peru flies at least three times daily to each of its 14 destinations except Tumbes, Pucallpa, Puerto Maldonado and Tacna (2 or 3 flights daily).

LAN Peru began 2013 with a fleet of 14 Airbus A319 Aircraft. During the year, one of the Airbus A319 aircraft was phased out of the fleet and 3 Airbus A320 aircraft were incorporated, one of them including sharklets. With this, LAN Peru has one of the most modern fleets in Latin America, which is ideal for the characteristics of Peruvian routes, as it maximizes available payload in high-altitude airports. In terms of efficiency, a uniform A320 family fleet also allows for low maintenance costs, high crew productivity and operational flexibility. Fleet utilization slightly decreased from 10.6 flight hours per operating day in 2012 to 10.3 flight hours per operating day in 2013.

In 2013, a total of 5.3 million passengers traveled on LAN Peru's domestic routes, which represented an increase of 17.1% compared to 2012. According to data provided by the Peruvian DGAC, our domestic market share was 63.4% in 2013, compared to 62.2% in 2012, as measured in number of passengers. Our main competitors in Peru include Peruvian Airlines, Star Peru LC Peru and Avianca

Operations within Argentina

Since 2005, LAN Argentina has increased its domestic destinations to a total of 14 Argentine cities, and now serves Bahia Blanca, Bariloche, Buenos Aires, Calafate, Comodoro Rivadavia, Cordoba, Iguazu, Mendoza, Neuquen, Rio Gallegos, Salta, San Juan, Tucuman and Ushuaia.

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Since the end of 2006, LAN Argentina has operated Airbus A320 aircraft in both domestic and regional operations. LAN Argentina currently operates a fleet of 10 Airbus A320 aircraft in our domestic operations.

In the domestic Argentine market, LAN Argentina operates in a regulated environment in which fares sold to Argentine passengers are subject to minimum and maximum prices that vary per route. In August 2006, by presidential decree, both the floor and ceiling of the regulated price range were increased by 20%. The decree also liberalized foreign ownership of Argentinean airlines, previously capped at 49%. Since this decree, the floor and ceiling of the regulated price range have been consistently increased on an annual or semi-annual basis, by a range of 8-18%. In 2013, the ceiling and floor increased in the same proportion, both increasing by 9% in May 2013, and by 12% in December 2013.

Based on internal estimates as of December 31, 2013, our domestic market share in Argentina in terms of passengers transported was approximately 29%. During this period of time LAN Argentina transported 2.3 million passengers, a slight decrease 4% compared to 2012. The competitors in the Argentinean market during 2013 were Aerolíneas Argentinas and its affiliate Austral LíneasAéreas. Together, these two companies comprise the substantial majority of the remaining domestic Argentine market share, although a small portion of the domestic market share is serviced through Sol and Andes.

Operations within Ecuador

At the end of 2008, the Civil Aviation National Board authorized LAN Ecuador to operate domestic flights in Ecuador and in April 2009, LAN Ecuador initiated service between Quito and Guayaquil. In the past three years, LAN Ecuador has greatly expanded the number of destinations and frequency of flights in Ecuador. As of the end of 2013, LAN Ecuador operated 67 weekly flights between Quito and Guayaquil, 7 weekly flights to the Baltra, 2 weekly flights to San Cristobal and 15 weekly flights between Cuenca and Quito.

In 2013, LAN Ecuador transported 1.3 million passengers in the domestic passenger market, achieving a load factor of 78.5% and representing an increase of 20% in number of passengers serviced over 2012. LAN Ecuador had a domestic market share of 31.76% in 2012, representing a significant increase over its 2012 market share, according to internal estimates.

In Ecuador, the company's principal competitors are TAME, Aerogal and Icaro.

Operations within Colombia

Following the acquisition of Aires in 2010, LAN Colombia has successfully restructured the Company's previous operations in order to achieve LATAM's standards in terms of security, punctuality, efficiency and service quality. In 2012 LAN Colombia started to implement its "low cost" model, already operating in the other affiliates domestic markets of Chile, Peru, Argentina and Ecuador, and to stimulate demand on domestic flights by providing more Colombian citizens the opportunity to use air transportation. With this strategy and new marketing plans aiming to increase brand awareness, LAN Colombia was able to stimulate demand, achieving fare reductions of approximately 35% by introducing new segmentation parameters prior to departure, depending on the market.

LAN Colombia continued to expand its routes inside Colombia in 2013, using a network of 20 domestic destinations to transport more than 4.2 million passengers during the year, an increase of 15% as compared to passengers transported in 2012. As of December 31, 2013, LAN Colombia had 17% of Colombian market share, second after Avianca. Other competitors in the domestic market are Copa, Viva Colombia, EasyFly and Satena.

During 2013, LAN Colombia continued to advance in its fleet renewal plan, a process which began in 2012, LAN Colombia intends during 2014 to phase out the remaining Boeing B737 aircraft and Bombardier Dash aircraft inherited from Aires and replace them with more modern and efficient aircraft from the Airbus A320 family. All these actions aim to further reduce our operating expenses and become the most efficient carrier in Colombia. As of December 2013, LAN Colombia serviced its domestic destinations with 7 Airbus A320 aircraft, 4 Boeing B737 aircraft and 8 Dash-200 aircraft.

In regard to service, during 2013 the Company launched a new VIP lounge in the El Dorado Airport in Bogotá, which has the best standards in terms of comfort and gastronomy and has become an asset in building loyalty in our clients. This lounge classified as one of the 10 best VIP lounges in the world, according to a specialized design magazine.

In August 2013, LAN Colombia and American Airlines started to market their codeshare agreement, allowing LAN Colombia to offer its clients 12 destinations in the United States, while American Airlines may now offer 4 additional destinations in Colombia. In October 2013, LAN Colombia entered oneworld® alliance.

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The domestic Colombian industry transported 21.5 million passengers during 2013, a 14.1% increase over 2012. LAN Colombia has maintained its position as the second largest operator in Colombia's domestic market with approximately 18.3% of the market share as measured in RPKs as of December 31, 2013. A total of 4.0 million passengers traveled on LAN Colombia domestic routes in 2013, which represented an increase of 12.2% compared to 2012 domestic passenger activity. LAN Colombia's main competitor, Avianca, carried almost 12.6 million passengers in 2013 and had a market share as measured in RPKs of approximately 57.7% in 2013. VivaColombia, a low cost carrier that started operations within Colombia in June 2012, transported more than 1.8 million passengers for the 2013 year, reaching a 8.8% market share as measured in RPKs.

As we look ahead to 2014, LAN Colombia will continue to market the LAN brand in the domestic Colombian market, maintain excellence in service, leadership in punctuality and corporate segment penetration.

Operations within Brazil

TAM Linhas Aereas, is the leading domestic passenger airline in Brazil, and has operated domestic flights in Brazil since the company's creation in 1961. As of January 31, 2014 TAM Linhas Aereas has flights to 40 destinations (42 airports) within Brazil as well as some seasonal destinations. The strategy is based on providing strong connectivity through a network based on the main Brazilian cities, offering a reliable and high quality service, and leveraging our strong brand position in Brazil and abroad. TAM Linhas Aereas evaluates our network of domestic routes on an ongoing basis in order to achieve optimal operational efficiency and profitability.

The domestic market in Brazil has historically suffered from overcapacity, which resulted in very low load factors compared to industry standards, which has negatively impacted the financial results of domestic airlines in recent years. However, this trend began to change during 2012 and has significantly improved during 2013, as major airlines have reduced domestic capacity, and the capacity discipline is expected to continue during 2014. LATAM has continue to make significant progress in the turnaround of the domestic Brazil passenger operation, improving profitability by increasing load factor through the rationalization of capacity and improved revenue management through better segmentation of the market. During 2013, TAM reduced its capacity by 8.4% as measured in ASKs, leading to an increase of 6.1 percentage points in load factors on a year-over-year basis, despite the 0.8% decrease in traffic measured as RPKs. As of January 31, 2014, we operate an average fleet of 120 aircraft in the Brazilian domestic market. During 2014, we expect to maintain our capacity flat in order to continue improving the profitability of our domestic passenger operations in Brazil. TAM utilized the greater efficiency of the Airbus A320-Family aircraft on short-haul flights in order to gain operational efficiencies, such as more efficient fuel consumption.

According to ANAC, the Brazilian domestic market as a whole transported approximately 90.0 million passengers in 2013, an increase of 1.4% as compared to 89.0 million in 2012. TAM Linhas Aereas domestic passenger market share in Brazil as of the end of the year was 39.9% as measured in RPKs. During 2013, TAM's main competitors in the domestic market were GOL, the merged airlines Trip and Azul, and Avianca Brazil. GOL (including Webjet) ended 2013 with a domestic passenger market share of 35.4% while Trip-Azul and Avianca Brazil had market shares of 13.2% and 7.2% respectively.

Passenger Alliances and Commercial Agreements

The following are our passenger alliances and partnerships as of March 31, 2014:

- **oneworld®**. In June 2000, LAN and LAN Peru were officially incorporated into the **oneworld®** alliance. LAN Ecuador and LAN Argentina joined the alliance during 2007. In March 2013, LATAM Airlines Group chose **oneworld®** as the global alliance for all of its airlines. As a result of this decision, LAN Colombia became a member of **oneworld®** on October 1, 2013 and TAM Airlines, at this time member of the Star Alliance®, became a member of **oneworld®** in March 31, 2014. Its affiliate TAM Mercosur will join in a future date. Currently, **oneworld®** is a global marketing alliance comprising of LAN, LAN Peru, LAN Argentina, LAN Ecuador, Air Berlin, American Airlines, British Airways, Cathay Pacific Airlines, Finnair, Iberia, Japan Airlines, Malaysia Airlines, Qantas, Qatar, Royal Jordanian and S7. It is expected that SriLankan Airlines will join **oneworld®** in a future date not defined for this moment. American Airlines and US Airways recently merged and formed the largest airline in the world under the name of American Airlines Group. US Airways will join **oneworld®** as an American Airlines affiliate on the same date as TAM, on March 31, 2014. Together, the current members of the **oneworld®** alliance, including LATAM, plus the other airlines listed above that have committed to join the alliance, will serve more than 950 airports across 160 countries, operating 13,000 daily departures.
- *American Airlines Group*. Since 1997, LAN has had an agreement with American Airlines which enables LAN and American Airlines to share carrier codes for certain flights on global reservations systems, thereby enabling American Airlines passengers to purchase seats on LAN flights and vice-versa (a "code-sharing agreement"). The U.S. Department of Transportation, or DOT, granted American Airlines immunity from antitrust regulations in October 1999 for specific areas of cooperation. For more information see "—Regulation—United States of America —Authorizations and Licenses"

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below. Through this alliance, we currently offer service to thirty additional destinations in the United States and Canada. In 2005, the DOT also granted antitrust immunity to LAN Peru and American Airlines for specific areas of cooperation. In accordance with the terms of the DOT's 2005 approval, LAN, LAN Peru and American Airlines resubmitted their alliance agreement to the DOT for review in October 2010. In 2007, LAN Peru and American Airlines established a code-sharing agreement between Peru and the U.S. with additional destinations in both countries. In the same year, LAN Argentina and American Airlines signed a code-sharing agreement expanding the cooperation between the companies. At the end of 2011, a code-sharing agreement between LAN Ecuador and American Airlines was signed, and allows the American Airlines network to be offered in the U.S. to all LAN passengers. At the end of 2012, two new code-sharing agreements were signed between American Airlines and the LATAM Airlines Group; one between LAN Colombia and American Airlines and the other between TAM and American Airlines. These new code-sharing relationships provide expanded opportunities for American Airlines to serve new markets in Brazil and Colombia and for TAM and LAN Colombia in the United States with American Airlines.

- *Iberia*. In January 2001, LAN initiated a code-share agreement with Iberia, pursuant to which we offer passengers between ten and fourteen non-stop frequencies per week between Santiago and Madrid. In subsequent years, other destinations were added to the agreement, such as Alicante, Amsterdam, Barcelona, Bilbao, Brussels, London (Heathrow), Malaga, Milan, Paris, Rome and Zurich. In 2007, LAN Ecuador and LAN Peru set up code-share agreements with Iberia for routes between Ecuador, Peru and Spain; as well as four additional European destinations with LAN Peru and seven destinations with LAN Ecuador. Currently, LAN, LAN Ecuador and LAN Peru offer around 17, 11 and 14 destinations in Europe, respectively, through Iberia routes.
- *Qantas*. In July 2002, LAN initiated a code-share agreement with Qantas to operate between Santiago, Chile and Sydney, Australia with a stopover in Auckland, New Zealand. As of March 31, this code-share agreement includes 6 Santiago-Auckland-Sydney flights operated by LAN and 3 non-stop Santiago-Sydney flights offered by Qantas.
- *British Airways*. In 2007, LAN initiated a code-share agreement with British Airways on LAN flights between Sao Paulo and Santiago to provide service for British Airways passengers traveling from London to Santiago through a connection in Sao Paulo. This code-share agreement also includes British Airways' flights between Madrid and London.
- *Lufthansa and Swiss Air*: TAM has a code-share agreement with Lufthansa and Swiss, pursuant to which TAM offers its customers long haul flights from Brazil to Germany, inside Germany to 7 destinations and within Europe to 6 destinations operated by Lufthansa and Swiss Air. Lufthansa and Swiss Air likewise offer customers seats on TAM's flights from Brazil to Germany, inside Brazil to 11 destinations and within South America to 3 destinations.
- *Aeromexico*. In 2004, LAN expanded its previous alliance with Aeromexico and the current code-sharing agreement includes all of our passenger airlines. Under this alliance, we code-share in flights to Mexico from Chile and Peru, as well as to 18 domestic destinations in Mexico. Additionally, our code-sharing agreement provides our passengers with benefits such as easier connections and reciprocal accrual and redemption of frequent flyer program rewards. In May 2012, TAM also implemented a code-share agreement with Aeromexico between Sao Paulo and Mexico City. This code-share agreement also includes 9 destinations in Brazil, and 9 destinations in México.
- *All Nippon Airways*. In October 2010, TAM initiated a code-share agreement with All Nippon Airways to operate between Sao Paulo and Narita, through connections in London. From March 30, 2014, All Nippon Airways switches its operation to Haneda Airport, giving our passengers access to the preferred airport in Tokyo
- *Cathay Pacific*. In May 2010, LAN initiated a code-share agreement with Cathay Pacific to operate between Santiago and Hong Kong, through connections in Los Angeles, New York and Auckland, and in November 2010, LAN Peru initiated a code-share agreement with Cathay Pacific to operate between Lima and Hong Kong, through connections in Los Angeles and San Francisco.
- *Japan Airlines*. In September 2011, LAN initiated a code-share agreement with Japan Airlines to operate between Santiago and Narita, through connections in Los Angeles and New York. LAN Peru and Japan Airlines have recently also initiated a similar code-share agreement to operate between Lima and Narita through connections in Los Angeles and New York.
- *Air Canada*. Since 2008, TAM has had an agreement with Air Canada, which allows TAM to offer its customers flights between Sao Paulo and Toronto and other 7 domestic destinations in Canada operated by Air Canada, and Air Canada can codeshare on TAM flights between Sao Paulo and 7 destinations in Brazil.
- *US Airways*. In April 2010, TAM initiated a code-sharing agreement with US Airways to code-share between Brazil and USA. Through this agreement, US Airways offers 17 destinations from Rio de Janeiro to the interior of Brazil and two trunk routes from Miami to Sao Paulo and Manaus, while TAM can access 23 domestic cities in the U.S. from Orlando, Miami and New York.

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- *United Airlines.* In October 2007, TAM signed a code-share agreement with United which allows TAM to offer flights operated by United from points within the US, via the US, and intermediate points to a point or points in and beyond Brazil, to its customers. The code-share agreement also allows United to access flights operated by TAM from points within Brazil, via Brazil, and intermediate points to a point or points in and beyond Brazil
- *Other alliances and partnerships:* TAM also has a code-share agreement in place with Air China to operate between Sao Paulo and Beijing, through connections in Madrid. LAN has a code-share agreement with Korean Air, for flights between Los Angeles and Seoul (operated by Korean Air) and between Los Angeles and Santiago (operated by LAN), and an alliance with Alaska Airlines, which permits us to provide customers with service between Chile and three destinations in the west coast of the U.S. and Canada. Reciprocal accrual and redemption of frequent flyer program rewards is also available for LAN customers flying on Alaska Airlines flights and vice versa.

Passenger Marketing and Sales

Following the business combination, LATAM will continue to operate under two brands, LAN and TAM.

LAN's Passenger Marketing and Sales

Within the "LAN" brand, we differentiate our marketing strategies between our international (long-haul) and domestic (short-haul) services.

Our long-haul marketing strategy emphasizes attributes valued by our international customers: a reliable, high-quality service centered on entertainment and comfort for long travel. We also highlight our extensive network covering the most important South American destinations and frequent service to major overseas gateways such as New York, Los Angeles, San Francisco, Miami, Madrid and Sydney. In a continuing effort to fulfill this promise, we continuously improve our cabins and review our service protocols. Our Business Cabin features a premium on-board service aimed to provide our customers with more time to rest. As for our Economy Cabin, our upgraded entertainment units make their flight a more enjoyable one. In May 2009 we completed a retrofit program for our Boeing 767-300 and for our Airbus A340-300 fleet respectively, to upgrade and improve our long-haul fleet. See "—International Passenger Operations" for a description of recent improvements to our international fleet.

In October 2010, LAN decided to renew the configuration of its B767-300s which included an increased capacity for each airplane from 221 to 238 seats. The original configuration had 191 seats in the Economy cabin and 30 seats in Premium Business cabin, the new Economy seat configuration increases to 220 and decreases the amount of Premium Business seats to 18. This configuration will be used in those markets with a higher demand of tourism and / or low corporate travel.

Our current fleet average age is 6.9 years and it's been decreasing since the arrival of 5 of the 32 new Boeing 787 aircraft we ordered. LAN was the first airline in the Americas, and fourth in the world, to receive this model with the latest-generation technology that was an innovation breaking point for the airline industry. Passengers can immediately experience the 787's advantages: higher cabin humidity and increased comfort. The 787 airplanes will allow us to reach new destinations and boost LAN's existing services while increasing the efficiency of our operations and reduce our carbon footprint. See "—International Passenger Operations" for a description of recent improvements to our international fleet.

Our short-haul operations are designed to fit our customers' need in these routes: punctuality, reliability, more frequencies, modern aircrafts and efficient operations. To deliver this value proposition, we have been increasing our fleet and frequencies with more point-to-point flights, improved punctuality and streamlined processes including Internet sales, web and mobile check-in and airport self-check-in. As such, these routes now feature modern planes, increased frequencies with more point-to-point flights, improved punctuality and streamlined processes including Internet sales, web check-in and airport self-check-in. All of the domestic operations (Chile, Brazil, Peru, Argentina, Ecuador and Colombia) have the same business model which seeks to make air travel accessible to more people through low fares supported by a low-cost operation based on the efficient use of our resources. See "—Domestic Passenger Operations" for a description of recent initiatives to improve our domestic fleet, including the introduction of modern Airbus A320-Family Aircraft in most of our domestic operations.

We are constantly focused on delivering the services and flight items valued by customers in order to maintain high levels of customer satisfaction and we continuously monitor our customers' preferences through surveys and perception studies. In response to comments received from our business travelers, in November 2007 we created the new Premium Economy class on some regional routes. The Premium Economy program grants our customers preferential check-in and boarding, access to our VIP lounges, priority baggage claim, exclusive cabins with only twelve passengers, and personalized attention by our cabin attendants, among other benefits.

Our short-haul fleet is also growing and renewed with the more Airbus 320 and 321 coming during the next years. These aircrafts have the latest security standards in the industry, improvements in the interior cabin design and new seat technology. They are 13 percent lighter than the aircraft they will replace, resulting in lower fuel consumption and CO2 emissions. They also are more comfortable for passengers since they have leather upholstery and more in-flight entertainment screens. In addition, the upper bins have mirrors that ensure visibility of carry-on luggage among other improvements of interior design.

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Our main concern is to deliver our promise to our customers. Therefore, we constantly monitor our customer satisfaction with in-flight surveys and research, and measure our performance against the highest standard levels. This commitment to excellence has paid off with several prizes and recognitions given by customers and industry experts such as Skytrax's "2013 Best Airline in South America", Business Traveler's "2013 Best Business Class" and Premier Traveler USA's "2013 Best Airline to South America".

Branding

The "LAN" brand was launched in 2004 and brings together, under one strong international name, all of the affiliate brands such as "LAN Chile," "LAN Peru," "LAN Argentina" "LAN Colombia" and "LAN Ecuador." We developed the LAN brand and corporate image after an extensive process supported by a leading global branding agency.

Our corporate image is based on two core concepts: reliability and warmth, which support our promise of the best travel experience to, from and within South America. We are also committed to offer our customers the best coverage to, from and within South America, and to promote sustainable tourism, helping develop the regions where we operate. And by best, we mean providing our customers with an excellent connection network and service; being transparent and accessible; and promote sustainable tourism in the countries where we do business. Our commercial strategy, centered on exploiting the LAN alliance concept, has been widely recognized, as exemplified by Airline Business magazine's recognition of us in 2004 with its "Airline Strategy Award, Marketing."

Using a single brand enabled our customers to better understand the common service and operating standards among our airlines, and our new image improved our visibility, which enhanced flexibility and increased the efficiency of our marketing efforts. It also provided a platform for the strategic use in mature markets of the following three powerful sub-brands, all connected to the LAN root:

LAN.com for the convenience of our web booking engine and services platform (not incorporated by reference herein);

LANPASS for our frequent flyer program; and

LANTOURS, a sub-brand through which we offer travel packages, hotels and other ancillary products, as well as promote tourism activities to and from the regions in which we operate. LANTOURS was first introduced in Chile and is gradually being introduced into other key markets.

Our regular brand tracking and marketing effectiveness measurements show outstanding results in brand consistency and recognition, improving year after year, with marketing investments managed at healthy and stable rates. As the corporate values behind our umbrella brand encompass attributes applicable to both operations, long-haul and short-haul, a single brand strategy has resulted in significant savings, as we only have to promote one master brand, thereby increasing the efficiency of our marketing efforts. We also closely monitor our corporate image to ensure our brand is always shown at its best.

Distribution Channels

We use direct and indirect distribution channels. In the past few years, we have focused on streamlining our distribution strategy in order to reduce costs and enhance the effectiveness of our commercial efforts. This effort has resulted in efficiency gains, and we believe it should lead to further benefits in the future.

Travel agents conduct indirect sales accounting for approximately 49.8% of passengers during 2012 and 47% in 2013. Our goal is to minimize indirect sales because of higher costs when compared to direct sales. So we are continuously introducing new projects in order to minimize the percentage of total sales that are indirect sales. We paid these travel agents standard commissions ranging from 0% to 9.3% depending on the market and the ticket region type (domestic / international). Consistent with our efforts to reduce commission costs and in line with current market practices, in recent years we have reduced standard commissions in several markets.

Travel agents obtain airline travel information and issue airline tickets through Global Distribution Systems, or GDSs, this enables them to make reservations on flights from a large number of airlines. We participate actively in all major international GDSs, including Sabre, Amadeus, Galileo and Worldspan. In return for access to these systems, we pay transaction fees that are generally based on the number of reservations booked through each system. As part of its continued commitment to its passengers, in late 2009, LAN signed a series of agreements with Sabre, one of the major suppliers of IT solutions in the global airline industry. Through these agreements, Sabre provides the Company with the most advanced technology in reservation and distribution systems, optimization of routes and operational planning. LATAM recently completed the process of implementing the new system platforms in August of 2012. This new systems platform represents a major step in terms of innovation by implementing the industry's most advanced technology to streamline business and operational processes, and enabled us to provide itineraries that best fit the needs of passengers and to provide simpler, agile and efficient services in airports and in the sales and distribution channels, improving LAN's services in each of the stages of the travel experience.

Direct channels refer to sales by our own ticket offices, contact-centers and website. In 2013, direct bookings accounted for approximately 65% of all our passengers.

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We have an extensive sales and marketing network in over thirty countries consisting of more than 200 domestic and international points-of-sale owned by us and approximately 45 general sales agents. We charge a fee to customers for sales completed through our own ticket offices or call centers in most countries, leaving the Internet as the only free-of-charge distribution channel.

Our contact-centers support the growth of our operations constituting a sales and a multi-service channel. During 2011, we continued to grow and develop new services to match the increasing expectations of our clients and the growth of our direct sales channels, in particular the [www.lan.com](#) website. Our main contact-center located in Santiago accounts for 749 agents (of which 246 are home-based) and 212 agents in Lima. We complement our contact-center's operations with third-party service providers that add approximately 1050 agents who are located in Santiago, Lima and Buenos Aires. In total, all the centers handle more than 37,500 calls/contacts per day, which mainly originate from the regions where we fly (South America, North America, Europe and Australasia) and cover five languages (Spanish, English, Portuguese, French and German). We have continually upgraded our systems by incorporating technological advances to enhance efficiency and customer service.

Our website, [www.lan.com](#) (not incorporated by reference herein), is an integral part of our commercial, marketing and service efforts. Together with other direct sales initiatives, our website provides us with an important tool to reduce our distribution costs. Our Internet-related sales have increased significantly in recent years, by 22% in 2010, 22.6% in 2011, 42% in 2012, and 64% in 2013, which amounted to a total of US\$1.289 million internet-related sales in 2013. We are continually improving our website, a key element of our new short-haul model, so that the technological platform can support expected future growth.

Besides serving as a sales channel, we have utilized our website as a tool to provide value-added services and enhance communications. We send weekly promotional e-mails to more than 7.9 million subscribers. Members of our frequent flyer program receive their monthly balances and other information by e-mail and can access the data and redeem awards through our website. We have an active online marketing program which brings visitors to the website from search engines and travel-related websites.

During 2009 we improved several services on the website. We introduced the flexible award redemption service, which enables LANPASS members to obtain flights with their kilometers at any time of year. We also updated our Flight Information System to ensure accurate, real time information. In addition, we continued to promote our web-based check-in service for domestic and international flights. This system allows those passengers who are not checking-in bags, to go directly to the gate, and the remaining checked-in passengers, to leave their bags at a special bag drop counter and proceed to the gate. In addition to web-based check-in, we have 283 self-check kiosks. We have 95 in Chile, 20 in Peru, 36 in Argentina, 29 in Ecuador, 10 in Venezuela, 2 in Uruguay, 46 in Brazil, 13 in Germany and 32 in Colombia. As of December 31, 2013, the kiosk and web check-in utilization rate was of 80% for domestic routes in Chile, 74% for domestic routes in Peru, 56% for domestic routes in Argentina, 56% for domestic routes in Ecuador and 51% in Colombia. We are planning to implement six kiosks at Miami and one at Easter Island. Also in 2010 we launched our LAN.com Mobile service, enabling our customers to check-in, verify their flight status and other itineraries using their internet-enabled mobile phones.

In 2010 LAN was recognized as the "Latin American e-commerce Company of the Year" by the Latin American e-Commerce Institute and in 2012 LAN was awarded with the "Best of the Web" price by the American company Compuware. Also, in 2013 LAN.com received "Electronic Commerce Leader in Tourism" by the e-Commerce Awards for Chile and Ecuador.

Electronic Ticketing

Since 2008, the Company has issued all tickets as reached a 100% penetration of e-tickets on all LAN routes and, during 2010 we completed the implementation of interline e-ticketing with all of our **oneworld®** partners. By the end of 2013, we introduced electronic boarding passes accessible on smartphones. This electronic boarding pass is read by a laser pistol using a QR (quick response) code. It has been working on some routes at South America, and we hope to have 100% availability of this feature during 2014.

Advertising and Promotional Activities

Our advertisement and promotional efforts are aimed at enhancing our brand positioning and supporting specific aspects of our commercial efforts. These activities include the use of television, print, outdoors and radio advertisements as well as direct and online marketing. We also have a growing social media presence.

During 2013, our advertising campaigns were mainly focused on continuing stimulating demand by implementing a pricing strategy that has made flying more accessible in the domestic markets and within South America to those traveling especially for tourism. We are proud of our partnerships with tour operators and tourism government agencies across the region (SERNATUR and "Chile es Tuyo" in Chile, PROMPERU in Peru, ProExport Colombia among others) which allowed us to reach new customers and to promote local and regional tourism in the markets where we operate. This is supported by the unique coverage and travel experience that we offer to those passengers traveling to, from and within South America.

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We have also innovated our demand-generating advertising by promoting pre-low season specials thus making our demand curves more stable and making it possible for us to offer to our customers all our destinations at accessible prices throughout the year.

TAM's Passenger Marketing and Sales

Within the "TAM" brand, TAM segregates its marketing strategies between domestic (short-haul) and international (long-haul).

Our long-haul strategy focuses on attributes valued by this type of client, with a number of initiatives focusing on in-flight services, which is where passengers get most of their travel experience and where high quality and comfort are the key differentials. We also view TAM's large network as a significant differential, since TAM is the Brazilian airline with the largest international operation, offering broad coverage in South America, to Europe and the United States, as well as other international destinations through code-share agreements and alliances with other airlines.

In 2013, we started to implement initiatives in order to capture the synergies we expect, and to better align the international passengers' travel experience for LAN and TAM.

The initiatives of synergy capture in the long haul business, include, for example, the joint purchase of in-flight entertainment, which made product standardization, content increase and savings possible, as a result of our higher purchasing power. Synergies in the onboard service, both in the short and long haul operations, were also captured as a result of an alignment in terms of the meals served in business and economy classes for LAN and TAM. This process included negotiations with suppliers, which resulted in better quality and savings.

As for the alignment of the travel experience, the main objective was the introduction of a service protocol, which includes the standardization of procedures for check-in and boarding, among others.

To strengthen TAM's brand positioning, we invest in improving our cabins and services, and constantly monitor our corporate image through quantitative and qualitative surveys. For example, we have implemented a new quality management dynamic in TAM, which includes service panels and passenger satisfaction surveys, among others. The new dynamic includes standardized Key Performance Indicators (KPIs) for TAM and LAN.

TAM short-haul operations follow international standards and meet certain client needs specific to such shorter routes, which include point-to-point frequency and operating efficiency. TAM operates two cabins (Business and Coach), maintaining the service standard by type of aircraft (narrow and wide body). Moreover, these routes are invaluable for frequent fliers since they enable the use of TAM Fidelidade membership points with no seat restrictions.

TAM operates Airbus A319, A320 and A321 aircraft depending on demand and infrastructure restrictions. In 2010, we started the "brand elasticity" project, making air travel even more accessible through special fares for flights planned well in advance, with the focus on the tourism/leisure market, while continuing to service the important corporate market. With this project, we achieved a high rate of migration from road to air transport and an increasingly higher number of passengers that were flying for the first time.

TAM constantly focuses on delivering services and items valued by consumers to maintain client satisfaction and retention levels high. For this, we conduct various perception studies (such as NPS, brand funnel) and segmentation studies (Conjoint) to monitor and roll out action plans. As a result, in 2012 we redesigned our domestic fare profiles, making them simple and transparent for passengers, while clearly highlighting the benefits of each profile and the upsell value between bundles. Thus, passengers interested only in price have the option of more attractive fares, while those seeking additional benefits such as TAM Fidelidade membership points, priority services (baggage, check-in and boarding) and baggage allowance may access these services through a fixed preset amount. Passengers know how much they pay for additional benefits.

TAM has also implemented projects to generate additional revenues, targeting items that passengers prioritize, such as more leg room (Espaço Mais) and pre-purchase of excess baggage, among others, offered through convenient online services. During 2013, in recognition of some initiatives and goals achieved, TAM Airlines was awarded the second place in the category "Best airlines in South America" from Skytrax, only after LAN. In addition, TAM received awards such as: most reliable airline brand in the Brazilian market, according to a Survey of trustmarks, carried out by the "Seleções e pelo Ibope Inteligência" magazine; Top of mind according to Data Folha and Grupo Folha in the category "Airlines/ Transport"; Top of mind internet, according to Data Folha; and Most admired companies in the category "Airlines" in the subsector "Corporate Services" organized by the Carta Capital magazine, an important political, economic and cultural Brazilian vehicle. Additionally, TAM classified as the fifth most attractive airlines in the world in the social networks during the fourth quarter of year 2012, according to SocialBakers.

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Branding

In 2008, TAM launched the strategic platform for a single brand, with TAM being the main brand that, through values, strategic positioning and language, guides other brands, services and business units, such as TAM Airlines, TAM Cargo, TAM Viagens, TAM Fidelidade, TAM nas Nuvens and others. Thus, we generate synergies among our businesses, always guided by the same values and the commitment to quality and relationship with our stakeholders.

During 2013, the frequent flyer program TAM Fidelidade completed 20 years of operation. To celebrate this date, we developed a big campaign in the social networks, where we were able to capture pictures from our clients, which we will then display in two aircraft from our fleet.

We also launched the “A gente faz um mundo por você” campaign, where we reinforced TAM’s focus on service. In line with this vision, our mission is to be the preferred airline of people, with joy, creativity, respect and responsibility.

Based on this strategic brand positioning, TAM seeks to offer accessibility to all of those who value an efficient, rewarding, safe and hassle-free experience. Whatever may be the need – whether business or leisure travel—we have created products and services that meet these needs.

Distribution Channels

TAM is constantly developing new sales channels to serve our clients, who can rely on the indirect sales channels, represented by travel agents and online travel agencies (OTA), as well as on the direct channel, through TAM.com, our call center, airport ticket offices (ATO), city ticket offices (CTO) and smart business. TAM’s call center is available 24 hours a day. We also sell tickets through our chain of stores located in the main cities of Brazil and in each airport where we operate. In addition, we significantly expanded the TAM Viagens store chain through franchises in the main cities across Brazil.

TAM was the first airline in Latin America to sell tickets online. Through TAM’s website, www.tam.com.br, users can purchase tickets online by paying or using TAM Fidelidade membership points, make reservations up to one hour prior to departure and access information related to the TAM Fidelidade program and the services available. TAM’s website is not incorporated by reference herein and shall not be considered part of this annual report.

In 2013, the indirect sales channels accounted for approximately 63% of total sales and 54% of tickets issued. One of our main challenges was to increase internet sales, which accounted for approximately 36% of total sales in the year. In terms of tickets issued, direct channels accounted for approximately 45% of all tickets, increasing substantially over the previous year.

TAM also recorded an increase of 46% in the utilization of self check-in kiosks during 2013 as compared to 2012. The average utilization for 2013 was 36%.

TAM plans to increase segmented direct sales in the leisure market and to make the booking of tickets, especially over the Internet, easier for our passengers. In 2013, we consolidated the sale of seats with increased leg room (Espaço Mais) within TAM’s e-commerce sales process and through the call center, facilitating access to this service and increasing direct sales.

During 2013, TAM launched a new service tool, with a virtual operator called Julia who is available in TAM’s site www.tam.com.br to assist passengers when needed. In addition, TAM began a check-in service that may be done by cellphone for flights departing from São Paulo to destinations in South America and Europe, and for flights departing from United States to Brazil.

Advertising and Promotional Activities

Our promotional and communications efforts are aimed at strengthening the brand positioning and providing support to specific commercial needs. These activities include initiatives in communication channels such as television, press, billboards and radio, as well as direct and online marketing.

During 2013, in order to reinforce the campaign “A gente faz um mundo por você”, we developed a promotional initiative in partnership with Coca-Cola and we materialized the Christmas dream of three Brazilian families, in the cities of São Paulo and Rio de Janeiro.

In addition, we launched a search tool for airline tickets in the home page of the UOL, the main internet Brazilian portal. This initiative aims to facilitate the search for tickets and to strengthen the presence of TAM’s brand.

Frequent Flyer Program

During 2013, LATAM continued to harmonize the LAN and TAM frequent flyers programs. Each program currently operates under its own brand and regulations, however, during 2013, changes were made to both programs in order to reduce key differences and to offer its members similar features and benefits, including the creation of new tiers in both programs, harmonizing qualification criteria for top tiers, and creating new benefits in order to offer all members better value. During 2014 LANPASS and TAM Fidelidade will continue with their programs rationalization and offering new cross benefits for their top tier members.

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LANPASS

LANPASS, LAN, frequent Flyer Program, is a key element of the LAN's marketing and loyalty strategy. The objective of LANPASS is to reward customer's loyalty, and as a consequence, LANPASS generates incremental revenue and customer retention. Worldwide, as of December 30, 2013, LANPASS had approximately 8.5 million members.

LANPASS members earn LANPASS kilometers in their accounts based on distance flown and class of ticket purchased, or by using services of other partners in the LANPASS program. Customers can redeem kilometers for free tickets or other products in an online catalogue. Under our current frequent flyer program, our passengers are grouped into one standard level and four different elite levels based on each passenger's flying behavior. These different groups determine which benefits customers are eligible to receive, such as free upgrades on a space-available basis, VIP lounge access and preferred boarding and check-in.

In 2013 LANPASS had an increase of 22.0% in kilometers redeemed and 32.0% in award tickets redeemed by LANPASS' members in 2012.

LANPASS has highly rated partners, including other airlines, hotels, car rental agencies, retailers, and credit card issuers from the main financial institutions in Chile, Peru, Ecuador, Argentina Uruguay, United States and Colombia with Banco de Bogotá and Occidente both members of Grupo Aval. These partnerships give our customers the opportunity to earn additional kilometers for using their services.

In the non banking segment, LANPASS continues to leverage its member's purchase behavior to partner with leading players in the markets and become the most attractive loyalty program in the home markets. In the past years, LANPASS has entered into new industries, such as retail, supermarkets, automotive, real estate, drugstores and health care centers. As an active member of the **oneworld**[®] alliance, we have reciprocal frequent-flyer agreements with all **oneworld**[®] carriers. In addition to this, we have reciprocal agreements with other carriers, such as Alaska Airlines and Aeromexico. These agreements allow LANPASS members to accrue and redeem LANPASS kilometers on flights operated by these other carriers.

The LANPASS frequent flyer program aims to be the leading loyalty program in all of LAN's home markets. In the past couple of years, we have implemented a number of marketing initiatives to increase customer's engagement and activity with the program in all the markets. In 2013, membership in LANPASS continued growing at 18% in Chile, 22% in Perú, 6% in Argentina and 35% in Ecuador.

TAM Fidelidade Program

TAM's frequent flyer program, also called TAM Fidelidade, was the first loyalty program launched by a Brazilian airline and represents a key element in TAM's marketing strategy. LATAM believes TAM Fidelidade is the most flexible in the market because it imposes no restrictions on flights or the number of seats available when members are redeeming accumulated points. TAM Fidelidade has more than 12.2 million members and approximately 26 million redeemed tickets have been distributed since its creation in 1993. Points earned by TAM Fidelidade members must be redeemed for tickets within two years.

TAM Fidelidade customers are classified in five different categories (Branco, Azul, Vermelho, Vermelho Plus (launched in 2013) and Black) and qualification for a particular category is based on frequency of flights. The rate at which points accumulate varies depending on membership tier. The Branco card is the base level of membership and cardholders accrue points each time they fly. Azul, Vermelho, Vermelho Plus cardholders receive progressively greater benefits and increased points for miles flown; allowing the holders to accrue redeemable points for free travel more quickly. Black members have additional benefits and conveniences for our most frequent flyers, such as access to a dedicated customer service group to help meet all of their needs.

TAM joined the **oneworld**[®] alliance on March 31, 2014 and TAM Fidelidade customers are able to accrue points and redeem flights on **oneworld**[®] carrier flights.

Points earned by TAM Fidelidade members must be redeemed for tickets within two years. This two year period for redemption limits the growth in liabilities arising from Multiplus, assuming a stable trend in relation to the number of passengers we carry.

Multiplus

In 2009, TAM launched Multiplus, a company designed to create a broader network in which TAM's customers can earn points through the TAM Fidelidade Program. Multiplus is a coalition of loyalty programs that permits the accrual of points for redemption from products and services offered by many different partner companies, not just ours. We believe this expanded network helps to capture and retain customers and increase sales. It is attractive to our less frequent flyers because it allows them to accrue loyalty points in many ways besides flying. At the end of 2013, Multiplus had 472 partner establishments, including the TAM Fidelidade Program.

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Multiplus is a publicly traded company in Brazil, and TAM owns 73% of the ordinary shares of Multiplus. We believe Multiplus is a source of value generation and after its initial public offering,

The company strengthened its corporate governance, dedicating a team that, we believe, will improve sales even more. TAM Linhas Aereas and Multiplus recently entered into an amendment of their operating agreement, which governs the relationship between the two companies and the purchase of airline tickets to be used for redemptions of Multiplus points. The new amendment, effective June 1, 2013, sets a fixed value for each 10,000 Multiplus points redeemed for TAM tickets during a 12 month pricing assessment phase. At the end of the pricing assessment phase, the price of tickets will be set by reference to the then available public fare for flights from the same origin to the same destination with the same duration and flight travel plan, less an agreed discount. This discounted price will also be subject to a maximum and minimum range, calculated with reference to a 5% cost variation (increase and decrease) from the fixed price per 10,000 points applicable during the assessment phase.

Cargo Operations

The following table sets forth certain of our cargo operating statistics for domestic and international routes for the periods indicated:

	Year ended and as at December 31,		
	LATAM 2013 (actual)	LATAM 2012 (pro forma)(1)	LAN 2011 (actual)
ATKs (millions)	7,651.9	7,645.9	5,192.7
RTKs (millions)	4,446.7	4,488.3	3,612.4
Weight of cargo carried (thousands of tons)	1,170.9	1,154.0	874.9
Total cargo yield (cargo revenues/RTKs, in US cents)	41.7	43.2	43.6
Total cargo load factor (%)	58.4%	58.7%	69.6%

- (1) Information provided for the Company as of December 31, 2012 has been presented on a pro forma basis and includes pro forma operating statistics for LAN and TAM's respective cargo operations during such period.

Our cargo business generally operates on the same route network used by our passenger airline business. It includes approximately 145 destinations, of which approximately 136 are served by passenger and/or freighter aircraft and approximately 9 are served only by freighter aircraft.

We derive our revenues roughly equally between the transport of cargo as follows:

In the bellies of our passenger aircraft. We consider our passenger network to be a key competitive advantage due to the synergies between passenger and cargo operations and, accordingly, we have developed a strategy to increase our competitiveness by enhancing our belly offering. Additionally we may purchase belly space from other airlines pursuant to interline agreements.

In our own dedicated freighter fleet. As of December 31, 2013, our dedicated freighter fleet consisted of 12 Boeing 767-300 freighters, with a capacity for 54 tons of freight each, and four Boeing 777-200 freighters, with a capacity of 104 tons of freight each. At the end of 2013, we began the process to redeliver one B767-300 freighter that was leased from a third party, which we expect should be complete during the first quarter 2014. Furthermore, from time to time as warranted by market conditions, we may charter or lease aircraft pursuant to ACMI contracts (Aircraft, Crew, Maintenance and Insurance). Under the latter, which are also known as "wet-leases," the lessor operates the aircraft and provides the aircraft, crew, maintenance and insurance pursuant to short—and medium-term contracts.

Prior to the combination of LAN and TAM, we complemented our international cargo operations with domestic cargo services through subsidiaries and affiliates. In August 2012, Aerolinhas Brasileiras S.A. ("ABSA"), LAN's Brazilian cargo affiliate, and the cargo unit of TAM began the integration of their respective operations. Following the integration, the combined cargo businesses now operate in Brazil under the brand "TAM Cargo" and are operated by ABSA. We expect to leverage the TAM Cargo brand, which has significant recognition in Brazil, to increase our presence in this market.

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Our international cargo operations are headquartered in Miami. This geographical location is a natural gateway for Latin American imports and exports to and from the United States. We have operated in our 397,000 square-foot facilities within the Miami International Airport since 2001. In 2010 we upgraded this facility to enhance our ability to handle perishables and we leased an additional 114,000 square-foot warehouse close to our main facilities. Furthermore, during 2013, LAN Cargo signed a contract with Miami Dade county lease 66,000 square-feet to build a maintenance hangar with capacity to service a Boeing 777-200 freighter.

The United States accounts for the majority of the cargo traffic to and from Latin America. Besides being the main market for Latin American exports by air, the United States is also the main supplier of goods, such as high-tech equipment or spare parts, transported by air to Latin American countries.

We operate to six destinations in Europe: Amsterdam, Frankfurt, London, Madrid, Milan and Paris. The last five we serve via passenger aircraft (with flights from Santiago, Lima, Guayaquil, Sao Paulo and/or Rio de Janeiro, depending on the destination), and we serve Amsterdam through freighter operations. Additionally, we also serve Frankfurt via our passenger flights and freighter operations conducted via our block space agreement with Lufthansa Cargo. For more information, see “—Cargo Agreements” below.

In Latin America, the principal origins of our cargo are Chile, Colombia, Perú, Ecuador, Brazil and Argentina, which represent a large part of our northbound traffic. For our southbound flights, Brazil is the main import market. In Brazil, we carry cargo for a variety of customers, including other international air carriers, freight-forwarding companies, export oriented companies and individual consumers. Colombia is Latin America’s largest market for exports by air to the United States, reaching an estimated 195,000 tons annually

The evolution of our international cargo operations has always been affected by the flow imbalances of the Latin American cargo markets, resulting in a dramatic shift in the relative weight of southbound and northbound cargo flows throughout the years. We have designed our operations, route network and commercial strategies with the flexibility required to respond to changing conditions.

The flexibility that this business model allows was key to LAN Cargo’s operations in 2007 when LAN Cargo saw a sharp drop in salmon exports from Chile as a result of an outbreak of the ISA virus. It also proved beneficial in 2009 when the business was affected by the contraction of import markets in response to the global economic crisis, and from 2010 to 2012 during the recovery of cargo markets. More recently it has been a key element that has allowed LATAM to weather highly competitive market conditions.

The sharp contraction of LATAM’s traditional markets in 2009—imports into the region and exports from the region – followed by the rapid recovery of demand in 2010 required the Company to fully lever the flexibility of its business model. During 2009 the Company implemented a series of measures such as the adjustment of its capacity through a reduction in the number of planes rented under Aircraft, Crew, Maintenance & Insurance (“ACMI”) agreements and adjustments in the operations of its own cargo fleet of Boeing 767F freighters. This process has also been reinforced by the incorporation of four new Boeing 777-200F, the most modern and efficient cargo aircraft of their type in the world, with range of 9,045 kilometers when carrying its maximum payload. This significant investment allowed LATAM to consolidate its regional competitiveness by positioning it as the first airline in the region, and only the second internationally, to use these latest-generation cargo planes.

During 2013, cargo traffic decreased 0.8%, reflecting a challenging scenario in Latin American cargo markets due to a decline in demand on routes from USA to Latin America, especially Brazil and Argentina, which was partially offset by better demand on routes from Europe to Latin America and from Latin America to USA, as well as increased competitive pressures from regional and international cargo carriers.

Because of the difficult environment for cargo operations around the world during 2013, competition increased in the region as international carriers added idle capacity to service cargo operations. Despite this increase in competition, we have been able to maintain solid market shares by efficient utilization of our fleet and network. Today, on Latin America-United States routes, our main competitors are Centurion, AVIANCA Cargo, Atlas Air and American Airlines. On the Latin American-Europe routes, our main competitors are Cargolux, Lufthansa Cargo, Martinair, and Emirates Airlines.

Cargo Agreements

Since 2002, LAN Cargo and Lufthansa Cargo have operated pursuant to a block space agreement covering Europe and Latin America. As part of this agreement, we allocate space to Lufthansa Cargo on our flights between selected cities in Latin America and Europe, and Lufthansa Cargo allocates space to us on its flights between Europe and Brazil.

We also have interline, codeshare and other commercial agreements with Asian carriers such as Korean Airlines, JAL, China Airlines, Air China and Cathay Pacific through which we receive space allocations to move our cargo from Seoul, Tokyo, Taipei, Shanghai, Beijing and Hong Kong to hubs in the United States—Los Angeles, New York, Miami and also in Europe—where we can connect with our cargo network. In exchange, we provide these airlines with space from these same hubs in the United States and Europe to all Latin American destinations and also provide them with westbound cargo.

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Marketing and Sales

Our sales and marketing efforts are carried out directly, where we have a local office, or through general sales agents. In Latin America we have our own offices in all key markets, adding during 2013 a new office in Paraguay. In the United States, we have offices in Miami, New York and Los Angeles, and work with representatives in various other cities. In Europe, we have offices in Frankfurt, Amsterdam, Madrid and Paris (opened in 2013) and use agents in other key cities. In Asia, all our sales efforts are conducted through general sales agents. In total, we maintain a network of more than thirty independent cargo sales agencies domestically and internationally.

Our cargo marketing strategy emphasizes our combination of freighter and passenger aircraft cargo capacity, which allows customers to ship large, bulky freight, as well as smaller, high-density cargo, fresh products, express shipments, and other types of cargo. Our cargo marketing strategy also emphasizes our high-quality services, scheduling flexibility and punctuality. In particular, during 2013 we renewed our focus on service including the formation of a new Customer Care team fully dedicated to proactively informing clients about any shipment problems that might arise and providing timely solutions.

On some routes, we offer special, value-added products such as Positive Flight Specific and Priority 1, which enables the customer to choose a specific passenger flight or access first available freighter capacity to transport its goods. During 2010, we launched the first phase of a new revenue management project aimed at optimizing yields, which has resulted in better capacity and overbooking administration and better pricing practices in 2011, 2012 and 2013. During 2012, we started the roll-out (in New York, Miami and Mexico) of our online booking system (e-booking) allowing our customers to make reservations 24/7.

Cargo Related Investigations

In February 2006 the European Commission (“EC”), in conjunction with the Department of Justice of the United States (“DOJ”), initiated a global investigation of a large number of international cargo airlines (among them LAN Cargo) for possible price fixing of cargo fuel surcharges and other fees in the European and United States air cargo markets. On December 26, 2007, the European competition authorities notified LAN Cargo and LATAM of the initiation of proceedings against twenty-five cargo airlines, among them LAN Cargo, for allegations of anti-competitive behavior in the airfreight business.

On January 21, 2009, LAN Cargo announced that it had reached a plea agreement with the DOJ in relation to the DOJ’s ongoing investigation regarding price fixing of fuel surcharges and other fees for cargo shipments. Under the plea agreement, LAN Cargo agreed to pay a fine of US\$88 million. In addition, ABSA also reached a plea agreement with the DOJ and agreed to pay a fine of US\$21 million. These amounts were stipulated to be paid over a five-year payment schedule starting in 2009. As of March 31, 2014, there were no amounts remaining to be paid.

On November 9, 2010, the EC imposed fines on 11 air carriers for a total amount of €800 million (equivalent to approximately US\$1.1 billion). The fine imposed against LAN Cargo and its parent company, LAN, totaled €8.2 million (equivalent to approximately US\$10.9 million). The Company provisioned US\$25 million during the fourth quarter of 2007 for such fines, and maintained this provision until the fine was imposed in 2010. In 2010, the Company recorded a US\$14.1 million gain (pre-tax) from the reversal of a portion of this provision. See “Item 5. Operating and Financial Review and Prospects—A. Operating Results.” This was the lowest fine applied by the EC, which includes a significant reduction due to the Company’s cooperation with the Commission during the course of the investigation. In accordance with European Union law, on January 24, 2011 this administrative decision was appealed by LAN Cargo and LAN to the General Court in Luxembourg. Any judgment by the General Court may also be appealed to the Court of Justice of the European Union.

The investigation by the DOJ prompted the filing of numerous civil class actions by freight forwarding and shipping companies against many airlines, including LAN Cargo and LATAM Airlines Group, including fifty-four in the United States. The cases filed in the United States were consolidated in the United States District Court, Eastern District of New York and the original complaint was subsequently amended to include additional airlines, including ABSA. On May 11, 2011, LAN Cargo announced that it had reached a settlement agreement with the class action plaintiffs in relation to this litigation. As per the settlement agreement, LAN Cargo agreed to pay US\$59.7 million. Furthermore, ABSA also reached a settlement agreement with class action plaintiffs and agreed to pay US\$6.3 million. The amounts were paid to plaintiffs’ counsel escrow account in 2011. DHL, a former member of the civil class action plaintiffs, timely opted out of the settlements agreement. LAN Cargo reached a settlement agreement with StarBroker A.G., on behalf of DHL Global Forwarding, whereby LAN Cargo agreed to pay US\$8.2 million, of which US\$7.1 million was recovered by LAN Cargo from the escrow amount set aside in the class action settlement previously paid by LAN Cargo for opt out plaintiffs.

The Canadian Competition Bureau (“CCB”), in conjunction with the DOJ, also initiated a global investigation of a large number of international cargo airlines (among them LAN Cargo) for possible price fixing of cargo fuel surcharges and other fees in the Canadian air cargo markets in 2006. On August 20, 2013, LAN Cargo reached a plea agreement with the CCB in relation to the CCB’s ongoing investigation regarding price fixing of fuel surcharges and other fees for cargo shipments. Under the plea agreement, LAN Cargo agreed to pay a fine of US\$975,000. The CCB’s investigation prompted the filing of four separate civil class actions by freight forwarding and shipping companies against many airlines, including LAN Cargo and LAN, in Canada. On January 31, 2012, LAN and LAN Cargo approved a settlement agreement with the class actions plaintiffs for an amount of CAD\$700,000 (Canadian Dollars).

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On April 5, 2008, Brazilian authorities notified ABSA of the initiation of administrative proceedings before the *Conselho Administrativo de Defesa Econômica* (CADE) against several cargo airlines and airline officers, among them ABSA, for allegations of anticompetitive practices regarding fuel surcharges in the air cargo business. On September 3, 2013, CADE published its decision to impose a fine of US\$51,020,000 against ABSA. CADE also imposed fines upon a former Director and two former employees in the amounts of US\$1,020,000 and US\$510,000 respectively. On December 5, 2013 ABSA filed its application for Administrative Reconsideration before CADE which remains pending. ABSA will also have the right to appeal the final decision of CADE before Judge in a formal judicial proceeding. Given the current stage of the proceedings, it is not possible at this time to anticipate with any precision the outcome of this matter, although it is expected to be a lengthy process.

See “Item 8. Financial Information—A. Consolidated Financial Statements and Other Financial Information—Legal and Arbitration Proceedings.”

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Fleet

General

As of December 31, 2013, we operated a fleet of 339 aircraft, comprised of 323 passenger aircraft and 16 cargo aircraft, as set forth in the following chart:

	Number of aircraft in operation			Average term of lease remaining (years)	Average age (years)
	Total	Owned ⁽¹⁾	Operating Lease		
Passenger aircraft⁽²⁾					
Airbus A320 Family Aircraft ⁽³⁾					
Airbus A318-100 ⁽⁴⁾	—	—	—	—	—
Airbus A319-100	54	39	15	5.1	7.0
Airbus A320-200	160	95	65	3.6	6.1
Airbus A321-200	10	9	1	9.3	4.2
Airbus A340 Family Aircraft					
Airbus A340-300 ⁽⁵⁾	4	0	4	1.0	12.7
Airbus A340-500 ⁽⁶⁾	2	2	0	0.0	9.5
Airbus A330-200	20	8	12	2.4	8.7
Boeing Aircraft					
Boeing 737-700	5	0	5	0.4	11.8
Boeing 767-700 ⁽⁷⁾	43	37	6	1.5	7.4
Boeing B787-816	5	3	2	11.8	0.9
Boeing B777-32WER	10	8	2	4.6	2.7
Dash Aircraft					
Dash 8-200	7	0	7	1.9	16.2
Dash 8-400	3	0	3	6.6	7.6
Total passenger aircraft	323	201	122	3.4	6.9
Cargo aircraft					
Boeing 767-300 Freighter ⁽⁷⁾	12	8	4	2.2	10.2
Boeing 777-200 Freighter ⁽⁸⁾	4	2	2	3.4	3.0
Total cargo aircraft	16	10	6	2.6	8.4
Total fleet⁽²⁾	339	211	128	3.4	6.8

(1) Aircraft included within property, plant and equipment.

(2) All passenger aircraft bellies are available for cargo.

(3) Of these Airbus A320 Family Aircraft, 92 are utilized in LAN's operations.

(4) As at December 31, 2013, all Airbus A318 aircraft were sold.

(5) All Airbus A340 aircraft are utilized in LAN's operations.

(6) As a result of the business combination with TAM, 5 aircraft were added under operating lease contracts, which according to the stated policy, are classified as finance leases because the present value of the payments represents most of the economic value of the property. The useful life assigned to these aircraft is 6 years, according to the duration of the contracts.

(7) Of these Boeing B767-300, 34 are utilized in LAN's passenger operations and 12 are used in LAN's cargo operations.

(8) All Boeing 777-200 Freighters are used in LAN's cargo operations.

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The daily average hourly utilization rates of LAN's aircraft for each of the periods indicated are set forth below.

	Year ended December 31,		
	2013	2012 ⁽¹⁾	2011
Passenger aircraft			
Airbus A340-300	8.2	13.9	14.2
Boeing 767-300 ER	10.6	12.1	12.8
Boeing 787	5.6	3.7	—
Airbus A320 Family	9.52	10.2	9.5
Cargo aircraft			
Boeing 767-300 Freighter	10.0	13.5	14.8
Boeing 777-200 Freighter	10.9	14.1	14.3

(1) 2012 does not include aircraft used in TAM's operations.

We operate different aircraft types as we perform various different services ranging from short-haul domestic and regional trips to long-haul trans-continental flights. We have selected our aircraft based on the ability to effectively and efficiently serve these missions while trying to minimize the number of aircraft families we operate.

For short-haul domestic and regional flights we principally operate the Airbus A320-Family aircraft and, since 2010, we also operate the Boeing 737-700 aircraft, the Dash 8-200 aircraft, and the Dash 8-Q400 aircraft. The Airbus A320-Family has been incorporated into our fleet pursuant to operating leases or has been purchased directly from Airbus pursuant to various purchase agreements since 1999.

For long-haul passenger and cargo flights we operate the Airbus A330-200 aircraft, the Airbus A340-300 aircraft, the Airbus A340-500 aircraft, the Boeing 767-300 passenger and cargo aircraft, the Boeing 777 passenger and cargo aircraft and, since the fourth quarter of 2012, the Boeing B787-816 aircraft. The Boeing 767-300 aircraft's size and range provides an optimal alternative for most of our long-haul passenger and cargo routes. Additionally, the commonality between the passenger and dedicated cargo versions allows us to leverage the ensuing economies of scale. The Boeing 767-300 aircraft that we currently operate have been incorporated into our fleet pursuant to operating leases or have been purchased directly from Boeing pursuant to various purchase orders since 1997. Our Airbus A340-300 and A340-500 aircraft are also well-suited for long-haul routes, given their range and four-engine configuration.

During the first quarter of 2009, we initiated the process of incorporating winglets which are advanced technology devices, in all our passenger and freighter Boeing 767-300 aircraft. Winglets are placed on the wings of an aircraft and have resulted in an approximate 5% reduction in average fuel consumption per year. The total investment in this project is expected to be approximately US\$100 million. As of December 2012, 52 aircraft operated by LAN have been modified. We completed the implementation of this project during 2013.

See "Item 5—Operating and Financial Review and Prospects—F. Tabular Disclosure of Contractual Obligations" for a description of our purchase obligations for aircraft, for delivery between 2013 and 2019.

Fleet Leasing and Financing Arrangements

LATAM's financing and leasing methods include borrowing from financial institutions and leasing under financial leases, tax leases, sale-leaseback transactions and pure operating leases. As of December 31, 2013, LATAM had 339 aircraft, of which 11 were in redelivery process, totaling 328 aircraft in operation. Of these aircraft, 161 are operated by LAN and 167 aircraft are operated by TAM.

As of December 31, 2013, LAN's operating fleet was comprised of 107 financial leases, 5 tax leases, 44 operating leases and 5 unencumbered aircraft as loan guarantees. Most of the LAN's financial and tax leases are structured for a 12-year period. LAN has 32 aircraft leases supported by the U.S. Export-Import Bank ("EXIM Bank") and 57 supported by the European Export Credit Agencies (the "ECAs"). LAN's operating lease maturities are within a maturity range from 2 to 12 years.

As of December 31, 2013, TAM's operating fleet included 86 financial leases, 12 tax leases and 69 operating leases. For accounting purposes TAM classifies 9 tax leases as operating leases in the financial statements. TAM has 14 aircraft supported by EXIM Bank and 27 supported by the ECAs. TAM's operating leases maturities are within a maturity range from 5 to 13 years.

LATAM's aircraft debt, which is comprised of financial and tax leases, is denominated in US dollars and typically has quarterly amortization payments. The financial leases have a bank as counterparty and the tax leases have a bank and a third party involved. 69.5% of our aircraft debt has fixed rate and the balance has floating rate debt based on USD LIBOR. During 2013, LATAM refinanced and pre-financed all of its Boeing deliveries for the year with EX-IM guaranteed bonds.

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Going forward, LATAM will be the entity that takes delivery and act as the lessee on all related leases of all aircraft for the group. Pursuant to this strategy, all Boeing and Airbus aircraft deliveries during 2013 (8 wide body aircraft and 27 narrow body aircraft) were made to LATAM, and LATAM has the ability to sublease them to other airlines of the group.

In order to reduce balance sheet FX exposure to the Brazilian real, LATAM plans to transfer all the TAM aircraft financial leases up to the LATAM level. As of March 31, 2014, 10 aircraft were transferred to LATAM which helped to reduce the exposure by approximately US\$205 million.

During the first quarter of 2014, LATAM entered into a sale-leaseback transaction for 8 B777-300 passenger aircraft for a lease term of approximately 5 years in order to gain more flexibility in the long haul fleet.

See “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Sources of financing” and “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Expenditures” for a description of expected sources of financing and expected expenditures on aircraft.

See “Item 11—Quantitative and Qualitative Disclosures about Market Risk — Risk of Variation in Foreign Currency Exchange Rates” for a further analysis about the balance sheet FX fluctuation impact

Maintenance

LAN’s Maintenance

Our heavy maintenance, line maintenance and component shops are equipped and certified to service our entire fleet of Airbus, Boeing and Bombardier aircraft. Our maintenance capabilities allow us flexibility in scheduling airframe maintenance, offering us an alternative to third-party maintenance providers.

LAN facilities at Comodoro Arturo Merino Benítez International Airport in Santiago, Chile are among the most extensive in Latin America and have been certified according to IOSA standards and as a FAA approved repair station. Our facilities at our Santiago repair station can service the Boeing 787, Boeing 767, Boeing 777, Airbus 340 and Airbus 320 Family Aircraft fleet, as well as designing and manufacturing galleys, structures and composite materials. We also have the capability to retrofit aircraft interiors, including sophisticated in-flight entertainment equipment, and blended winglets in the Boeing 767 fleet. LAN facilities at El Dorado International Airport in Bogotá, Colombia can service the Boeing 737 and the Dash 8-200 fleet.

Our engineering and maintenance division is supervised by the local DGAC and it is subjected to several recurrent external audits from civil aviation authorities and international entities such as the FAA, the Argentine *Administración Nacional de Aviación Civil* (“ANAC”), the Brazilian *Agencia Nacional de Aviação Civil* (“ANAC”), the Ecuadorian *Dirección General de Aeronáutica Civil* (“DGAC Ecuador”), the Peruvian *Dirección General de Aeronáutica Civil* (“DGAC Peru”), the Colombian *Unidad Administrativa Especial de Aeronáutica Civil* (the UAEAC), the International Air Transport Association Operational Safety Audit (“IOSA”) (from the International Air Transport Association or “IATA”) and the International Civil Aviation Organization (“ICAO”), in order to strictly comply with applicable regulations. The audits are conducted in connection with each country’s certification procedures and enable us to continue to perform maintenance for aircraft registered in the certificating jurisdictions. Our repair station holds FAA Part-145 certifications under these approvals.

We also rely on third parties for certain maintenance support for our aircraft and engines, where long term partnerships take place with the following MROs (Maintenance Repair and Overhaul facilities): Lufthansa Technik provides our Airbus A320-Family Aircraft and A340 Aircraft component support. International Aero Engines, CFM International and Pratt & Whitney, provides the A320 Family engine maintenance services. General Electric also provides engine maintenance services for Boeing 767-300 aircraft as well as Air France KLM for the Boeing 777-300F, which also includes components support.

Occasionally, we perform certain maintenance services for other airlines.

Our aircraft maintenance personnel participate in extensive training programs at the jointly operated Lufthansa LAN Technical Training S.A., located in Santiago, Chile.

LAN continues to benefit from the implementation of LEAN in heavy and line maintenance. Heavy maintenance is performed approximately every 12 –18 months or a specific amount of actual flight hours as defined by the manufacturer, while line maintenance is performed on a daily basis. Since 2009, we have achieved a reduction of approximately 30% to 40% in the time an aircraft remains at the hangar. Moreover, we achieved a reduction of over 20% in the time for some of the most demanding tasks in line maintenance and over 30% increase on workers’ productivity. Other benefits of LEAN include a reduction of approximately 19% in labor accidents in heavy maintenance areas, a reduction of approximately 80% on delayed deliveries of aircraft from programmed maintenance, and a considerable improvement on dispatch reliability. Furthermore, LEAN has had important benefits in terms of employee motivation, by establishing clear roles, setting new challenges and rewarding team achievements.

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TAM's Maintenance

In 2013 we started the process of integrating TAM MRO capabilities and processes with LAN Heavy Maintenance capabilities and Heavy Maintenance outsourcing in a new coordinating LATAM MRO (Maintenance, Repair and Overhaul) structure.

The LATAM MRO Business Unit provides services mainly for LATAM fleet but provides services for third-party customers as well. It has facilities in São Carlos (SP/Brazil) Technological Center in its own area of 100,000 m² with a dedicated runway of 1,720 meters and a facility in Santiago International Airport (Chile).

MRO São Carlos (TAM MRO) is certified and audited by major international aeronautical authorities such as FAA (USA), EASA (Europe), ANAC (Brazil), DGAC (Chile), ANAC Argentina, DGCA (Ecuador), DINAC (Paraguay), TC (Canada), among others, for Heavy Maintenance and Components Repair and Overhaul for Airbus A-320 family (A318, A319, A320 & A321) and Airbus A330, Boeing 767, ATR-42/72, and Embraer E-Jet 170/190 families. TAM MRO also has some minor capabilities for repair and overhaul of Airbus A340 and Boeing 777 components. MRO Santiago (LAN Heavy Maintenance) is certified and audited by FAA, ANAC (Brazil), DGAC (Chile), ANAC Argentina, DGCA (Ecuador), among others for Heavy Maintenance for Airbus A320 family (A319, A320 & A321), Boeing 767 and 787. Both MRO facilities are FAA Part-145 certified repair stations.

In 2013 we expanded our capacity by one hangar in MRO São Carlos and now we can accommodate 7 aircraft (Narrowbody/Widebody) and 2 Regional/Turboprop aircraft simultaneously, and we have a dedicated hangar for stripping and painting. In that facility we also have 22 technical shops, including full Landing Gear repair & overhaul shop, Hydraulics, Pneumatics, Electronics (ATEC), Electrical Components, Electroplating, Composites, Wheels & Brakes, Interiors and Escape Slides shops. In Santiago we have 2 hangars with 2 widebody slots and 1 narrowbody slot.

In 2013, TAM MRO effectively applied 1.5 million man-hours (a 10% increase compared with 2012), serviced 168 aircraft, including C, D and Special Checks for LATAM fleet and for third party customers, delivered approximately 58,000 components and performed 14 landing gear overhauls. In 2013, TAM MRO serviced almost 100% of all TAM's Airbus A320 family and A330 demand for Heavy Maintenance, and 75% of demand for Components Repair & Overhaul. We expanded pursuing services for LAN fleet, reaching 15 Heavy Checks. TAM's external maintenance and repair customers include Azul, Trip, Avianca, the Brazilian Air Force, Embraer, Goodrich, and Hamilton Sundstrand, among others.

TAM's structure in São Carlos includes engineering capabilities, a full technical training center which develops TAM's capabilities in terms of human skills with more than 6,000 students and 90,000 hours of training in 2013, providing 80 different basic courses, on-the-job training and special training such as structural, avionics, foreign language and leadership training and education.

In 2011 TAM started a turn-around process to achieve international MRO competitive standards in terms of costs, quality, reliability and time of deliveries (TAT). In 2012 TAM began to implement the LEAN system and other activities, including continuous process improvement culture, redesign of the production methodology in productive cells and scheduling of task through CCPM methodology (Critical Chain Project Management), development of shop-floor control systems and carry out VSM process modeling for Landing Gear shop. 2013 was the year of consolidation of these initiatives and in 2013 we accomplished a significant 7% reduction in turnaround times, increased ontime performance and improved quality of our services (as measured by reductions in post-check failures and premature components failures).

TAM's line maintenance is fully capable to provide services to all types of Airbus and Boeing aircraft of TAM fleet. Operations in TAM's extensive network of 41 domestic destinations are supported by TAM maintenance staff; in the international maintenance line stations, there is a mix of TAM staff and qualified outsourced line maintenance providers.

TAM's maintenance and engineering organization in Brazil is supervised by the Brazilian Agência Nacional de Aviação Civil ('ANAC'). TAM Mercosur's operations are supervised by the Paraguayan Dirección Nacional de Aeronáutica Civil ('DINAC'). All operations are subjected to periodic audits by these regulatory authorities. As IATA Operational Safety Audit (IOSA)-certified airlines, TAM and TAM Mercosur are also periodically audited by IOSA-qualified Audit Organizations to guarantee fully compliance with applicable regulations.

In addition to the broad capability of TAM heavy maintenance facilities in São Carlos for aircraft and components, TAM relies on a range of qualified third parties maintenance providers, including MTU Aero Engines in Germany and GE Celma In Brazil for Airbus A320-Family IAE and CFM engines, General Electric facilities in USA and Europe for A330, B767 and B777 GE engines and Pratt & Whitney in Singapore for A330 P&W engines. Third parties also provide certain additional components applicable to TAM fleets.

LATAM Safety and Security

LATAM has been working to standardize LAN and TAM's operational indicators regarding safety, audits and emergency response. This process of identifying synergies in LAN and TAM's operational indicators has led to opportunities to improve processes and standardize operational processes and audits.

LAN's Safety and Security Corporate Direction

The Safety and Security Corporate Direction ("SSCD") is an internal division in charge of the management of safety and security matters related to flight operations, operative and administrative buildings, organization and coordination of emergency response matters, safety and security audits and safety and occupational health.

The SSCD reports directly to LAN's Chief Executive Officer ("CEO"), which reflects the firm commitment that the Company's senior management has to the Safety & Security. The SSCD is comprised of five independent reporting management areas: safety management, security management, emergency response management, Safety & Security Audit management and Safety and Occupational Health Management.

Safety Management

We give high priority to providing safe and reliable air service. We have uniform safety standards and safety-related training programs that cover all of our operations. LAN has implemented a System called LAN I-AMS (LAN Integrated Airline Management System) throughout the operational areas of the Company, which is certified by the Chilean DGAC and IOSA System. The LAN I-AMS integrates Safety, Safety Assurance, Emergency Response, Security and Occupational Safety and Health management and provides clear definitions of the functions and responsibilities regarding safety for all persons involved, from the top to the bottom of the operational structure of the airline. It strengthens the commitment and knowledge required from everyone in the Company regarding any and all actions that could affect safety.

The Operational Safety Senior Manager ("SSM") is responsible for the Operational Safety Oversight and the implementation of the LAN I-AMS. The SSM supervises a staff of approximately 21 safety specialists of different backgrounds, including pilots, aeronautical engineers, aircraft maintenance engineers, a psychologist, and dangerous goods and ground handling safety specialists.

Our corporate operational safety organization consists of three main areas:

- **Flight Safety Management:** The Flight Safety Area oversees and audits our operational safety measures, investigates major incidents and programs and controls the LOSA and FOQA Programs (as defined below). The Flight Safety Area also oversees and audits safety measures related to ground handling and cargo areas and investigates related incidents.
- **Maintenance Safety Management:** The Maintenance Safety Area oversees and audits our maintenance safety measures and investigates maintenance-related incidents.
- **Flight Data Monitoring Management:** The Flight Data Monitoring Area is responsible for the maintenance and administration of the recorded flight data and safety-related databases and software.

The main safety programs, elements and procedures include:

- ***Flight Operations Quality Assurance*** ("FOQA"). Since the end of 2002, LAN has been implementing a Flight Data Monitoring ("FDM") program using two different analysis programs. The FDM program is fully developed for the A320-Family Aircraft, A340, Boeing B767, B787 and B777 fleet. The statistical information obtained has produced standard operational procedure changes and valuable inputs to the Advance Qualification Program project. We have also fully developed a maintenance variation for the same fleets which monitors the engines, flight controls and general performance of the airplanes.
- ***Mandatory Occurrence and Mandatory Reports***. Our operations policy manuals define the incidents that require a mandatory report. On a voluntary basis, personnel can provide confidential reports to the flight safety area in hard copy or electronic form.
- ***Safety Information Management***. All safety information regarding all occurrences is entered into dedicated software Aviation Quality Database (AQD), where it is analyzed according to its potential risk. Important incidents are investigated thoroughly. The relevant areas related to each particular incident implement corrective actions with the assistance of the corporate operational safety directory.
- ***Line Operation Safety Audit*** ("LOSA"). LOSA is a program designed to survey and analyzes the safety components of our equipment and operations. LOSA observations have been conducted on the A-340, A-320 and Boeing B767 fleets. In 2007, a second LOSA observation has been applied to the A-340 fleet, which has given important information of the effectiveness of the corrective actions recommended by the first observation conducted in 2004. The LOSA program will be applied to all A320 fleets in 2014 and is expected to be applied to the B787 fleet during 2016.
- ***Human Factors Program***. This program is based on a manual developed by LAN that includes all interconnectivities between flight operations and human factors. The program includes a Fatigue Risk Management Program that is being implemented since 2008. The program also includes Crew Resource Management and Flight Crews Training and study of incidents using the Threat and Error Management ("TEM") model.

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We also periodically evaluate the skills, experience and safety records of our flight crews in order to maintain strict control over the quality of our flight crews. All of our aircraft pilots participate in training programs, some of which are sponsored by aircraft manufacturers, and all are required to undergo recurrent training.

Our operational safety committee, composed of senior executives and key operational managers, is responsible for the initiation of safety-related actions.

All of our Boeing 767, A320 Family, A340 and Boeing 777 and 787 fleets are equipped with an enhanced ground proximity warning system, a traffic collision avoidance system, a wind shear detection system and reduced vertical separation minimum capabilities.

Security Management

The main policy and the essential principle of the Company is to ensure an adequate security protection to all its flights, aircraft, passengers, crew members, ground personnel, airport facilities and other services related to the commercial civil aviation against any threat or unlawful action.

We have implemented corporate policies and a quality management system through the operational system to detect any lack of security in its operations and prevent acts of unlawful interference. Risk analysis is used to determine different levels of security to be implemented to international and domestic operations.

The Security Corporate Manager (“SCM”) has the responsibility to evaluate, analyze and assign risk levels (high, medium, low) to international and domestic operations, proposing security procedures for each scenario. The SCM leads an organization of eight security specialists. These specialists analyze high risk flights and all the aspects of the operation that could cause an impact in the normal daily activities of the Company. Finally, the security management is controlled and audited constantly. The current SCM is a former police officer with more than 20 years of experience in the civil aviation.

The corporate security organization has three main areas: standards, procedures and quality control; planning and management control; and dangerous goods. Additionally, our SCM gives support to the different areas of the Company related to training, internal investigations, and travel documentation assistance.

Since 2002, the Company’s Corporate Security Manual has unified international and domestic security procedures, including local security procedures; airport security programs for each country in which we have operations, which includes procedures to prevent unlawful conduct and procedures for a bomb threat or hijacking drill; corporation security training programs regarding the acceptance of aircraft, baggage, cargo and passengers an airport security audit procedures regarding airport inspections; and identification of security issues and corrective action plans for non-compliance.

Emergency Response Management

The emergency response management team is responsible for the administration of the Emergency Response Plan (ERP). It has been developed for the effective management of different kinds of emergencies (aircraft accidents, natural disasters, strikes, pandemics) with the purpose of mitigating impacts of emergencies on passengers and their relatives, as well as the Company’s operations.

The ERP includes:

- Emergency process and procedures approved by the authority and supported by the Emergency Response Preparation Manual.
- Emergency Control Center in Santiago, Chile, includes three principal rooms for: the Emergency Executive Committee, the Emergency Response Committee and the Media Monitoring & Communications Coordination Committee.
- Relatives & Passengers Assistance Team (the “APF Team”), a team of volunteers that we deploy for assistance of employees, crew, passengers and their relatives. Our APF team is complemented by service vendors.
- Notification Team, located in the Call Center Offices, Santiago, Chile, notify individuals designed by passengers as an emergency contact number.
- Assistance Center, located in the Call Center Offices, Santiago, Chile, where about 300 agents working through 14 toll free lines can be activated for receiving calls from relatives and friends of passengers involved in an emergency situation. The Assistance Center telephone numbers will be published by the Company (on its EWS) and by media, in case of emergencies.
- Emergency Web Site (EWS), which will replace LATAM’s commercial web site and be activated as soon as an emergency or accident occurs. The EWS be a resource for flight information (check-in, flight status, etc.) and general information, and will contain press releases and other information (including notices by the APF Team and Assistance Center) in an emergency.

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The “Go Team,” which is a special team that will be dispatched in the case of an emergency to the city nearest to the site where the emergency or accident has occurred and assume the responsibility of emergency management in such place with the following areas: Humanitarian Assistance (APF Team), Investigation (Field Investigation team), General Support (Logistics, Informatics & Telecommunication, Security, Finance, Legal and Maintenance departments), Aircraft Recovery (Recovery Team).

Safety and Security Audit Management

The Safety and Security Audit Management area reports directly to the Corporate Director. This area has the mission to advise senior management on issues relating to planning and control, design, documentation, implementation, maintenance and improvement of the LAN’s Safety and Quality Management System. The Safety and Security Audit Management is responsible for:

- The administration of internal evaluation programs and conducting organization-wide audits in all operational areas.
- Establishing the IOSA and ISAGO Training and Qualification Auditors Procedures.
- Coordinating the implementation of the IOSA and ISAGO external and internal audits, including operational processes relating to safety and security, quality objectives, status of corrective and prevented actions, and customer complains, and advising senior management regarding the fulfillment of IOSA and ISAGO standards. Our operational areas have a quality assurance system based on the ISO 9001-2000 standards. LAN and passenger and cargo subsidiaries are IOSA registered. We also have ISAGO certification for LAN Airlines (LA), LAN Argentina (4M), LAN Ecuador (XL) and LAN Peru (LP).
- Reporting on the status of the Safety and Quality Management System to senior management throughout the audits.
- Creating guidelines for the quality assurance of the operational areas of LAN, LAN Express and LAN Cargo, and quality coordinators.
- Coordination of corrective and preventive actions arising from the implementation of the Safety and quality management system.
- Establishing a corporate system to evaluate and control the external suppliers, in case of outsourcing services.

Safety and Occupational Health Management

The main objective of the Safety and Occupational Health Management is to ensure the safety and health of workers at work, by advising, managing and helping the company prevent occupational accidents and diseases through the identification and control of occupational hazards and medical surveillance.

The forgoing objectives are satisfied through a dedicated team of professionals (engineers, doctors, risk prevention experts and paramedics), who constantly develop activities aimed at protecting LAN employees and is responsible for:

- Implementation and control of preventive management systems.
- Development of training programs.
- Compliance with legal regulations regarding occupational health, safety and environmental issues and the promotion and dissemination of safety and occupational guidelines.
- Assessment of risk of work place and monitoring of emergency systems.
- Medical assistance to all injured employees and investigation of all accidents.

TAM’s Safety and Security Corporate Direction

The Safety & Security Direction is an internal division in charge of the management of safety and security matters related to flight operations, operative and administrative buildings, organization and coordination of emergency response matters, safety and security audits and safety and occupational health.

Safety Management

We have uniform safety standards and safety-related training programs that cover all of TAM’s operations. TAM has implemented a Safety and Quality Management System (“SMS”) throughout the operational areas its operations, which is IOSA certified. The SMS provides clear definitions of the functions and responsibilities regarding operational safety for all persons involved, from the top to the bottom of the operational structure of the airline. It strengthens the commitment and knowledge required from everyone in the Company regarding any and all actions that could affect safety.

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The Safety & Security Director is responsible for the Operational Safety Oversight and the implementation of the SMS. The Safety & Security Director supervises a staff of approximately three hundred twenty-nine employees the different backgrounds, including pilots, aeronautical engineers, aircraft maintenance engineers, psychologist, dangerous goods, auditors, security agents, and ground handling safety specialists (Operational Safety & Security, Aerospace Health and Safety Labor. The Safety & Security Director is also responsible for setting procedure standard for measuring the quality and safety of services provided by companies or professional contractors that affect the operational safety of this organization.

Other programs for safety management include:

- **Human Factors Program:** This program provides the support for the integration of human factors with operational areas, and identifies for each alternative the full range of human factors and interfaces (e.g., cognitive, organizational, physical, functional, environmental, social and behavioral sciences) necessary to achieve an acceptable level of performance for operating, maintaining and supporting the safety system.
- **Safety Communication:** This sector has a responsibility to produce, evaluate, analyze and publish all documents and internal campaigns in operational safety within TAM, for operational and administrative employees, according to regulatory rules of ANAC (National Civil Aviation Agency—Brazil), CENIPA (Aeronautical Accident Investigation and Prevention Center) and SMS (Safety Management Systems).
- **Aerospace Health Department:** The Aerospace Health Department is responsible for the health of passengers and employees. TAM is responsible for carrying its passengers safely and efficiently to the destination. The medical department is responsible for ensuring, as far as possible, that passenger health does not deteriorate during the journey, and that there are adequate measures in place to deal with any unforeseen in-flight medical emergency.

Safety Assurance, Safety Audit Manager and Dangerous Goods

Safety Audit establishes guidelines and principles to be applied in Audit Program Operating to identify whether activities related to operations are in accordance with established procedures in operating manuals, meeting the needs and operational standards set forth in applicable laws or to check for hazards operation, latent conditions or undesirable areas needing improvement by ISO 9001:2008, 19011:2002, IOSA and ISAGO.

Safety Assurance consolidates risks operational through the creation and monitoring processes to integrate information from failures and shortcomings of the company with audit programs, monitoring and data analysis through the parameterization of the systems and Hyperion AQD for Security System.

Dangerous Goods coordinates the administrative and operational activities of the board of operational safety with regard to the carriage of dangerous goods by integrating with other areas of the board and managers and assisting the director of operational safety in decision making.

Functions and Responsibilities

- Administration AQD system and Hyperion system (Safety Indicators);
- Monitors all current information on regulation and requirements related operational safety;
- Create and maintain processes to integrate information gaps and deficiencies that compromise the company's Operational Safety by type of operation and management through indicators computed monthly basis and control system in accordance with the Standard Performance Indicators of Operational Safety TAM;
- Administration of Internal Evaluation Program by conducting organization-wide audits in all operational areas;
- Providing resources, processes and training teams to conduct risk analysis programs operating in hazard identification TAM;
- Ensure that the data recorded in the system AQD and Hyperion are reliable through constant surveillance data, process established in the Manual of Operational Safety Management TAM and Operational Safety Board;
- Perform monthly, quarterly and annual Operational Safety Board to TAM Operational Safety, Operational Divisions and operational managers through the process of monitoring and control systems together with the Operational Safety Commission;
- Ensuring the maintenance of IOSA recertification audit of TAM Airlines providing resources, hiring an accredited Audit Organization for IATA to conduct recertification audits;
- Coordination of the implementation of the IOSA and ISAGO external audits with the Audit Organization;
- Coordination of guidelines for the quality assurance of the operational areas of TAM Airlines, TAM Mercosur e TAM MRO;

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- Implementation of the Internal Audit Plan, IOSA and ISAGO audits including operational processes related to safety and security, quality objectives, status of corrective and prevented actions, and customer complains;
- Implementation of the SMS to TAM Airlines, TAM Mercosur and TAM MRO;
- Training and Qualification Auditors Procedure;
- Coordinate the investigation of accidents involving Dangerous Goods;
- Report on ANAC incident Dangerous Goods—NIAP;
- Perform maintenance of the contents of the Manual of Dangerous Goods—MAP;
- Provide guidance and audit processes load;
- Treat reports (ASR) system AQD involving Dangerous Goods;
- Develop recommendations regarding security procedure with Dangerous Goods;
- Prepare bulletins warning about occurrences with Dangerous Goods and general cargo.

Security Management Manager

The main policy and the essential principle of security management is to ensure an adequate security protection for all TAM's flights, aircraft, passengers, crew members, ground personnel, airport facilities and other services related to the commercial civil aviation against any threat or unlawful action. TAM has implemented corporate policies and a quality management system through the operational system to detect any lack of security in its operations. Audits and assessments are used to assign different levels of security to international and domestic operations.

The Corporate Security Manager ("CSM") has the responsibility to evaluate, analyze and assign threat levels (high, medium, low) to international and domestic operations, and to propose security procedures for each scenario. The CSM is responsible for managing and coordinating security processes, procedures, measures and controls in accordance with the requirements described in the National Civil Aviation Security Programme, and participating in the development, implementation and continuous improvement of Airport Contingency Plans where TAM operations are conducted.

The Corporate Security Organization has four main areas:

- **Airport Security:** This area has as its main goal to protect the organization against acts of unlawful interference. This team is formed by Supervisors and Security Agents (Document Screeners/AVSEC Security Agents) based at Guarulhos (GRU), Galeão (GIG), Manaus (MAO), Brasília (BSB) and Confins (CNF). The Corporate Security Department provides all resources necessary for maintenance of the security level appropriate to every international and domestic operations, working, cooperation and partnership basis with all other members of the Civil Aviation Security System, aiming solely to minimize threat risks in the company.
- **Corporate Risks:** This area is responsible for conducting fraud investigations, risk prevention and background checks.
- **Property Security:** This area is responsible for ensuring appropriate property security and access control for all TAM facilities, including TAM Cargo warehouses.
- **Security Training:** This area is responsible for guaranteeing that all TAM members and representatives are properly trained in all matters required by Brazilian and International regulators.

The Corporate Security Department has been developing and implementing the Airline Security Programme (PSEA) in accordance with local and international regulators, which includes the following:

- Processes & Procedures for domestic and international operations;
- Corporate Security Training Program, which includes the contents and definitions regarding security training for all areas involved in acceptance of aircraft, baggage, cargo and passengers;
- Airport Security Inspection Program. It has the contents and definitions regarding airport inspections and identification of security issues and corrective action plans for non-compliance.

Emergency Response Management Manager

The emergency response area is responsible for the administration of the Emergency Response Plan (ERP). It has been developed for the effective management of accidents and serious incidents with the purpose of mitigating any impacts on the passenger and their relatives and the operations.

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The ERP consists mainly of:

- Emergency Procedures. TAM has established a strong documented response to an adverse operational event that would force it to implement the various corporate resources in order to minimize the impact on the organization and deal with human impact with empathy and compassion.
- Facilities: The Emergency Response Center (ERC) includes three principal areas: the Executive Committee, the Crisis Management Committee (CMC) and the Public Relations Monitoring Area, each of which are located in São Paulo, Brazil.
- Station Response: According to IAC 200-1001, each TAM Station has its Local Emergency Plan and it will coordinate the assistance to victims and families with the CMC in Sao Paolo.
- Assistance: TAM's provide assistance to survivors and family members at the site in the immediate aftermath of an aircraft accident or incident.
- Special Assistance Team (SAT). We have a humanitarian assistance program that we deploy for family and passenger assistance, with around 2,150 total active volunteers.
- Go Team. We have a special team that will be deployed right after an occurrence involving passengers, crew or third parties affect by an occurrence involving TAM aircraft.
- Telephone Enquiry Center. Our telephone enquiry center is located in São Paulo, Brazil, at our call-center office and has 630 agents in Sao Paulo and 150 agents in Buenos Aires. There are 180 lines available to establish a toll free number only for family members and victims in Brazil.
- Notification to families: In accordance with IAC 200-1001 (Brazil), TAM is responsible for notifying families within 3 hours aftermath of an aircraft accident or incident.
- Logistic Area. Immediately after an accident or a serious incident the CMC will deploy the Family Assistance Team to assist families and victims to establish a Family Assistance Center (FAC) in a hotel or similar near to the crash site, in order to support logistics issues.
- Personnel Effects: TAM has contract with service vendor to provide property recovery and restoration, and disaster mortuary services.
- Aircraft Recovery: TAM has used the Recovery Kit since 2008, which is certificated by International Airlines Technical Poll (IATP). The agreement signed with the IATP provides that all member airlines may use the TAM's equipment and staff in the region. The equipment is applied to any type of aircraft (including A380).

Flight Data Monitoring

The Flight Data Monitoring Area is responsible for the maintenance and administration of recorded flight data and safety-related databases and software.

Flight Operations Quality Assurance—"FOQA"

Since May 2002, TAM has utilized a Flight Data Monitoring ("FDM") program. The FDM program is fully developed for the A320-Family Aircraft, A330, Boeing B767 and B777 fleet. The statistical information obtained produces recommended standard operational procedure changes and other safety-related measures. We have started the development of a maintenance variation for the same aircraft types which will monitor the engines, flight controls and general performance of the airplanes.

Maintenance Safety Coordinator

The Maintenance Safety Area oversees our maintenance safety measures and investigates maintenance-related incidents using the Maintenance Error Decision Aid ("MEDA") methodology.

Cabin Safety Coordinator

The cabin safety area coordinator is responsible for managing the safety of aircraft cabins, cabin safety investigations, cabin passengers and flight attendants.

Investigation & Safety Information Management Coordinator

All information regarding safety-related incidents is entered into dedicated software, where it is analyzed according to potential risk. Important incidents are investigated thoroughly. Each particular incident requiring corrective actions is addressed accordingly with the assistance of the corporate operational safety directory.

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ASR—Aviation Safety Report Coordinator

The Aviation Safety Report (“ASR”), catalogues all confidential safety reports submitted by employees of the company. The ASR is an important tool for accident prevention. The management of the ASR system through the Aviation Quality Database (“AQD”) allows for the sharing of information and facilitates corrective actions by the Company). This system includes features to classify risk reports for management.

All ASR reporting is subjected to the following basic process within the AQD:

- Analysis of facts and risks involved;
- Issue relevant to the sector analysis and response;
- Issuance of Note—Recommendation and / or Safety Bulletin;
- Response to the author (if identified) attaching a copy of the ASR process.

Mandatory Occurrence and Mandatory Reports Coordinator

The Authority Operational Policy manual defines the incidents and occurrences that require mandatory reporting. Those reports are created by the Safety Department of the Company.

LOSA—Line Operations Safety Audit Coordinator

This program was recognized by the International Civil Aviation Organization (“ICAO”) (and National Civil Aviation Agency—Brazil (“ANAC”) as a necessary tool to protect passengers and employees.

The implementation of this program has been used to improve flight safety in the Company, by recording behaviors observed during normal flights for experienced pilots and through the preparation of a mandatory checklist (form) developed by experienced pilots familiar with the program. Observations by the Threat and Error Management (“TEM”) may even propose appropriate changes to the system and processes.

MAS—Maintenance Assessment Survey Coordinator

This program is similar to the LOSA program, applied to the mechanics of the aircraft, following a methodology known as the Maintenance Climate Assessment Survey (“MCAS”) which is utilized by the Department of Defense (United States Government), as in other Brazilian and international airlines, with the goal of improving processes and system based on assessments of human behavior in maintenance activities.

Airport infrastructure, Air traffic control and Ground Handling Coordinator

This area of the Company is responsible for identifying and analyzing risks related to Airports, and ATC and Ground handling. This area of the Company utilizes tools such as: Airport Surveys, ASR, FOQA Analysis, accident and Incident Investigations to develop ways to reduce risk to acceptable levels.

Other Safety and Security Procedures

In addition the specific policies discussed above, LATAM maintains various other internal divisions and employees specifically designated to manage safety planning and maintenance, investigation, data collection and reporting regarding safety related events.

Fuel Supplies

Fuel costs comprise the single largest category of our operating expenses. Over the last years, our fuel consumption and operating expenses have increased due to the significant growth in our operations and to the increase in fuel prices as a result of economic and political factors. In 2013 total fuel costs represented 35.0% of our total operating expenses. The into-wing price for 2013, (average fuel price plus taxes and transportation costs, including hedge) was US\$3.48 per gallon, representing a decrease of 5.6% from the 2012 into-wing pro forma average fuel price. We can neither control nor accurately predict the volatility of fuel prices. Despite the foregoing, it is possible to partially offset the price volatility risk through our hedging and fuel surcharge programs in place in both our passenger and cargo business. For more information, see “Item 11. Quantitative and Qualitative Disclosures About Market Risk—Risk of Fluctuations in Jet Fuel Prices.”

The following table details our consolidated fuel consumption and operating expenses (which exclude fuel costs related to charter operations because fuel expenses are covered by the entity that charters the flight) during the last three years.

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	Year ended December 31, (1)		
	2013	2012	2011
	LATAM (actual)	LATAM (pro forma)	LAN (actual)
Fuel consumption (thousands of gallons)	1,266,718.6	1,295,099.9	562,346.0
ASKs Equivalent (millions)	212,236.8	212,669.5	102.814.0
Fuel consumption (thousands of gallons) per ASK Equivalent (millions)	59.7	60.9	54.70
Total fuel costs (US\$ thousands)	4,414,249	4,780,289	1,750,052
Cost per gallon (US\$)	3.48	3.69	3.11
Total fuel costs as a percentage of total operating expenses	34.97%	36.41%	33.79%

(1) Information provided for the Company as of December 31, 2011 includes LAN Cargo operations, but do not include operating statistics of TAM for such period. Information provided for the Company as of December 31, 2012 has been presented on a pro forma basis and includes pro forma operating statistics for LAN and TAM's respective cargo operations during such period. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—LATAM Airlines Group Financial Results Discussion: Year ended December 31, 2013 (Actual) compared to year ended December 31, 2012 (Pro forma)". Total fuel costs (US\$ thousands) include hedging gains/losses.

Our fuel supply arrangements vary by airport and are distributed on 26 providers, but are mainly concentrated in Brazil (50%), Chile (12%) and Perú (8%). During 2013, we negotiated our fuel supply in major European, North American and South American airports. In 2013, we renegotiated our entire fuel supply in Chile and closed a long term agreement with the main player in this market (Joint Venture Copec – Air BP).

In 2013, we also signed a long term contract with Shell and YPF in Argentina. In North America our main airports are Miami and New York, where we signed contracts with WFS and Air BP respectively securing our supply in complex markets.

In others countries Brazil, Colombia, Peru, Ecuador, Mexico, Paraguay, Uruguay, we continued working with our current suppliers (including Raizen, Petrobras, Petroperu, Exxon, Repsol, Petroecuador, Terpel, Axxion, among others.) regarding our fuel supply arrangements in these countries and many of these supply agreements will be negotiated during 2014.

Ground Facilities and Services

Our main operations are based at the Comodoro Arturo Merino Benítez International Airport in Santiago, Chile. We also operate from various other airports in Chile and abroad. We operate hangars, aircraft parking and other airport service facilities at the Comodoro Arturo Merino Benítez International Airport and other airports throughout Chile pursuant to concessions granted by the DGAC. We also maintain one customs warehouse at the Comodoro Arturo Merino Benítez International Airport, additional customs warehouses in Chile (Iquique, Antofagasta and Punta Arenas) and Argentina (Aeroparque) and operate cargo warehouses at the Miami International Airport to service our cargo customers. Our facilities at Miami International Airport include corporate offices for our cargo and passenger operations and temperature-controlled and freezer space for imports and exports.

We also operate significant ground facilities and services through TAM's headquarters located at Congonhas International Airport in São Paulo, Brazil. In 2013, we inaugurated two new facilities for ground handling equipment maintenance and repair at São Paulo's Guarulhos Airport with 9,000 m² and at Rio de Janeiro's Galeão Airport with 4,000 m².

Finally, we incur certain airport usage fees and other charges for services performed by the various airports where we operate, such as air traffic control charges, take-off and landing fees, aircraft parking fees and fees payable in connection with the use of passenger waiting rooms and check-in counter space.

Ancillary Airline Activities

In addition to our airline operations, we generate revenues from a variety of other activities, including revenue from aircraft leases (including subleases, dry-leases, wet-leases and capacity sales to certain alliance partners) and charter flights, from tours, from duty-free in-flight sales, from other maintenance, storage and customs, handling and activities and revenues of Multiplus. In 2013, LATAM generated other revenues of US\$342 million from ancillary activities.

Insurance

We maintain insurance policies as required by law and in accordance with the terms of all aircraft leasing agreements which LATAM and their affiliates and subsidiaries may own or we are responsible for or operate, including TAM and its affiliates and subsidiaries. The scope of these policies includes all risk coverage for aircraft hulls, including war risks and third party legal liability for passengers, cargo, baggage and injuries to third parties on the ground. Our current policies, which are in force through April 1, 2014 and are renewed annually, follow the best practices adopted by the international civil aviation industry.

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We have negotiated common terms for Hull All Risk, Aviation Legal Liabilities and Spares coverage, together with IAG Group (British Airways, Iberia and their affiliates and franchises), which allows us to obtain premium reductions and coverage improvements. We also maintain insurance in respect of the assets against the risk of theft, fire, flood, electrical damage and similar events for equipment and buildings we own or for which we are responsible, including airport areas where we have operations. Similarly, we have contracted for vehicle insurance against the risk of robbery, theft, fire and civil liability against third parties for all vehicles we own or for which we are responsible.

Information Technology

General

We use information technology in almost every aspect of our business.

Passenger Service System

Our reservations, departure control (check-in), inventory, flight planning and baggage tracing systems (“Passenger Service Systems, or “PSS”) are operated by Sabre, and SITA, and we operate our internal systems from two data center facilities in Santiago, Chile. In 2006, we implemented a Disaster Recovery Plan between those two sites in order to ensure the functionality of our critical systems, with a recovery time objective of four days. The line of business infrastructure currently has an average recovery time of two hours for 80% of our systems and two days for the remaining 20%. In 2012, we completed a significant “HOST” change from multiple legacy applications to implement a single supplier (Sabre) for our PSS, which contains the reservation, inventory and departure controls for LATAM Airlines Group.

Third-party suppliers provide us with the following technical infrastructure elements:

- wide-area data network (provided mainly by SITA and Telefónica); and
- data centers and desktop operations and support (provided by Accenture and HP).

Basic Infrastructure Operation

Since early 2010, we have outsourced our IT infrastructure with Accenture and IBM worldwide. During 2011 IBM managed the data center and Accenture handled our desktop equipment. In 2012 we changed the company in charge of managing of our data center from IBM to HP.

Between 2010 and 2013, LAN upgraded its IT platform and optimized its solution for contingencies in case of a disaster.

Front-End Systems

We employ a strategy of encouraging and facilitating self-service alternatives for customers, through improving the functionality of the www.lan.com website as well as implementing self check-in kiosks in airports. During 2009, we deployed a new online system in order to provide the processes that our engineering, maintenance and materials areas develop, with technological solutions. This project has allowed us to establish and automate simple and integrated processes, standardize processes for the Company (including our subsidiaries and related companies), facilitate handling of materials and maintenance, make relevant information available in a full, unique and consistent way to all users, and optimize distribution and execution (planned and non planned), among other benefits.

Enterprise Resource Planning

In 2002, we purchased an enterprise resource planning (“ERP”) system from SAP. This system, which was fully implemented in the second quarter of 2004 for LAN and almost all of its subsidiaries, includes modules covering areas such as: finance, accounting, inventory management, human resources, business warehouse, as well as a user-friendly portal.

Development and Maintenance System

With respect to new development needs, our first choice is to acquire existing packaged software, but we outsource this service when such software is not available in the market. Since early 2007, we have outsourced our IT system development to four principal vendors: TATA Consultancy Services, Everis, Accenture and Indra.

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Business Initiatives

The purchase of Boeing 787 Dreamliners, Boeing's most fuel efficient aircraft and the world's first e-enabled airplane, has been a significant challenge for our technology processes since the airplane needs more connectivity to network, optimized hardware and software and constant support.

Integration between LAN and TAM

Following the combination, we are undertaking a project to unify the IT applications of LAN and TAM and to develop a plan to integrate LAN and TAM's business processes and applications. The main focus was:

- evaluate LAN and TAM's applications and processes
- align IT strategy for LATAM
- define the final application architecture for LATAM
- define an integrated technical architecture and infrastructure as well as a model for business and technical applications maintenance
- build the action plan, including the implementation roadmap, its phases, investments and impact on the current projects.

As a result of this roadmap, LATAM will prioritize initiatives in 2014 that are most valuable for integrating IT operations, which include:

- ERP: Finance, procurement, budget and planning, human resources and employee internal portal
- Aircraft Maintenance system
- Commercial area systems: Revenue Accounting, Revenue Management and BI Commercial
- Operations management systems: To optimize flight route and crew schedule
- Host system strategy: To define LATAM's host system

To implement these prioritized projects, we estimated an investment of approximately US\$45.6 million. During 2013 the following initiatives were implemented:

- ERP: budget and planning, human resources and employee internal intranet.
- Operations management systems: To optimize crew schedule
- Commercial area systems: Revenue Management International and BI Commercial I.

In addition, during 2014 the following systems implementations will be finalized:

- ERP: Finance, procurement
- Aircraft Maintenance system
- Commercial area systems: Revenue Accounting
- TAM integration to Oneworld

Central IT Operations:

Regarding the IT central infrastructure, LATAM's technical model was designed to support not only the implementation of LATAM's system applications but also the implementation of integrated datacenter and telecommunications (data and voice) solutions. The integrated IT model will require future investments of approximately US\$13.6 million.

In 2013, we established a unified outsourcing contract with HP to manage LAN & TAM's Data Center, this services is now provided by HP. We are currently working to consolidate TAM's 3 Data Centers in only one. In 2014 we will define a new DRP model (Disaster Recovery Plan) for LATAM, which will be implemented in 2015.

Regarding the computer platform, the current type of equipment that TAM holds are being standardized (desktops and Laptops) with those used by our other subsidiaries. In addition the procurement model is changing from renting to purchasing the assets. As a result there is only one customer support model, which will optimize costs and improve services quality. Customer support is currently provided by Accenture and IBM.

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In 2013, we selected SITA as the main vendor to provide a consolidated telecommunications network between LAN & TAM, in addition to Telefonica and OI. Implementation is scheduled for 2014.

Regulation

Below is a brief reference to the material effects of aeronautical and other regulations in force in each of the relevant jurisdictions in which LAN and its subsidiaries operate.

Chile

Aeronautical Regulation

Both the DGAC and the JAC oversee and regulate the Chilean aviation industry. The DGAC reports directly to the Chilean Air Force and is responsible for supervising compliance with Chilean laws and regulations relating to air navigation. The JAC is the Chilean civil aviation authority. Primarily on the basis of Decree Law No. 2,564, which regulates commercial aviation, the JAC establishes the main commercial policies for the aviation industry in Chile, regulates the assignment of international routes, and the compliance with certain insurance requirements, and the DGAC regulates flight operations, including personnel, aircraft and security standards, air traffic control and airport management. We have obtained and maintain the necessary authority from the Chilean government to conduct flight operations, including authorization certificates from the JAC and technical operative certificates from the DGAC, the continuation of which is subject to the ongoing compliance with applicable statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future.

Chile is a contracting state, as well as a permanent member, of the ICAO, an agency of the United Nations established in 1947 to assist in the planning and development of international air transport. The ICAO establishes technical standards for the international aviation industry, which Chilean authorities have incorporated into Chilean laws and regulations. In the absence of an applicable Chilean regulation concerning safety or maintenance, the DGAC has incorporated by reference the majority of the ICAO's technical standards. We believe that we are in material compliance with all relevant technical standards.

Route Rights

Domestic Routes. Chilean airlines are not required to obtain permits in connection with carrying passengers or cargo on any domestic routes, but only to comply with the technical and insurance requirements established respectively by the DGAC and the JAC. There are no regulatory barriers that would prevent a foreign airline from creating a Chilean subsidiary and entering the Chilean domestic market using that subsidiary. On January 18, 2012 the Secretary of Transportation and the Secretary of Economics of Chile announced steps towards unilaterally opening the Chilean domestic skies in the near term.

International Routes. As an airline providing services on international routes, LAN is also subject to a variety of bilateral civil air transport agreements that provide for the exchange of air traffic rights between Chile and various other countries. There can be no assurance that existing bilateral agreements between Chile and foreign governments will continue, and a modification, suspension or revocation of one or more bilateral treaties could have a material adverse effect on our operations and financial results.

International route rights, as well as the corresponding landing rights, are derived from a variety of air transport agreements negotiated between Chile and foreign governments. Under such agreements, the government of one country grants the government of another country the right to designate one or more of its domestic airlines to operate scheduled services to certain destinations of the former and, in certain cases, to further connect to third-country destinations. In Chile, when additional route frequencies to and from foreign cities become available, any eligible airline may apply to obtain them. If there is more than one applicant for a route frequency the JAC awards it through a public auction for a period of five years. The JAC grants route frequencies subject to the condition that the recipient airline operate them on a permanent basis. If an airline fails to operate a route for a period of six months or more, the JAC may terminate its rights to that route. International route frequencies are freely transferable. In the past, we have generally paid only nominal amounts for international route frequencies obtained in uncontested auctions.

Airfare Pricing Policy. Chilean airlines are permitted to establish their own domestic and international fares without government regulation. For more information, see “—Antitrust Regulation” below. In 1997, the Antitrust Commission approved and imposed a specific self-regulatory fare plan for our domestic operations in Chile consistent with the Antitrust Commission's directive to maintain a competitive environment. According to this plan, we must file notice with the JAC of any increase or decrease in standard fares on routes deemed “non-competitive” by the JAC and any decrease in fares on “competitive” routes at least twenty days in advance. We must file notice with the JAC of any increase in fares on “competitive” routes at least ten days in advance. In addition, the Chilean authorities now require that we justify any modification that we make to our fares on non-competitive routes. We must also ensure that our average yields on a non-competitive route are not higher than those on competitive routes of similar distance.

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Registration of Aircraft. Aircraft registration in Chile is governed by the Chilean Aeronautical Code (“CAC”). In order to register or continue to be registered in Chile, an aircraft must be wholly owned by either:

- a natural person who is a Chilean citizen; or
- a legal entity incorporated in and having its domicile and principal place of business in Chile and a majority of the capital stock of which is owned by Chilean nationals, among other requirements established in article 38 of the CAC.
- The Aeronautical Code expressly allows the DGAC to permit registration of aircraft belonging to non-Chilean individuals or entities with a permanent place of business in Chile. Aircraft owned by non-Chileans, but operated by Chileans or by an airline which is affiliated with a Chilean aviation entity, may also be registered in Chile. Registration of any aircraft can be cancelled if it is not in compliance with the requirements for registration and, in particular, if:
 - the ownership requirements are not met; or
 - the aircraft does not comply with any applicable safety requirements specified by the DGAC.

Safety. The DGAC requires that all aircraft operated by Chilean airlines be registered either with the DGAC or with an equivalent supervisory body in a country other than Chile. All aircraft must have a valid certificate of airworthiness issued by either the DGAC or an equivalent non-Chilean supervisory entity. In addition, the DGAC will not issue maintenance permits to a Chilean airline until the DGAC has assessed the airline’s maintenance capabilities. The DGAC renews maintenance permits annually, and has approved our maintenance operations. Only DGAC-certified maintenance facilities or facilities certified by an equivalent non-Chilean supervisory body in the country where the aircraft is registered may maintain and repair the aircraft operated by Chilean airlines. Aircraft maintenance personnel at such facilities must also be certified either by the DGAC or an equivalent non-Chilean supervisory body before assuming any aircraft maintenance positions.

Security. The DGAC establishes and supervises the implementation of security standards and regulations for the Chilean commercial aviation industry. Such standards and regulations are based on standards developed by international commercial aviation organizations. Each airline and airport in Chile must submit an aviation security handbook to the DGAC describing its security procedures for the day-to-day operations of commercial aviation and procedures for staff security training. LAN has submitted its aviation security handbook to the DGAC. Chilean airlines that operate international routes must also adopt security measures in accordance with the requirements of applicable bilateral international agreements.

Airport Policy. The DGAC supervises and manages airports in Chile, including the supervision of take-off and landing charges. The DGAC proposes airport charges, which are approved by the JAC and are the same at all airports. Since the mid-90s, a number of Chilean airports have been privatized, including the Comodoro Arturo Merino Benítez International Airport in Santiago. At the privatized airports, the airport administration manages the facilities under the supervision of the DGAC and JAC.

Environmental and Noise Regulation. There are no material environmental regulations or controls imposed upon airlines, applicable to aircraft, or that otherwise affect us in Chile, except for environmental laws and regulations of general applicability. There is no noise restriction regulation currently applicable to aircraft in Chile. However, Chilean authorities are planning to pass a noise-related regulation governing aircraft that fly to and within Chile. The proposed regulation will require all such aircraft to comply with certain noise restrictions, referred to in the market as Stage 3 standards. LAN’s fleet already complies with the proposed restrictions so we do not believe that enactment of the proposed standards would impose a material burden on us.

Argentina

Aeronautical Regulation

Both the *Administración Nacional de Aviación Civil* (“ANAC”) and the Secretary of Transport oversee and regulate the Argentinean aviation industry. ANAC regulates flight operations, including personnel, aircraft and security standards, air traffic control and airport management, and reports indirectly to the Ministry of Planning and is responsible for supervising compliance with Argentinean laws and regulations relating to air navigation. The Secretary of Transport also reports to the Ministry of Planning and regulates the assignment of international routes and matters related to tariff regulation policies. We have obtained and maintain the necessary authorizations from the Argentinean government to conduct flight operations, including authorization certificates and technical operative certificates from ANAC, the continuation of which is subject to the ongoing compliance with applicable statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future.

Argentina is a contracting state and a permanent member of the ICAO, an agency of the United Nations established in 1947 to assist in the planning and development of international air transport. The ICAO establishes technical standards for the international aviation industry, which Argentinean authorities have incorporated into Argentinean laws and regulations. In the absence of applicable Argentinean regulation concerning safety or maintenance, the ANAC has incorporated by reference the majority of the ICAO’s technical standards. We believe that we are in material compliance with all relevant technical standards.

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Route Rights

Domestic Routes. In Argentina airlines are required to obtain permits in connection with carrying passengers or cargo on any domestic routes, and to comply with the technical requirements established by the local authority. There are no regulatory barriers preventing a foreign airline from creating an Argentine subsidiary and entering the Argentine domestic market using that subsidiary. However, ownership of such subsidiary by the foreign airline may not be direct, but through a subsidiary formed in Argentina, which in turn may be directly or indirectly owned by the foreign company. However, such subsidiary should operate Argentine registered aircraft and employ Argentine aeronautical personnel.

International Routes. As an airline providing services on international routes, LAN Argentina is also subject to a variety of bilateral civil air transport agreements that provide for the exchange of air traffic rights between Argentina and various other countries. There can be no assurance that existing bilateral agreements between Argentina and foreign governments will continue. Furthermore, a modification, suspension or revocation of one or more bilateral treaties could have a material adverse effect on our operations and financial results.

International route rights, as well as the corresponding landing rights, are derived from a variety of air transport agreements negotiated between Argentina and foreign governments. Under such agreements, the government of one country grants the government of another country the right to designate one or more of its domestic airlines to operate scheduled services to certain destinations of the former and, in certain cases, to further connect to third-country destinations. In Argentina, when additional route frequencies to and from foreign cities become available, any eligible airline may apply to obtain them. ANACI grants route frequencies subject to the condition that the recipient airline operate them on a permanent basis. If an airline fails to operate a route for a period of six months or more, the ANACI may terminate its rights to that route.

Airfare Pricing Policy. Argentine airlines are permitted to establish their own international fares without government regulation, as long as they do not abuse any dominant market position they may enjoy. Yet, there are government-fixed maximum and minimum prices for domestic flights.

Registration of Aircraft. Aircraft registration in Argentina is governed by the Argentinean Aeronautical Code (“AAC”). In order to register or continue to be registered in Argentina, an aircraft must be wholly owned by either:

- a natural person who is an Argentinean citizen; or
- a legal entity incorporated in and having its domicile and principal place of business in Argentina and a majority of the capital stock of which is owned, directly or indirectly, by Argentinean nationals, among other requirements established in the AAC.

Safety. ANACI requires that all aircraft operated by Argentinean airlines be registered with ANACI. All aircraft must have a valid certificate of airworthiness issued by ANACI. In addition, ANACI will not issue maintenance permits to an Argentinean airline until ANACI has assessed the airline’s maintenance capabilities. ANACI renews maintenance permits periodically and approves maintenance operations once the airline initiates its operations and each time an airline changes its maintenance regime. Only ANACI-certified maintenance facilities (in Argentina or in any other country) may maintain and repair the aircraft operated by Argentinean airlines. Aircraft maintenance personnel at such facilities must also be certified by ANACI before assuming any aircraft maintenance positions.

Security. ANACI establishes and supervises the implementation of security standards and regulations for the Argentinean commercial aviation industry. Such standards and regulations are based on standards developed by international commercial aviation organizations. Each airline and airport in Argentina must submit an aviation security handbook to ANACI describing its security procedures for the day-to-day operations of commercial aviation and procedures for staff security training. LAN Argentina has submitted its aviation security handbook to ANACI. Argentinean airlines that operate international routes must also adopt security measures in accordance with the requirements of applicable bilateral international agreements.

Airport Policy. The ORSNA (*Organismo Regulador del Sistema Nacional de Aeropuertos*) supervises and manages the airports in Argentina, including the supervision of take-off and landing charges. The ORSNA proposes airport charges, which are approved by ANACI and are the same at all airports. Nevertheless, while domestic flights are charged in local currency, international flights are charged in U.S. dollars. Since the late-90s, a number of Argentinean airports have been privatized, including Aeroparque and Aeropuerto Internacional de Ezeiza Ministro Pistarini in Buenos Aires, the two most important airports in Argentina. At the privatized airports, the airport administration manages the facilities under the supervision of ANACI and ORSNA.

Environmental and Noise Regulation. There are no material environmental regulations or controls imposed upon airlines, applicable to aircraft, or that otherwise affect us in Argentina, except for environmental laws and regulations of general applicability and noise restriction regulation currently applicable to aircraft in Argentina. Any aircraft operated by an Argentinean airline should comply with certain noise restrictions, specifically with Stage 3 standards, as set forth in chapter 91.805 of the Argentinean civilian aviation regulations (*Regulaciones Argentinas de Aviación Civil*) referred to in the market as Stage 3 standards. LAN’s fleet already complies with the proposed restrictions so we do not believe that enactment of the proposed standards would impose a material burden on us.

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Peru

Aeronautical Regulation

The Peruvian DGAC (“PDGAC”) oversees and regulates the Peruvian aviation industry. The PDGAC reports directly to the Ministry of Transportation and Communications and is responsible for supervising compliance with Peruvian laws and regulations relating to air navigation. In addition, the PDGAC regulates the assignment of national and international routes, and the compliance with certain insurance requirements, and it regulates flight operations, including personnel, aircraft and security standards, air traffic control and airport management. We have obtained and maintain the necessary authorizations from the Peruvian government to conduct flight operations, including authorization and technical operative certificates, the continuation of which is subject to the ongoing compliance with applicable statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future.

Peru is a contracting state and a permanent member of the ICAO. The ICAO establishes technical standards for the international aviation industry, which Peruvian authorities have incorporated into Peruvian laws and regulations. In the absence of an applicable Peruvian regulation concerning safety or maintenance, the PDGAC has incorporated by reference the majority of the ICAO’s technical standards. We believe that we are in material compliance with all relevant technical standards.

Route Rights

Domestic Routes. Peruvian airlines are required to obtain permits in connection with carrying passengers or cargo on any domestic routes and to comply with the technical requirements established by the PDGAC. Non-Peruvian airlines are not permitted to provide domestic air service between destinations in Peru.

International Routes. As an airline providing services on international routes, LAN Peru is also subject to a variety of bilateral civil air transport agreements that provide for the exchange of air traffic rights between Peru and various other countries. There can be no assurance that existing bilateral agreements between Peru and foreign governments will continue, and a modification, suspension or revocation of one or more bilateral treaties could have a material adverse effect on our operations and financial results.

International route rights, as well as the corresponding landing rights, are derived from a variety of air transport agreements negotiated between Peru and foreign governments. Under such agreements, the government of one country grants the government of another country the right to designate one or more of its domestic airlines to operate scheduled services to certain destinations of the former and, in certain cases, to further connect to third-country destinations. In Peru, when additional route frequencies to and from foreign cities become available, any eligible airline may apply to obtain them. If there is more than one applicant for a route frequency the PDGAC awards it through a public auction for a period of four years. The PDGAC grants route frequencies subject to the condition that the recipient airline operate them on a permanent basis. If an airline fails to operate a route for a period of 90 days or more, the PDGAC may terminate its rights to that route, although that has never happened in practice.

Airfare Pricing Policy. Peruvian airlines are permitted to establish their own domestic and international fares without government regulation, as long as they do not abuse any dominant market position they may enjoy. For more information, see “—Antitrust Regulation” below. Airlines or other interested parties may file complaints before the Institute for Protection of Fair Competition and Consumer Rights (“Indecopi”) with respect to monopolistic or other pricing practices by other airlines that violate Peru’s antitrust laws.

Registration of Aircraft. Aircraft registration in Peru is governed by the Peruvian Civil Aviation Law. In order to own and register a Peruvian aircraft, the following conditions shall apply:

- In case of a natural person, the owner shall be a Peruvian citizen; or in case of a foreign person, the owner shall be permanently domiciled in Peru; or
- In case of a legal entity, it shall be incorporated in and having its domicile and principal place of business in Peru among other requirements established in article 47 of the Peruvian Civil Aviation Law.
- Aircraft owned by non-Peruvians citizens or entities with domicile in Peru may also be registered in Peru but only if the aircraft is used for general, not commercial aviation. Registration of any aircraft can be cancelled if it is not in compliance with the requirements for registration mentioned above and, in particular, if the aircraft does not comply with any applicable safety requirements specified by the PDGAC.

Safety. Peruvian law allows the use of aircraft that are registered either with the PDGAC or with an equivalent supervisory body in a country other than Peru. All aircraft must have a valid certificate of airworthiness issued by either the PDGAC or an equivalent non-Peruvian supervisory entity. In addition, the PDGAC will issue maintenance permits to a Peruvian airline as long as the PDGAC has assessed the airline’s maintenance capabilities. The PDGAC has approved our maintenance operations. Only PDGAC-certified maintenance facilities or facilities certified by an equivalent non-Peruvian supervisory body in the country where the aircraft is registered may maintain and repair the aircraft operated by Peruvian airlines. Aircraft maintenance personnel at such facilities must also be certified either by the PDGAC or an equivalent non-Peruvian supervisory body before be appointed to any aircraft maintenance positions.

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Security. The PDGAC establishes and supervises the implementation of security standards and regulations for the Peruvian commercial aviation industry. Such standards and regulations are based on standards developed by international commercial aviation organizations. Each airline and airport in Peru must submit an aviation security handbook to the PDGAC describing its security procedures for the day-to-day operations of commercial aviation and procedures for staff security training. LAN Peru has submitted its aviation security handbook to the PDGAC. Peruvian airlines that operate international routes must also adopt security measures in accordance with the requirements of applicable bilateral international agreements.

Airport Policy. CORPAC supervises and manages airports in Peru, including the supervision of take-off and landing charges. CORPAC sets airport charges for navigation facilities, which may differ from airport to airport. Since the mid-90s, a number of Peruvian airports have been privatized, including the Aeropuerto Internacional Jorge Chávez in Lima. At the privatized airports, the airport administration manages the facilities under the supervision of the *Organismo Supervisor de la Inversión en Infraestructura de Transporte de Uso Público*, (the Supervising Agency of Investment in Public Transport Infrastructure Facilities or “OSITRAN”), an independent regulatory and supervising entity.

Environmental and Noise Regulation. There are no specific material environmental regulations or controls imposed upon airlines, applicable to aircraft, or that otherwise materially affect us in Peru, except for environmental laws and regulations of general applicability. There are noise restriction regulations currently applicable to aircraft in Peru. LAN’s fleet complies with the proposed restrictions so they do not impose a material burden on us.

Ecuador

Aeronautical Regulation

There are two institutions that control commercial aviation on behalf of the State: (i) The National Civil Aviation Board (“CNAC”), which directs aviation policy; and (ii) the General Civil Aviation Bureau (“EDGAC”), which is a technical regulatory and control agency. The CNAC issues operating permits and grants operating concessions to national and international airlines. It also issues opinions on bilateral and multilateral air transportation treaties, allocates routes and traffic rights, and approves joint operating agreements such as wet leases and shared codes.

Fundamentally, the EDGAC is responsible for:

- ensuring that the national standards and technical regulations and international ICAO standards and regulations are observed;
- keeping records on insurance, airworthiness and licenses of Ecuadorian civil aircraft;
- maintaining the National Aircraft Registry;
- issuing licenses to crews; and
- controlling air traffic control inside domestic air space.

The EDGAC also must comply with the standards and recommended methods of the ICAO since Ecuador is a signatory of the 1944 Chicago Convention.

Route Rights

Domestic Routes. Airlines must obtain authorization from CNAC (an operating permit or concession) to provide air transportation. For domestic operations, only companies incorporated in Ecuador can operate locally, and only Ecuadorian-licensed aircraft and dry leases are authorized to operate domestically.

International Routes. Permits for international operations are based on air transportation treaties signed by Ecuador or, otherwise, the principle of reciprocity is applied. All airlines doing business in Latin America that are incorporated in countries that are members of the *Comunidad Andina de Naciones* (the Andean Community, or “CAN”) obtain their traffic rights on the basis of decisions currently in force under that regime, in particular decision N°582 of 2004, which guarantee free access to markets, with no type of restriction except technical considerations.

Shared codes are allowed in Ecuador after authorization by the CNAC, but the respective airlines must have the relevant traffic rights.

Airfare Pricing Policy. On October 13, 2011, The Statutory Law of Regulation and Control of the Market Power was passed with a purpose to avoid, prevent, correct, eliminate and sanction the abuse of economic operators with market power, as well as to sanction restrictive, disloyal and agreements involving collusive practices. This Law creates a new public entity as the maximum authority of application and establishes the procedures of investigation and the applicable sanctions, which are severe. Rates are not regulated and are subject only to registration. In general, bilateral treaties regarding air transportation provide for airfares to be regulated by the regulation of the country of origin.

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Registration of Aircraft. The legislation allows Ecuadorian companies to provide international air transportation services using aircraft licensed in Ecuador and aircraft with a foreign license, always provided the latter are exploited under dry leases. For domestic operations, aircraft is authorized only pursuant to dry leases and Ecuadorian registration. Aircraft interchange agreements are also allowed for international operations, provided that the aviation authority can confirm that the aircraft is under the operational control of an Ecuadorian operator. Wet leases are permitted, but very restricted.

Safety. In order to ensure aviation safety, the EDGAC requires that the airline hold an Air Operator Certificate and have Operating Specifications that are examined technically and rigorously to ensure compliance with the Civil Aviation Technical Regulations, which are essentially the same as the Federal Aviation Regulations (“FAR”) of the FAA. They cover matters of aircraft airworthiness, certification of maintenance facilities, and oversight by the EDGAC.

Security. The governing rules also apply to security in respect of the EDGAC. There are regulations, manuals and procedures on airport security overseen by the EDGAC.

Airport Policy. The international airports in Quito and Guayaquil are managed under administrative concessions, and the EDGAC merely controls air traffic. Fees for the use of airport facilities, terminal fees, landing fees, parking fees are all overseen and collected by the operator. Over-flight and approach fees are controlled and collected by the EDGAC.

Environmental and Noise Regulation. Aircraft must comply with the standards of category 3 under Ecuadorian applicable noise regulations, as set forth in Executive Decree (*Decreto Ejecutivo*) 1,405, enacted on October 24, 2008, which provides certain technical specific criteria. Beginning in May 2010, aircraft must comply with standards of category 4 under cited regulation. Category 3 provides for compliance with ICAO regulations and technical conditions mandatory in the United States of America.

United States of America

Aeronautical Regulation

Operations to and from the United States by non-U.S. airlines, such as LAN, are subject to Title 49 of the U.S. Code, under which the Department of Transportation (“DOT”) and the FAA exercise regulatory authority. The DOT has jurisdiction over international aviation in connection with the United States, subject to review by the President of the United States. The DOT also has jurisdiction with respect to unfair practices and methods of competition by airlines and related consumer protection matters. The U.S. DOJ also has jurisdiction over airline competition matters under the U.S. federal antitrust laws. Flight operations between Chile and the United States by airlines licensed by either country are governed generally by the open skies air transport agreement that Chile and the United States signed in October 1997. Under the open skies agreement, there are no restrictions on the number of destinations or flights that either a U.S. or a Chilean airline may operate between the two countries or on the number of U.S. and Chilean airlines that may operate.

Authorizations and Licenses

LAN is authorized by the DOT to engage in scheduled and charter air transportation services, including the transportation of persons, property (cargo) and mail, or combinations thereof, between points in Chile and points in the United States and beyond (via intermediate points in other countries). LAN holds the necessary authorizations from the DOT in the form of a foreign air carrier permit, Exemption Authorizations and Statements of Authorization to conduct current operations to and from the United States. Exemptions and Statements of Authorization are temporary in nature and are subject to renewal and therefore there can be no assurance that any particular exemption or statement of authorization will be renewed. LAN’s foreign air carrier permit has no expiration date, while a renewal of the exemption authorization (which includes the open skies traffic rights) was timely filed and the Authority was automatically extended until such time as the DOT issues the renewal order. LAN intends to request the inclusion of the open skies rights into our foreign air carrier permit, which would eliminate our need to renew the exemption authority in the future.

The FAA is engaged in the regulation with respect to safety matters, including aircraft maintenance and operations, equipment, aircraft noise, ground facilities, dispatch, communications, personnel, training, weather observation and other matters affecting air safety. The FAA requires each foreign air carrier to obtain certain operations specifications that authorize it to operate to particular airports on approved international routes using specified equipment. LAN currently holds FAA operations specifications under Part 129 of the FAR in compliance in all material respects with all requirements necessary to maintain in good standing of its operations specifications issued by the FAA. The FAA can amend, suspend, revoke or terminate those specifications, or can suspend temporarily or revoke permanently our authority if an airline fails to comply with the regulations, and can assess civil penalties for such failure. A modification, suspension or revocation of any of our DOT authorizations or FAA operations specifications could have a material adverse effect on our business.

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The FAA also conducts safety audits and has the power to impose fines and other sanctions for violations of airline safety regulations. We have not incurred any material fines related to operations.

Security. On November 19, 2001, the Congress of the United States passed, and the President signed into law, the Aviation and Transportation Security Act, also referred to as the Aviation Security Act. This law federalized substantially all aspects of civil aviation security and created the Transportation Security Administration (“TSA”), which took over security responsibilities previously held by the FAA. The TSA is an agency of the U.S. Department of Homeland Security. The Aviation Security Act requires, among other things, the implementation of certain security measures by airlines and airports, such as the requirement that all passenger bags be screened for explosives. Funding for airline and airport security required under the Aviation Security Act is provided in part by a US\$2.50 per segment passenger security fee, subject to a US\$10 per roundtrip cap; however, airlines are responsible for costs in excess of this fee. Implementation of the requirements of the Aviation Security Act has resulted in increased costs for airlines and their passengers. Since the events of September 11, 2001, Congress has mandated and the TSA has implemented numerous security procedures and requirements that have imposed and will continue to impose burdens on airlines, passengers and shippers.

Noise Restrictions. Under the Airport Noise and Capacity Act of 1990 (“ANCA”), and related FAA regulations, aircraft that fly to the United States must comply with certain Stage 3 noise restrictions, which are currently the most stringent FAA noise requirements. All of our aircraft that fly to the United States meet the Stage 3 requirements.

Under the direction of the ICAO, governments are considering the creation of a new and more stringent noise standard than that contained in the ANCA. The ICAO adopted new noise standards in 2001 that established more stringent noise requirements for aircraft manufactured after January 1, 2006. In the U.S., legislation known as the “Vision 100—Century of Aviation Reauthorization Act,” which was signed into law in December 2003, required the FAA to issue regulations implementing Stage 4 noise standards consistent with recommendations adopted by the ICAO. FAA regulations require all aircraft designed and certified after January 1, 2006 to comply with Stage 4 noise restrictions.

FAA regulations also require compliance with the Traffic Alert and Collision Avoidance System, approved airborne wind shear warning system and aging aircraft regulations. Our entire fleet meets these requirements.

Brazil

Aeronautical Regulation

The Brazilian aviation industry is regulated and overseen by the ANAC. The ANAC reports directly to the Civil Aviation Secretary, which is subordinated by the Federal Executive Power of this country. Primarily on the basis of Law No. 11.182/2005, ANAC was created to regulate commercial aviation, air navigation, the assignment of domestic and international routes, compliance with certain insurance requirements, flight operations, including personnel, aircraft and security standards, air traffic control, in this case sharing its activities and responsibilities with the *Departamento de Controle do Espaço Aéreo* (Department of Airspace Control) (“DECEA”), which is a public secretary also subordinated to the Brazilian Defense Ministry, and airport management, in this last case sharing responsibilities with the *Empresa Brasileira de Infra-Estrutura Aeroportuária* (the Brazilian Airport Infrastructure Company, or “INFRAERO”), a public company that was created by Law No. 5862/72, and is responsible for administering, operating and exploring Brazilian airports industrially and commercially (with the exception of Guarulhos International Airport, Viracopos International Airport and Brasília International Airport which was privatized in 2012 and are administered by concession agreement).

We have obtained and maintain the necessary authority from the Brazilian government to conduct flight operations, including authorization and technical operative certificates from ANAC, the continuation of which is subject to ongoing compliance with applicable statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future.

ANAC is the Brazilian civil aviation authority and it is responsible for supervising compliance with Brazilian laws and regulations relating to air navigation. Brazil is a contracting state and a permanent member of the ICAO. The ICAO establishes technical standards for the international aviation industry, which Brazilian authorities, represented by the Brazilian Defense Ministry, have incorporated into Brazilian laws and regulations. In the absence of an applicable Brazilian regulation concerning safety or maintenance, ANAC has incorporated by reference the majority of the ICAO’s technical standards.

Route Rights

Domestic Routes. Brazilian airlines are not required to obtain permits in connection with domestic passenger or cargo transportation, but only to comply with the technical requirements established by ANAC. Based on the Brazilian Aeronautical Code (“CBA”) established by Law No. 7.565/86, non-Brazilian airlines are not permitted to provide domestic air service between destinations in Brazil. The same law prevents a foreign airline from creating a Brazilian subsidiary and entering the Brazilian domestic market using that subsidiary.

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International Routes. Brazilian and non-Brazilian airlines providing services on international routes are also subject to a variety of bilateral civil air transport agreements that provide for the exchange of air traffic rights between Brazil and various other countries. International route rights, as well as the corresponding landing rights, are derived from a variety of air transport agreements negotiated between Brazil and foreign governments. Under such agreements, the government of one country grants the government of another country the right to designate one or more of its domestic airlines to operate scheduled services to certain destinations of the former and, in certain cases, to further connect to third-country destinations. In Brazil, when additional route frequencies to and from foreign cities become available, any eligible airline may apply to obtain them. If there is more than one applicant for a route frequency ANAC must carry out a public bid and award it to the elected airline. ANAC grants route frequencies subject to the condition that the recipient airline operate them on a permanent basis. If an airline fails to operate a route for a period of six months or more, ANAC may terminate its rights to that route. ANAC may also terminate its right if the recipient airline does not operate at least 80% of the frequency given for that specific route.

Airfare Pricing Policy. Brazilian and non-Brazilian airlines are permitted to establish their own international and domestic fares, in this last case only for Brazilian airlines, without government regulation, as long as they do not abuse any dominant market position they may enjoy. Airlines may file complaints before the Antitrust Court with respect to monopolistic or other pricing practices by other airlines that violate Brazil's antitrust laws.

Registration of Aircraft. Aircraft registration in Brazil is managed by ANAC, which maintains the Brazilian Aeronautical Register, as regulated by the CBA. The CBA allows ANAC to permit registration of aircraft belonging to Brazilian and non-Brazilian individuals.

Safety. ANAC requires that all Brazilian aircraft must have a valid certificate of airworthiness issued by ANAC. In addition, ANAC will not issue maintenance permits to a Brazilian airline until it has assessed the airline's maintenance capabilities. ANAC renews maintenance permits annually, and has approved our maintenance operations. Only ANAC certifies aircraft maintenance services and its personnel.

Security. ANAC establishes and supervises the implementation of security standards and regulations for the Brazilian commercial aviation industry. Such standards and regulations are based on standards developed by international commercial aviation organizations. Each airline and airport in Brazil must submit an aviation security handbook to ANAC describing its security procedures for the day-to-day operations of commercial aviation and procedures for staff security training.

Brazilian Airport Policy. INFRAERO supervises and manages airports in Brazil, including the supervision of take-off and landing charges. INFRAERO proposes airport charges, which are approved by ANAC and are the same at all airports. At privatized airports, the airport administration manages the facilities under the supervision of ANAC.

Environmental and Noise Regulation. ANAC coordinates and supervises noise regulations by regulation 121, which established noise restriction applicable to aircraft in Brazil. There are no material environmental regulations or controls imposed specifically upon airlines companies, applicable to aircraft, other than Brazilian general environmental laws and regulations.

Colombia

Aeronautical Regulation

The governmental entity in charge of regulating, directing and supervising the civil aviation is the Aeronáutica Civil ("AC"), a technical agency ascribed to the Ministry of Transportation. The AC is the aeronautical authority for the entire domestic territory, in charge of regulating and supervising the Colombian air space. The AC may interpret, apply and complement all civil aviation and air transportation regulation to ensure compliance with the Colombian Aeronautical Regulations ("RAC"). The AC also grants the necessary permits for air transportation.

Route Rights

The AC grants operation permits to domestic and foreign carriers that intend to operate in, from and to Colombia. In the case of Colombian airlines in order to obtain the operational permit the company must comply with the RAC and fulfill legal, economic and technical requirements, to later be subject to public hearings where the public convenience and necessity of the service is considered. The same process must be followed to add national or international routes, whose concession is subject to the bilateral instruments entered into by Colombia. Routes cannot be transferred under any circumstance and there is no limit to foreign investment in domestic airlines.

Airfare Pricing Policy. Since July 2007, as stated in resolution 3299 of the Aeronautical Civil entity, bottom level airfares for both international and domestic transportation were eliminated. Under resolution 904 issued in February 2012, the Aeronautical Civil entity decided to liberalize the obligation of charging a fuel surcharge for both domestic and international transportation of passengers and cargo. As of April 1, 2012, air carriers may now freely decide whether or not to charge a fuel surcharge. In the case that it is charged, the fuel surcharge must be part of the fare, but may be informed separately on the tickets, advertising or other methods of marketing used by the company.

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In the same line, as of April 1, 2012 there is no longer be any restriction on top level fares published by the airlines or with respect to the obligations for air carriers to report to the Aeronautical civil entity the fares and conditions the day after being published.

Administrative fares are not subject to any changes and its charge is an obligation for the transport of passengers under Aeronautical Civil Regulations.

Registration of Aircraft. The AC, through the Office of Aeronautical Registration, is in charge of handling the registration of aircraft that will be operated by Colombian airlines. Registration may be obtained by a registration process fully conducted in Colombia or through the validation in Colombia of a foreign registration. For such registration, the aircraft must be legally imported to the country and inspected by the aeronautical inspectors. This office is also in charge of property registrations, lease contracts and liens of the registered aircraft.

Safety. Aircraft registered in Colombia obtain an airworthiness certificate or a validation of the airworthiness certificate (if they operate under the approval of the foreign registration).

Security. Following the guidelines of the OACI annexes, the AC issued an airport security program that must be strictly complied with by all the aircraft operators in the country as well as by airports.

Environmental and Noise Regulation. In Colombia, only aircraft that comply with category 3 noise limits may operate. There are strict regulations to control noise during takeoffs and landings of the aircraft at the El Dorado Airport in Bogotá due to its location in an urban area.

Antitrust Regulation

The Chilean antitrust authority, which we refer to as the Antitrust Court (previously the Antitrust Commission), oversees antitrust matters, which are governed by Decree Law No. 211 of 1973, as amended, or the Antitrust Law. The Antitrust Law prohibits any entity from preventing, restricting or distorting competition in any market or any part of any market. The Antitrust Law also prohibits any business or businesses that have a dominant position in any market or a substantial part of any market from abusing that dominant position. An aggrieved person may sue for damages arising from a breach of Antitrust Law and/or file a complaint with the Antitrust Court requesting an order to enjoin the violation of the Antitrust Law. The Antitrust Court has the authority to impose a variety of sanctions for violations of the Antitrust Law, including termination of contracts contrary to the Antitrust Law, dissolution of a company and imposition of fines and daily penalties on businesses. Courts may award damages and other remedies (such as an injunction) in appropriate circumstances. As described above under “—Chile—Route Rights—Airfare Pricing Policy,” in October 1997, the Antitrust Court approved a specific self-regulatory fare plan for us consistent with the Antitrust Court’s directive to maintain a competitive environment within the domestic market.

Since October 1997, LAN Airlines S.A. and LAN Express follow a self-regulatory plan, which was modified and approved by the Tribunal de la Libre Competencia (the Competition Court) in July 2005, and further in September, 2011. In February 2010, the Fiscalía Nacional Económica (the National Economic Prosecutor’s Office) finalized the investigation initiated in 2007 regarding our compliance with this self-regulatory plan and no further observations were made

As a condition to the business combination between LAN and TAM in June 2012, the antitrust authorities in Chile and in Brazil each imposed certain mitigation measures as part of their approval of the merger. Furthermore, the merger was submitted to the antitrust authorities in Germany, Italy and Spain. All these jurisdictions granted unconditional clearances for this transaction. The merger was filed with the Argentinean antitrust authorities, which approval is still pending. For more information regarding these mitigation measures please see below:

Chile

On September 21, 2011, the TDLC issued the Decision with respect to the consultation procedure initiated on January 28, 2011 in connection with the proposed combination. The TDLC, in the Decision, approved the proposed combination between LAN and TAM, subject to 14 conditions, as generally described below:

- exchange of certain slots in the Guarulhos Airport at São Paulo, Brazil;
- extension of the frequent flyer program to airlines operating or willing to operate the Santiago-São Paulo, Santiago-Río de Janeiro, Santiago-Montevideo and Santiago-Asunción routes during the five-year period from the effective time of the merger;
- execution of interline agreements with airlines operating the Santiago-São Paulo, Santiago-Río de Janeiro and Santiago-Asunción routes;

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- certain capacity and other transitory restrictions applicable to the Santiago-São Paulo route;
- certain amendments to LAN's self-regulatory fare plan approved by the TDLC with respect to LAN's domestic passenger business;
- the obligation of LATAM to renounce to one global airline alliance within 24 months from the date in which the merger becomes effective, except in the case that the TDLC approves otherwise, or to elect not to participate in any global airline alliance;
- certain restrictions on codeshare agreements outside the global airline alliance to which LATAM belongs for routes with origin or destination in Chile or that connect to North America and Europe, or with Avianca/TACA or GOL for international routes in South America, including the obligation to consult with, and obtain approval from, the TDLC prior to its execution of certain of those codeshare agreements;
- the abandonment of four air traffic frequencies with fifth freedom rights between Chile and Perú and limitations on acquiring in excess of 75%, as applicable, of the air traffic frequencies in that route and the period that certain air traffic frequencies may be granted by the Chilean air transport authorities to LAN;
- issuance of a statement by LATAM supporting the unilateral opening of the Chilean domestic skies (cabotage) and abstention from any actions that would prevent such opening;
- promotion by LATAM of the growth and normal operation of the Guarulhos (Brazil) and Arturo Merino Benítez (Chile) airports, to facilitate access thereto to other airlines;
- certain restrictions regarding incentives to travel agencies;
- to maintain temporarily 12 round trip flights per week between Chile and the United States and at least seven round trip non-stop flights per week between Chile and Europe;
- certain transitory restrictions on increasing fares in the Santiago-São Paulo and Santiago-Río de Janeiro routes for the passenger business and for the Chile-Brazil routes for the cargo business; and
- engaging an independent consultant, expert in airline operations, which for 36 months, and in coordination with the FNE, will monitor and audit compliance with the conditions imposed by the Decision.

Brazil

On September 3, 2010, LAN and TAM submitted a merger filing before the Brazilian Antitrust System, composed of CADE, the SDE and the SEAE. The filing was made based on the Memorandum of Understanding, executed by the parties on August 13, 2010. As per the request of the parties, the SEAE suspended its analysis of the merger filing until the parties had taken more definitive steps with respect to the proposed combination. On October 21, 2010, the parties informed SEAE of the execution of the Instrumento Particular de Ratificação de Entendimento by the parties on October 12, 2010, pursuant to which the parties agreed on a transaction structure for the proposed combination and thus requested that SEAE resume its analysis of the merger filing. SEAE issued its report approving the merger filing without any restrictions on August 11, 2011. The case was then further examined by CADE's Reporting Commissioner, Olavo Chinaglia, for an additional four months. CADE sent information requests to LAN and TAM (Official Letter Nos. 1830/2011; 1945/2011; 2410/2011; and 2493/2011) to complement SEAE's analysis. On December 14, 2011, the case was adjudicated in a Plenary Session, where the board of CADE approved the transaction with the following conditions: (i) LAN and TAM cannot be members of more than one global airline alliance; (ii) LAN and TAM must swap two pairs of slots at the Guarulhos Airport with one or more companies that is willing to operate non-stop flights in the São Paulo-Santiago route, granting the swapping companies the necessary infrastructure in the Guarulhos Airport; and (iii) LAN and TAM must publish the contents of the decision in newspapers widely sold in Brazil, and send letters to carriers that operate commercial flights from the Guarulhos Airport, informing them of the decision.

C. ORGANIZATIONAL STRUCTURE

LATAM Airlines Group is a company primarily involved in the transportation of passengers and cargo. Our operations are carried out principally by LAN, and by a number of different subsidiaries and affiliates, including TAM. As of January 31, 2014, in the passenger business we operated through seven main airlines: LAN, Transporte Aéreo S.A. (which does business under the name "LAN Express"), LAN Perú S.A. ("LAN Peru"), Aerolane, Líneas Aéreas Nacionales del Ecuador S.A. ("LAN Ecuador"), LAN Argentina S.A. ("LAN Argentina," previously Aero 2000 S.A.), Aerovías de Integración Regional, Aires S.A. (which does business under the name "LAN Colombia") and TAM Linhas Aereas S.A. ("TAM Linhas Aereas")

As of January 31, 2014 we held a 99.90% stake in LAN Express through direct and indirect interests, a 69.98% stake in LAN Peru through direct and indirect interests, a 71.95% indirect stake in LAN Ecuador, a 94.99% indirect stake in LAN Argentina, a 98.81% indirect stake in LAN Colombia and a 100.00% of the non-voting shares of TAM and 19.42% of the voting shares of Holdco I S.A., who has the 100.00% of the voting shares of TAM. For a description of the recent combination with TAM, including TAM's operating structure, see "Item 4. Information on the Company—A. History and Development of the Company—Combination of LAN and TAM."

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Our cargo operations are carried out by our subsidiaries and affiliates, including, TAM Linhas Aereas and LAN Cargo. Our cargo operations are complemented by the operations of certain related companies, such as Aero Transportes Mas de Carga S.A. de C.V. (“MasAir”) in Mexico, Aerolinhas Brasileiras S.A. (“ABSA”) in Brazil and Linea Aérea Carguera de Colombia S.A. (“LANCO”) in Colombia. As of January 31, 2014, we indirectly held a 100% of the non-voting shares and a 24.99% of the voting shares of MasAir, a 100% of the non-voting shares and a 20% of the voting shares of ABSA, and an 89.90% stake in LANCO through direct and indirect participations. Following the business combination between LAN and TAM, we have coordinated the operations of ABSA and TAM Cargo in Brazil. In the cargo business, we market ourselves primarily under the LAN Cargo brand internationally and the TAM Cargo brand in Brazil.

D. PROPERTY, PLANTS AND EQUIPMENT

From February 1, 2013, LAN Infrastructure Management and TAM Infrastructure Management report to the Director of Purchasing and Infrastructure of LATAM. Both LAN and TAM infrastructure management teams have worked together during 2012 and 2013 regarding strategic planning for infrastructure issues for the LATAM Airlines Group.

LAN’s Property, Plant and Equipment

Headquarters

Our main facilities are located on approximately five acres of land that we own near the Comodoro Arturo Merino Benítez International Airport. The complex includes approximately 150,695 square feet of office space, 32,292 square feet of conference space and training facilities, 9,688 square feet of dining facilities and mock-up cabins used for crew instruction.

During the fourth quarter of 2003, we moved some of our executive offices into a new building in a more central location in Santiago, Chile, where we initially occupied a total of four floors owned by LAN. In the first half of 2005 we added three more floors to accommodate our growth requirements. These floors are also owned by LAN. In 2007, in order to accommodate the Company’s growth, LAN leased two floors in an adjacent building (totaling 18,298 square feet), where some of LAN staff moved in February 2008. We have leased these additional floors since 2007, under a 5-year lease. In 2009, to respond to the Company’s growth, LAN leased two additional floors in this building (totaling 12,917 square feet). We have leased these additional floors since 2009 until May 2016. In 2010, new offices were leased east of Santiago to allow for Company growth and to implement projects such as “Host,” which involves changing our system of reservations, sales, inventory and passenger check-in. We have leased these additional offices since 2010, under a 4-year lease. These additional offices add a total of 19,913 square feet to LAN’s property.

Furthermore, during 2011 we added to our facilities a new 11,840 square feet floor at the Arrau Building located in Santiago, Chile, which we lease for the new facilities of LAN Cargo. We have leased this floor since 2011, under a 3-year lease.

Maintenance Base

Our 877,258 square feet maintenance base is located on a site that we own inside the grounds of the Comodoro Arturo Merino Benítez International Airport. This facility contains our aircraft hangar, warehouses, workshops and offices, as well as a 559,720 square feet aircraft parking area capable of accommodating up to seventeen short-haul aircraft. We have a five-floor, 53,820 square feet office building plus a 10,000 square feet office and workshop space. This facility is certified by several civil aviation authorities, including the United States’ FAA. As such, we are permitted to perform maintenance work for third parties at the facility. The FAA periodically inspects the facility to ensure its compliance with FAA standards. We also lease from the DGAC 193,750 square feet of space inside the Comodoro Arturo Merino Benítez International Airport for operational and service purposes. Our lease has a duration of 14 years.

During 2012, we continued to invest and improve the maintenance base infrastructure with the objective of having world class facilities, including new access to the base, which allows facilities access control, therefore, improves its security.

During 2013, we began to develop a series of infrastructure projects, the most significant of which is the construction of a north platform which allows for an additional 13 new A320 aircraft parking spaces. During 2013, a significant part of this project was completed, including 5 new parking spaces for A320 aircraft. The project is expected to be finished during the third quarter of 2014. Additionally during 2013, parking capacity for vehicles was increased by 135 new spaces.

Miami Facilities

We occupy a 36.3-acre site at the Miami International Airport that has been leased to us by the airport under a concession agreement. Our facilities include a 48,000 square feet corporate building, a 380,000 square feet cargo warehouse (including a 10,000 square meter cooling area) and a 783,000 square feet aircraft-parking platform, which were constructed and are now leased to us under a long-term contract by a North American developer, and approximately 21,528 square feet of furnished office space, which we converted from warehouse space in 2004. The rent we pay for the use of this space is approximately US\$735,000 per month. We are currently negotiating with the local airport authority regarding its construction of a new hangar at the Miami International Airport, which we expect to lease from them when it is constructed.

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During 2010, LAN signed a concession agreement with the AMB Property Corporation to add a new cargo warehouse for additional areas for future developments. Our concession has duration of 5 years at a rate of approximately US\$215,000 per month.

During 2013, a new project for a Boeing B777 hangar was developed. This project finally received approval from Miami airport authorities in 2014 and should be completed during the first half of 2015.

Other Facilities

We own a building and sixteen acres of land on the west side of the Comodoro Arturo Merino Benítez International Airport that houses a flight-training center. As of February 28, 2014, this facility features three full-flight simulators for Boeing 767, Airbus A320 and Boeing 737 aircraft. We leased this flight-training center under a long-term lease to CAE Inc. (a leading Canadian company in the flight training business).

In 2004, Fast Air Almacenes de Carga S.A. ("Fast Air"), one of our subsidiaries that operates import customs warehouses, began utilizing an import warehouse and office building at the Comodoro Arturo Merino Benítez International Airport. This 172,000 square feet building was developed in conjunction with two other operators. We have leased these facilities since 2004 and, as a result of a new contract signed in 2013, we will continue to operate there until September 2015.

LAN Peru's Property, Plant and Equipment

LAN Peru has approximately 19,000 m² built. All facilities are leased and are distributed as follows:

Administrative Offices: 7,000 m²

Sales Offices: 2,000 m²

Concessions airports: 10,000 m²

We also own a 166,840 square feet of land near the Lima airport, where we have built new corporate and training facilities for the Company. The training facilities for flight and cabin crews (instructor center) completed in 2012 have capacity for two flight simulators (Airbus A320s and Boeing 767s), modern facilities for emergency evacuation practice (including pool to practice ditching) and classrooms. In addition, in 2010 leased a piece of land and hangar inside the Lima airport for our maintenance facilities, for which construction was completed in 2012. The land is rented to LAN Peru for a period of 5 years, and is renewable. The new maintenance facilities have staff facilities on three floors with approximately 3,500 m² of space, a hangar with a covered area of approximately 6,500 m² (space for three Airbus A320s or one Boeing 767) plus an outplatform of approximately 3,500 m².

Finally, we are renting eight floors in a building and three floors in another building for our corporate facilities. We are also renting twenty three commercial offices around the country.

LAN Colombia's Property, Plant and Equipment

LAN Colombia has approximately 27,500 m² built. All facilities are leased and are distributed as follows:

Administrative Offices: 4,500 m²

Sales Offices: 1,700 m²

Concessions airports: 21,300 m²

During 2012, new administrative and operational offices were created in the Logistic center (PARQUE DEL SOL) near the El Dorado airport in Bogota. The Project, covering 11,500 square feet, involved the remodeling and expansion of storage with offices and administrative space, with the capacity for more than 200 people.

During November 2013, a new VIP lounge covering 690m² in the El Dorado Airport in Bogotá was completed.

LAN Ecuador's Property, Plant and Equipment

LAN Ecuador has approximately 14,500 m² built. All facilities are leased and are distributed as follows:

Administrative Offices: 1,600 m²

Sales Offices: 1,000 m²

Concessions airports: 11,900 m²

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In Ecuador, the New Quito Airport was opened in 2013 and LAN Ecuador spent approximately US\$4.5 million for facilities and infrastructure investments at this new airport. During the construction period, LAN Ecuador (and other airlines) were required to make significant investments for airport infrastructure in this new airport.

During 2012, LAN began the construction of new facilities for Andes, a company that performs ground service aircraft handling services for LAN Ecuador and acts as an airport service provider. A new facility for line maintenance and operations was also constructed. Both facilities were built on land concessioned by QUIPORT and were opened during the first quarter of 2013. Further information regarding the size and amount of these investments is detailed in the table below:

Facilities	Ground (m ²)	Constructions (m ²)	Pavements (m ²)	Investment (US\$)
ANDES	4,000	3,134	1,800	2,500,000
MAINTENANCE	15,167	1,300	6,200	2,000,000

LAN Argentina's Property, Plant and Equipment

LAN Argentina has approximately 192,670 square feet built. All facilities are leased and are distributed as follows:

Administrative Offices: 71,042 square feet

Sales Offices: 27,986 square feet

Concessions airports: 93,646 square feet

We also have maintenance base in Argentina with a hangar of 26,900 square feet, 9,600 square feet of offices, 1,070 square feet of workshops and an exterior platform of 5,300 square feet. This project was completed in 2009. This facility is meant for the parking and maintenance of A320 aircraft and it's capable of providing full maintenance, including C-Checks.

On December of 2012, LAN Argentina launched its new VIP lounge in Terminal B of the Ezeiza Airport. An area of 6,458 square feet was built to house a modern lounge with a capability of more than 150 passengers, with areas for resting, work, entertainment, bathrooms and shower services.

TAM's Property Plant and Equipment

Headquarters

TAM's main facilities are located in São Paulo, in hangars within the Congonhas Airport and nearby. At Congonhas Airport, TAM leases office facilities in converted hangars belonging to INFRAERO (the Local Administrator Airport). These facilities comprise 649,933 square feet.

The Service Academy is located at Rua Atica, about 2.5 km from Congonhas Airport, is a separate property which TAM owns, exclusively for the areas of Selection, Medical Service, Training, and Mock-ups, comprising 15,342 m² distributed in 11 floors and about 240 workstations.

Base Maintenance

At Hangars II and V in Congonhas Airport, which TAM leases for approximately R\$39,510 and R\$52,665 per month, TAM has 15,650 m² of offices and hangars with about 1,050 workstations. This site also houses the areas of Aircraft Maintenance, Procurement and Logistics of Aeronautical Materials, and has been receiving a retrofit since 2008 for operational improvements at a total investment amount of approximately R\$ 30 million. The first two phases of the retrofit have been completed, and the third phase is currently being planned.

Other Facilities

In São Paulo, TAM has other facilities such as: Commercial Headquarters, an old Pantanal's office area leased, located 7.0 km from Congonhas Airport, with 540 m² and about 94 workstations; Uniform Building, located 700 m from the Service Academy, with 890 m² and about 10 workstations, exclusive use for storage and delivery of uniforms; Morumbi Office Tower located 8.0 km from Congonhas Airport, with 330 m² area and about 85 workstations exclusive for the Financial area, Call Center Building at Rua Augusta near to Paulista with 110 m² and about 150 workstations distributed in four floors.

Besides, in São Paulo, TAM has the offices belonging to the Group as: Multiplus Office, located in Brooklin region at 6.7 km from Congonhas Airport, with 800 m² leased, with approximately 150 workstations; TAM Viagens Office, located in the region of Paulista 9.0 Km from Congonhas Airport, with 2,800 m² leased distributed in 04 floors and about 265 workstations; Two Stores of TAM Viagens, at Rua Augusta with 110 m² leased and about 10 workstations and at Shopping SP Market with 50 m² leased and about 05 workstations.

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In Guarulhos, TAM has a total area of approximately 12,894 m² distributed in the Passenger Terminal, Operational Areas such as Check-in, Ticket Sales, Check Out, Operations Areas, VIP Lounges, Aircraft Maintenance, GSE, Cargo Terminal, Distribution Centers, etc. The Cargo Terminal has 164 m² of office and 15,000 m² of open area. The Distribution Centre Supplies has 3,030 m². We have a VIP Lounge recently opened in October 2012 with 540 m², with capacity for 174 seats located in Terminal 2, and 02 other VIP Lounges with 280 m² and 120 m².

In Brazil, TAM has a total of 45 online sites and 10 offline/chartering/high season sites, located in the capitals and main cities of the country, composing 78,772 m² of areas in Airports, Aircraft Maintenance, GSE, Hangars, Cargo Terminals, Commercial Offices, etc. TAM also has 133 franchised stores of TAM Viagens through Brazil.

Abroad, TAM has a total of 30 sites in 6,300 m², including 10 online sites and three offline/chartering/high season sites located in Latin America (except Brazil) with an area of 3,500 m², five online sites and one offline site in Central and North America with an area of 1,000 m², five online sites and three offline sites in Europe and three offline sites in Asia with a total area of 1,800 m².

New Headquarters

During 2013, TAM finished its project for a new headquarters with an area of 5,066 m², of which two and one-third floors are leased, space for 641 workstations and a total investment of R\$12.0 million. The new headquarters is located at the Tower Bridge Building, located in Brooklin region, approximately 6.7 km from Congonhas Airport. TAM took occupancy of the new headquarters in June 2013.

New Facilities

TAM executed several projects for new facilities in 2013, the most significant of which was a new cargo terminal in Manaus that integrates the operations of ABSA and TAM Cargo in the city, has a cargo space of about 4,700 m², the construction of a new ground support equipment (“GSE”) area in Guarulhos with an area of approximately 19,202 m², the construction of a new GSE area in Florianópolis with an area of approximately 400 m²; the construction of a new GSE area in Vitória with 255 m² and a new distribution center for supplies in Guarulhos, with an area of approximately 3,035 m². In total, TAM spent approximately R\$30 million on these projects in 2013.

Building Improvements

We have approved the “Big Picture” project, which will implement a new plan of occupancy for Hangars in the Hangars 2, 3, 5, 7 and 8 at Congonhas Airport as well as improvements of facilities and standardization of offices. The total area of the hangars is 32,777 m² and the estimated cost is R\$ 25 million. This project will be completed in the second half of 2015.

New Facilities

TAM has several projects for new facilities in 2014, the most significant of which are a new cargo terminal in Guarulhos that will integrate the operations of ABSA and TAM Cargo in Guarulhos, with a cargo space of about 15,434 m²; construction of a new Vip Lounge in Guarulhos Airport with 1,900 m²; investments of R\$ 20 million targeted to general improvements of GSE facilities in all Brazilian territory and a new hangar in Guarulhos Airport for narrow and wide body aircraft maintenance, the new hangar is under study but is expected to complete projects still in 2014. The new facilities will receive an investment of R\$ 51 million in 2014-2015.

Besides all projects mentioned above, some large airports in Brazil, including, like Guarulhos, Natal e Viracopos are undergoing major structural reforms promoted by the government which will require investments of R\$ 8,181 for modernization of our facilities. This project is directly related to the world cup football.

ITEM 4A UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

You should read the following discussion of our financial condition and results of operations together with our audited consolidated financial statements and the accompanying notes beginning on page F-1 of this annual report. As a result of the combination of LAN and TAM on June 22, 2012, the discussion of LATAM's results of operations below includes: (i) a discussion of

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LATAM's consolidated results for the year ended December 31, 2013, as compared to the year ended December 31, 2012, which includes the consolidated results of TAM from June 23, 2012, (ii) a supplementary discussion of LATAM's consolidated results for the year ended December 31, 2013, as compared to the unaudited pro forma results of LATAM Airlines Group for the year ended December 31, 2012, prepared for illustrative purposes only, to present a discussion of LATAM's results on a consolidated basis and giving effect to the combination with TAM as if it had occurred on January 1, 2012 and (iii) a discussion of LATAM's consolidated results for the year ended December 31, 2012, which includes the consolidated results of TAM from June 23, 2012, as compared to the year ended December 31, 2011, which represent LAN's historical audited consolidated results.

Overview

The principal and most distinctive aspect of our business model is the way in which we integrate our passenger and cargo activities. Our sophisticated service-oriented approach to combining passenger and cargo traffic enables us to better utilize our aircraft, reduce our break-even load factors on passenger flights, and diversify our revenue streams. Furthermore, the geographically diversified nature of our passenger and cargo networks provides additional diversification in our operations and reduces exposure to any single market. These benefits have helped us maintain profitability and expand our operations, despite volatile macroeconomic conditions and various external shocks that have affected the airline industry over the years.

In 2013, 97% of our revenues are generated by our air transport activities. We generate the balance of our operating revenues from tour operator services, aircraft leases, on-board sales, third-party maintenance, ground handling and customs and storage brokerage operations.

Our operating environment in 2013 was marked by a moderate growth in passenger operations, and reduced cargo demand. For the year ended December 31, 2013 LATAM Airlines reported a net loss of US\$263.8 million, largely resulting from a US\$481 million foreign exchange loss arising from the 6.5% depreciation of the Brazilian real in December 31, 2013 as compared to December 31, 2012. Operating revenues decreased by 0.2% in 2013 from pro forma revenues of US\$ 12,956.7 million in 2012 to US\$12,924.5 million, as a result of an increase of 0.4% in passenger revenues and a decrease of 4.0% in cargo revenues.

During 2013, passenger demand responded to different trends in our business units, resulting from the diverse strategies implemented in each of them. The Company's slight decrease in passenger capacity of 0.4% as compared to pro forma capacity for year 2012 was mainly a result of an 8.4% decrease in capacity in the domestic Brazil market and the rationalization of our international passenger operations where capacity only grew by 2.3%. These effects were partially offset by continued growth of 11.0% in capacity in our domestic Spanish speaking countries. In our domestic passenger operations in Brazil, the reduction in capacity, together with market segmentation and revenue management practices, resulted in a load factor of 79.7% in the year, which represents an increase of 6.1 percentage points as compared to pro forma figures for 2012. Revenues per ASK in this market increased by 4.1% in US dollar terms as a result of these initiatives. In our international passenger operations, capacity rationalization during the year resulted in an increase of only 2.3% in capacity as compared to pro forma capacity for 2012, which led to an increase of 2.4% in traffic and a slight increase in load factors and revenues per ASK.

For the year ended December 31, 2013 the combined yield for the international and domestic passenger businesses decreased by 2.0% as compared to the pro forma yield in 2012, reflecting a more challenging environment due to higher competition in the international routes and the impact of the 10.4% average depreciation of the Brazilian real for 2013 as compared to 2012, which impacted yields from the domestic Brazilian market. Depreciation of the local currencies in our Spanish speaking countries also impacted yields in these operations.

In the cargo business, we continue to face a challenging scenario due to a slowdown in world trade momentum, a decline in demand on routes to Latin America (especially to Brazil) and competitive pressures from new cargo carriers flying in the region, which has been partially offset by strong northbound routes. In the year ended December 31, 2013 cargo capacity as measured in ATKs slightly increased by 0.1%, with a significant decrease in capacity during the last quarter of the year, whereas cargo traffic slightly decreased by 0.5%, resulting in a decrease of 0.3 percentage points in cargo load factors to 58.4%. The Company continues with a rational and disciplined approach toward freighter capacity utilization, in line with a still challenging and competitive scenario in Latin American cargo markets, while focused on maximizing the belly utilization of the Company's passenger fleet. During the month of November 2013, we grounded for redelivery one B767F aircraft, thus reducing our cargo capacity in the quarter significantly and increasing load factors as of the end of the year.

Our operating expenses in 2013 were primarily impacted by a decrease in fuel prices, the depreciation of local currencies, especially the Brazilian real, and certain non-recurring costs related to our fleet plan restructuring. The Company continues to manage fuel prices through its fuel surcharge policy and financial hedging strategy, as well as tactical capacity adjustments on certain routes.

In June 2012, LATAM Airlines Group was formed through the business combination of LAN and TAM. During the second half of 2012, LATAM began the integration of LAN and TAM's business units and the transformation necessary to achieve the expected merger synergies, implementing adjustments to commercial practices and aligning operations and processes in its international and domestic passenger operations in Brazil. For the years ended December 31, 2013 and 2012, LATAM incurred one-time costs of

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US\$56.0 million and 59.2 million (pro forma), respectively. Although in the short term the Company's results are expected to be impacted by these transition and integration costs, the Company expects to achieve increased operating income in the long-term as a result of substantial synergies between these two businesses.

Passenger Operations

In general, our passenger revenues are driven by international and country-specific political and economic conditions, competitive activity, the attractiveness of the destinations that we serve, and the capacity we allocate among our different routes. Passenger revenues are also affected by our capacity, traffic, load factors, yield and unit revenue. Our capacity is measured in terms of available seat kilometers, or ASKs, which represents the number of seats we make available for sale, multiplied by the kilometers flown. We measure traffic in revenue passenger kilometers, or RPKs, as the number of passengers on our flights multiplied by the number of kilometers flown. Load factors represent RPKs (traffic) as a percentage of ASKs (capacity), or the percentage of our capacity that is actually used by paying customers. Finally, we use yield, or revenue from passenger operations divided by RPKs, to measure the average amount that one passenger pays to fly one kilometer and unit revenue, or revenue per ASK, to measure the effect of capacity on revenues. See "Item 3. Key Information—A. Selected Financial Data." The following discussion of revenue drivers in our passenger operations is based on our unaudited pro forma operating results for 2012 where specified.

Passenger demand has grown over the past years, driven by positive economic conditions in Latin America. Economic growth and improved customer confidence have led to an expansion in both business and leisure traffic to and from Latin America. Increased interest in travel into South America from Europe and the United States has been another factor positively impacting overall passenger traffic. As a consequence, passenger volumes in markets such as Chile, Peru, Argentina and Ecuador grew significantly between 2010 and 2013.

Competitive activity on both our domestic and international passenger routes has also varied over the last several years. On our international routes, competition has gradually increased as both incumbent and new competitors expanded their operations. Nevertheless, we have maintained our market share in most of our international markets since 2005 and have gradually increased our presence in international routes. We also have increased our domestic operations, initiating operations in Ecuador in April 2009, in Colombia in 2010 and in Brazil in 2012 following the business combination between LAN and TAM.

We address different challenges while advancing our strategic development plans by taking advantage of our integrated business model, efficient operations, continued customer focus, and flexible capacity management. Continuous monitoring of demand trends and competitive activity has allowed us to identify opportunities and, as a consequence, additional capacity has also been allocated to certain operations. We have also decreased capacity among other routes, especially in long haul routes to Europe because of weaker economic conditions, and domestic routes in Brazil, in response to softened demand in our Brazilian domestic operations. Further refinements to our itineraries have been implemented in order to improve connectivity between our operations and those of our partners.

We continue to enhance our regional network by selectively adding new destinations and launching new routes. Since 2004, we have been developing an intra-regional hub in Lima that enables us to effectively use Lima as a connecting point for passengers traveling between Mexico City, Bogotá, Caracas, Guayaquil, Quito, Buenos Aires, La Paz, Santa Cruz, Sao Paulo and Santiago de Chile. In 2007, we began direct service between Lima and Madrid and in July 2010, we launched four weekly frequencies between Lima and San Francisco, with connections from Sao Paulo, Santiago and Buenos Aires. During 2012 and 2013, because of the weak economic situation in Europe, LATAM reduced capacity to that region and increased frequencies to the United States, including a new LAN Colombia route, Bogotá-Miami, and a new TAM route, Rio de Janeiro-Orlando, in order to promote Florida as a getaway from Latin America to the United States.

LATAM's more moderate traffic growth of 2.5% during 2013 responded to a slight decrease of 0.4% in passenger capacity during the year, resulting from capacity rationalization initiatives both in the Brazilian domestic market, where capacity decreased by 8.4% in the year and in our long haul operations, where capacity decreases were focused on routes from Brazil to Europe.

During 2013, the combined yield for the international and domestic passenger businesses decreased by 2.0% as compared to the pro forma yield in 2012, reflecting the depreciation of the Brazilian real and local currencies in our Spanish speaking countries and a more challenging competitive environment in the region.

Passenger revenues increased by 0.4% to US\$11,061.6 million in the year ended December 31, 2013 as compared to pro forma revenues of US\$11,017.0 million for 2012. This was a result of the increase of 2.5% in passenger traffic (as measured in RPKs), partially offset by a 2.0% decrease in yields, as described above.

Cargo Operations

Our cargo operations depend on exports from and imports to South America and are, therefore, affected by economic conditions, foreign exchange rates, changes in international trade, the health of particular industries, competition and fuel prices (which we usually pass on to our customers through a cargo fuel surcharge). Cargo revenues are also affected by our capacity, traffic, load factors and yield. Our capacity is measured in terms of available ton kilometers, or ATKs, which represents the number of tons available for the transportation of cargo, multiplied by the kilometers flown. We measure traffic in revenue ton kilometers, or RTKs, as the amount of cargo loads (measured in tons) multiplied by the number of kilometers flown. Load factors represent RTKs (traffic) as a percentage of ATKs (capacity), or the percentage of our cargo capacity that is actually used to transport cargo for our customers. Finally, we use yield, or revenue from cargo operations divided by RTKs, to measure the average amount that our customers pay to transport one ton of cargo one kilometer. See “Item 3. Key Information—A. Selected Financial Data.” The following discussion of revenue drivers in our cargo operations including changes in capacity, traffic, load factors and yields, is based on our unaudited pro forma operating results for 2012 and 2011 where specified.

We operate in many of the major import and export markets in South America. In particular, in 2012, the agreements implemented relative to the TAM’s cargo network in Brazil significantly expanded our cargo capacity and route coverage. At the end of 2012, this additional cargo capacity represented approximately 32% of all LATAM Cargo capacity. In addition to providing additional cargo routes within Brazil, the combination of LAN and TAM also provided additional international destinations, including Milan, Paris and London.

The relative size of inbound and outbound flows to a particular market or route is a key element in cargo operations, as the unidirectional nature of freight flows requires airlines to create routes that combine origin-destination pairs that feature complementary freight flows. Changes in macroeconomic conditions may lead to major fluctuations in cargo flows to and from Latin America, therefore requiring continuous route and capacity adjustments.

We have designed our operations, route network and commercial strategies with the flexibility required to respond to changing conditions. The flexibility that our integrated business model allows based on adaptation to changes in market trends was key for LATAM’s operations in 2009, when the business was affected by the contraction of import and export markets in response to the global economic crisis and continued contraction in salmon exports from Chile as a result of an outbreak of the Infectious Salmon Anemia virus during 2007. LATAM received two Boeing 777 freighters in 2009, at a time where there was a decrease in demand in cargo operations. These aircraft were utilized to increase capacity, mainly on routes between South America and Europe and to expand LATAM’s cargo coverage beyond the region and strengthen its cargo services to Europe. As the economy started to recover at the end of 2009, LATAM was able to take advantage of the new capacity and growth opportunities in various markets in 2010 and 2011. Accordingly, the cargo business played an important role in driving LATAM’s revenue growth in 2010 and 2011. Since 2012, however, a slowdown in world macroeconomic conditions has significantly impacted cargo volumes, specifically in Europe and Asia. This slowdown has also affected South America, mainly in the southbound routes where LATAM Cargo carries imports of value added goods into Brazil. This weak macroeconomic environment also brought new competition to the region during 2012 and 2013, with airlines carriers such as Emirates and Cargo Lux, increasing the available capacity in the region and adding pressure to cargo yields. This weak cargo trend has continued during 2013.

As a result of these factors, cargo traffic decreased by 0.5% in 2013 as compared to pro forma traffic for 2012. Cargo yields decreased by 3.5% compared to 2012, reflecting the decline in demand on routes to Latin America, especially Brazil; increased competitive pressures from regional and international cargo carriers; and the effect of the depreciation of the Brazilian real on cargo revenues in that market. LATAM increased its capacity by approximately 0.1%, resulting in a 0.3 point decrease in its cargo load factor to 58.4% in 2013. LATAM’s cargo operations transported 1,171 thousand tons of freight in 2013, an increase of 1.5% as compared to the total (pro forma) freight transported in 2012.

As a result of decreased traffic and yields, LATAM’s pro forma cargo revenues decreased by 4.0% to US\$1,863.0 million in 2013 as compared to pro forma cargo sales of US\$1,939.8 million in 2012, representing 14.4% of the Company’s total revenues in 2013.

Cost Structure

LATAM Airlines Group’s costs are driven by the size of our operations, fuel prices, fleet costs and exchange rates. Our operating expenses are calculated in accordance with IFRS and comprise the sum of the line items “cost of sales” plus “distribution costs” plus “administrative expenses” plus “other operating expenses”, as shown on our consolidated statement of comprehensive income. These operating expenses include wages and benefits, fuel, depreciation and amortization, commissions to agents, aircraft rentals, other rental and landing fees, passenger services, aircraft maintenance, and other operating expenses. The following discussion of cost drivers is based on our unaudited pro forma operating results where specified.

As an airline, we are subject to fluctuations in costs that are outside our control, particularly fuel prices and exchange rates. However, we manage part of our exposure to changes in fuel prices through a fuel-hedging policy and the use of pass-through mechanisms on both the passenger and cargo businesses. To mitigate the impact in terms of exchange rate fluctuations on our net income, during 2013 we entered into a financial derivative contract to hedge more than 50% of our operating exposure to the Brazilian real in 2014.

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Personnel expenses are another significant component of our overall costs. Because a significant portion of our labor costs is denominated in Chilean pesos and in Brazilian reais, appreciation of these currencies against the dollar as well as increases in local inflation rates can result in increased costs in dollar terms and can negatively affect our results. Depreciation of local currencies results in decreases in costs in dollars. However, this cost pressure is mitigated by the partial natural hedge between the currencies of denomination of our total operating revenues and expenses.

Commissions paid to travel and cargo agents also comprise a significant cost to us. We compete with other airlines over the amount of commission we pay per sale, particularly in connection with special programs and marketing efforts, and to maintain competitive incentives with travel agents. In Chile, Ecuador, Argentina, Peru and Colombia we pay 1% commission to travel agencies and agents. In Brazil, the industry standard is not to provide any commissions directly to travel agencies and agents.

Fleet related expenses, namely aircraft rentals and depreciation are another significant cost. These costs are mainly fixed and can be reduced on a per unit basis by achieving higher daily aircraft utilization rates. Following the combination of LAN and TAM, the percentage of our fleet under operating leases increased from 34.8% in 2011 to 37.6% in 2012, and was 37.8% as of December 31, 2013.

To manage our cost structure, we have launched various efficiency-related initiatives aimed at reducing fuel consumption and increasingly incorporating efficient aircraft into the fleet.

Higher aircraft utilization has been an important source of improved efficiency. Our utilization strategy in 2012 was coupled with the addition of new passenger routes to our network, which enabled us to leverage our human and physical assets for increased efficiency as well as increasing frequencies. In our domestic operations we have also worked consistently to improve our cost structure. The key elements of our domestic business model have focused on improving short-haul service standards, reducing sales and distribution costs through higher Internet penetration and reduced agency commission, improving turnaround time, and increasing self check-in service through web check-in and kiosks at airports.

In addition, during 2009 we began to implement LEAN, a system for improving our processes by eliminating activities that do not add value to processes (thus increasing the value of each activity and suppressing those that are superfluous), thereby allowing us to reduce costs, and increase customer satisfaction. To improve fuel efficiency, in 2009 we began a program to install winglets on LAN's existing Boeing 767 aircraft fleet, which we continue to install as we receive new 767 aircraft. The installation of winglets on our Boeing 767 aircraft helped us to achieve average fuel efficiencies of approximately 5% per aircraft per year since implementation.

During 2013, and after a process of reviewing its post-merger fleet plan and fleet requirements, LATAM decided to undertake a broad fleet restructuring plan with the aim of reducing the number of models operated, phasing out less efficient models and allocating aircraft best suited to each one of its markets. As a result, beginning in the fourth quarter of 2013 and for approximately the next thirty months, the Company will phase out all of its A330s, A340s, B737s and Q400 and Q200s. During 2013, this process generated non-recurring costs of US\$29 million resulting from penalties related to anticipated redeliveries and other redelivery expenses.

Cost of sales for the year ended December 31, 2013 decreased by 3.9% as compared to pro forma cost of sales for 2012, mainly resulting from a decrease of 7.7% in aircraft fuel expenses, both because of lower prices and consumption; and a decrease of 4.0% in wages and benefits related to a lower headcount.

Outlook

Our long-term strategy is aimed at consolidating LATAM Airlines Group's position as the preferred passenger and cargo airline group in South America. The creation of LATAM Airlines Group in 2012, following the combination of LAN and TAM, has created the largest airline group in Latin America, with the largest fleet and number of destinations and, we believe, superior service standards. This combination has enabled LATAM to serve all major domestic markets across Latin America and has positioned us to compete in an increasingly consolidating global airline industry.

We will continue to expand our network by further developing our existing routes, adding new destinations, developing new alliances, and entering new markets. We expect our strong brand recognition, coupled with a continuous effort to improve service standards to drive increased customer preference, ultimately leading to strong market shares in the markets we serve. Our product and service design is aimed at providing passengers and cargo customers with differentiated offerings that provide valuable solutions to the needs of each of our customer types. We also aim to have products and services that evolve together with changes in technology, market conditions and competitive actions. We plan to maintain a highly competitive cost structure by leveraging our cost-conscious culture, incorporating new technologies and practices, and by identifying and implementing cost-reduction and efficiency-related initiatives. We believe that a focus on flexibility will enable us to effectively react to changing market conditions.

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Our results will be mainly determined by the expansion of our current network, the evolution of our market share in our main markets, our level of success in entering new markets, the successful combination between LAN and TAM and achievement of the expected synergies, the continued implementation of new efficiency-related programs, the continued implementation of our business model for short-haul operations, and fuel price levels.

- We plan to reinforce our regional network through the addition of new frequencies on our current routes and the addition of new destinations. We will also seek to enter into new alliances in both the passenger and cargo business, especially to build up our presence in new markets.
- Competitive activity in key markets has increased gradually in recent years, and we expect it to continue doing so in the future. Nevertheless, we expect to maintain solid market shares based on offering attractive value propositions that combine broad international and domestic networks, a strong customer focus and pricing.
- We are also working to increase our efficiency by streamlining our support processes, reducing commercial costs, and continuing with the implementation of our domestic business model on short-haul operations. Further efficiencies should arise from economies of scale, as growth in the passenger business accompanied by controlled fixed costs will serve to reduce our fixed cost base. In both the passenger and the cargo businesses, we also expect increased efficiency as we replace older aircraft with new and more fuel-efficient Boeing 787 and Boeing 777 models and the Airbus A350, and from fuel efficiency-related initiatives such as installing winglets on the B767 fleet.
- We will continue to focus on optimizing the utilization of the belly capacity of our wide body aircraft for the transportation of cargo, in order to benefit from the competitive advantage provided by our integrated passenger and cargo business model.

Overall, we believe that these initiatives will enable us to successfully respond to growth opportunities, maintain a solid competitive position, and manage operating expenses.

Our financial performance will also continue to be significantly affected by jet fuel prices. These prices rose significantly until mid-2008, which led to a sharp rise in our fuel expenditures, but significantly declined in 2009. During 2010 and 2011 fuel prices recovered from the 2009 decline and again rose significantly, as a result of increased demand coupled with geopolitical conflicts that affected global fuel supply. In 2012 jet fuel prices fluctuated in a stable range, having a lower impact in our fuel expenses as compared to prior years. At the end of 2013, fuel prices were high principally because of positive signs of growth in the United States, and presently, fuel is following the same trend, mainly because of the Ukraine/Russia conflict and also because of positive signs of growth in the United States and Europe. Although we have implemented a number of strategies to mitigate the impact of the volatility of fuel prices, it is unlikely that we will be able to fully protect ourselves against the volatility of fuel costs.

Results of Operation

The discussion of LATAM Airlines Group's financial results for the year ended December 31, 2013 compared to the year ended December 31, 2012 (actual) compares the audited consolidated results of the LATAM Airlines Group for the 2013 fiscal year to the audited consolidated results of the LATAM Airlines Group for the 2012 fiscal year (which includes TAM's financial results from June 23, 2012). Accordingly, the acquisition of TAM during June, 2012 is a significant factor affecting the comparability of the historical financial results for previous and upcoming years.

The discussion of LATAM Airlines Group's financial results for the year ended December 31, 2013 compared to the year ended December 31, 2012 (pro forma) below is on the basis of the LATAM Unaudited Pro Forma Financial Information. The Unaudited LATAM Pro Forma Information has been prepared using the purchase method of accounting with LAN treated as the acquirer of TAM, and giving effect to the combination as if it had been consummated on January 1, 2012. The discussion of LATAM's results on a pro forma basis is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of LATAM would have been had the proposed combination occurred on the dates assumed, nor are the pro forma results necessarily indicative of future consolidated results of operations or consolidated financial position of LATAM.

The discussion of LATAM Airlines Group's financial results for the year ended December 31, 2012 (actual) compared to the year ended December 31, 2011 (actual) below compares the audited consolidated results of the LATAM Airlines Group for the 2012 fiscal year (which includes TAM's financial results from June 23, 2012) to the audited consolidated results of the LATAM Airlines Group for the 2011 fiscal year (which are historical results for LAN). These financial results for the year ended December 31, 2012 were retrospectively revised. For more information see "Operating and Financial Review and Prospects – Accounting Impact of the Business Combinations".

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LATAM Airlines Group Financial Results Discussion: Year ended December 31, 2013 (actual) compared to year ended December 31, 2012 (actual) as retrospectively revised

The following table sets forth certain income statement data for LATAM Airlines Group, for the year ended December 31, 2013, and for LATAM Airlines Group, for the year ended December 31, 2012 (including TAM's results from June 23, 2012). For certain operating data during these periods, see "Item 3. Key Information—A. Selected Financial Data."

	Year Ended December 31,		2013		2013/2012 % change
	2013	2012	2013	2012	
	(in US\$ millions, except per share and capital stock data)		As a percentage of total operating revenues		
Consolidated Results of Income by Function					
Operating revenues					
Passenger	11,061.6	7,966.8	85.6%	82.0%	38.8%
Cargo	1,863.0	1,743.5	14.4%	18.0%	6.9%
Total operating revenues	12,924.5	9,710.4	100.0%	100.0%	33.1%
Cost of sales	(10,054.2)	(7,634.5)	(77.8)%	(78.6)%	31.7%
Gross margin	2,870.4	2,075.9	22.2%	21.4%	38.3%
Other operating income	341.6	220.2	2.6%	2.3%	55.1%
Distribution costs	(1,025.9)	(803.6)	(7.9)%	(8.3)%	27.7%
Administrative expenses	(1,136.1)	(888.7)	(8.8)%	(9.2)%	27.8%
Other operating expenses	(408.7)	(311.8)	(3.2)%	(3.2)%	31.1%
Financial income	72.8	77.5	0.6%	0.8%	(6.1)%
Financial costs (from non-financial activities)	(462.5)	(294.6)	(3.6)%	(3.0)%	57.0%
Earning on investments (equity method)	2.0	1.0	0.0%	0.0%	100.0%
Exchange rate differences	(482.2)	66.7	(3.7)%	0.7%	(822.9)%
Result of indexation units	0.2	0.0	0.0%	0.0%	100.0%
Negative goodwill	—	—	—	—	—
Other gains/(losses)	(55.4)	(45.8)	(0.4)%	(0.5)%	21.0%
Income before income taxes	(283.9)	96.7	(2.2)%	1.0%	(393.6)%
Income tax expense	20.1	(102.4)	0.2%	(1.1)%	(119.6)%
Net income for the period	(263.8)	(5.6)	(2.0)%	(0.1)%	4,610.7%
Income for the period attributable to the parent company's equity holders	(281.1)	(19.1)	(2.2)%	(0.2)%	(1,372.3)%
Income for the period attributable to non-controlling interests	17.3	13.4	0.1%	0.1%	29.1%
Net income for the period	(263.8)	(5.6)	(2.0)%	(0.1)%	4,610.7%
Earnings per share					
Basic earnings per share (US\$)	(0.57613)	(0.04627)	n.a.	n.a.	(1,145.1)%
Diluted earnings per share (US\$)	(0.57613)	(0.04627)	n.a.	n.a.	(1,145.1)%

* The abbreviation "n.a." means "not available".

Net Income

Net loss for the year ended December 31, 2013 equaled US\$ 263.8 million, representing an increase of US\$ 258.2 million from a net loss of US\$5.6 million in 2012. Net loss attributable to the parents of the company rose to US\$ 281.1 million in 2013 from US\$19.1 million in 2012. Results for the 2013 year were negatively impacted by a foreign exchange loss of US\$ 482.2 million mainly resulting from the depreciation of the Brazilian real in the year. On the other hand, in 2012 and 2013, LATAM incurred US\$59.2 and US\$56.0 million, respectively, of non-recurring expenses related to the merger and integration costs, and an accounting charge of US\$70 million related to the increase in the Chilean corporate tax rate from 17% to 20% during 2012.

Our total operating revenues increased by 33.1% to US\$ 12,924.5 million in the year ended December 31, 2013 compared to revenues of US\$ 9,710.4 million in 2012, reflecting the consolidation of TAM's revenues in 2012 only since June 23. The 2013 increase in operating revenues was attributable to a 38.8% increase in passenger revenues, and a 6.9% increase in cargo revenues. Passenger and cargo revenues accounted for 85.6% and 14.4% of total operating revenues in 2013, respectively.

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Passenger traffic and capacity in 2013 increased significantly following the full year consolidation of TAM's domestic and international operations. Capacity increases in 2013 were mainly focused on domestic routes in our Spanish speaking countries and regional routes within Latin America, and were partially offset by decreased capacity on Brazilian domestic routes and long haul routes, especially to Europe.

Operating expenses also increased as a result of our increased operations following the combination with TAM on June 22, 2012.

Operating Revenues

Operating revenues increased by 33.1% to US\$12,924.5 million for the year ended December 31, 2013 from US\$9,710.4 million in 2012. Our consolidated passenger revenues increased by 38.8% to US\$11,061.6 million in 2013 from US\$7,966.8 million in 2012, primarily as a result of the consolidation of TAM's revenue for 2012 since June 23.

Cargo revenues increased by 6.9%, to US\$1,863.0 million in 2013 from US\$1,743.5 million in 2012, also as a result of the consolidation of TAM's cargo revenues for full year 2013. The slight increase in cargo revenues in spite of TAM's cargo integration is a result of a weak global cargo scenario which has impacted both cargo traffic and yields. *Cost of Sales*

Cost of sales increased by 31.7% to US\$10,054.2 million in the year ended December 31, 2013 from US\$7,634.5 million in 2012, mainly as a result of increased operations due to the complete consolidation of TAM's costs for year 2013. As a percentage of total operating revenues, cost of sales decreased from 78.6% in 2012 to 77.8% in 2013.

The table below presents cost of sales information for the fiscal year ended December 31, 2013 and 2012 actual.

	Year Ended December 31				2013/2012 % change
	2013	2012	2013	2012	
	(in US\$millions, except as otherwise stated)		As a percentage of total operating revenues		
Revenues	12,924.5	9,710.4	100.0%	100.0%	33.1%
Cost of sales	(10,054.2)	(7,634.5)	(77.8)%	(78.6)%	31.7%
Aircraft Fuel	(4,414.2)	(3,434.6)	(34.2)%	(35.4)%	28.5%
Wages and Benefits	(1,881.0)	(1,431.2)	(14.6)%	(14.7)%	31.4%
Other Rental and Landing Fees	(1,373.1)	(1,052.6)	(10.6)%	(10.8)%	30.4%
Depreciation and Amortization	(1,041.7)	(771.1)	(8.1)%	(7.9)%	35.1%
Aircraft Rentals	(441.1)	(308.8)	(3.4)%	(3.2)%	42.8%
Aircraft Maintenance	(477.1)	(297.6)	(3.7)%	(3.1)%	60.3%
Passenger Services	(331.4)	(239.8)	(2.6)%	(2.5)%	38.2%
Other Costs of Sales	(94.5)	(98.8)	(0.7)%	(1.0)%	(4.3)%

The increase in cost of sales was driven by higher aircraft fuel expenses, which increased by 28.5% to US\$4,414.2 million in 2013 as a result of higher fuel consumption related to the incorporation of TAM's operations from June 23, 2012, which was partially offset by lower average fuel prices and efficiency initiatives. In addition, LATAM recognized a net gain of US\$19.0 million in fuel hedging in 2013, compared to the fuel hedge loss of US\$1.8 million in 2012.

Depreciation and amortization increased by US\$270.6 million amounting to US\$1,041.7 million, which represents an increase of 35.1% mainly due to the incorporation of all of TAM's fleet (including new TAM fleet deliveries in 2012) starting June 23, 2012.

Wages and benefits increased by US\$449.8 million amounting to US\$1,881.0 million, which represents an increase of 31.4%, mainly due to the incorporation of TAM's employees following the combination of LAN and TAM in 2012.

Other rental and landing fees increased by 30.4% to US\$1,373.1 million in 2013 from US\$1,052.6 million in 2012, resulting from higher fees related to a larger operation with the consolidation of TAM's fees for full year 2013.

Aircraft maintenance expenses increased by 60.3%, from US\$297.6 million in 2012 to US\$477.1 million in 2013, as a result of higher costs related to a larger fleet and higher maintenance costs related to redeliveries of aircraft.

Aircraft rentals increased by 42.8% to US\$441.1 million in 2013 from US\$308.8 million in 2012, primarily due to the complete consolidation of TAM's fleet for full year 2013 and the net increase of aircraft under operating leases during the year.

Passenger service expenses increased by 38.2%, to US\$331.4 million in 2013 compared to US\$239.8 million in 2012, mainly resulting from the increase in passengers transported after the combination of LAN and TAM.

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As a result of the above, gross margin increased by 38.3% from US\$2,075.9 million in 2012 to US\$2,870.4 million in 2013.

Other Consolidated Results

Other operating income increased in 2013 by US\$121.4 million, from US\$220.2 million to US\$341.6 million, due to the incorporation of TAM's other revenues since June 22, 2012, a US\$28.7 million revenue from Multiplus' breakage and non-air redemptions, and an income for recognizing US\$10.8 million and US\$ 8.2 million generated as a result of the sale and lease-back of ten Airbus A330 aircraft, and two Airbus A318 aircraft and an engine during the second quarter of the year.

Distribution costs increased by 27.7% from US\$803.6 million in 2012 to US\$1,025.9 million in 2013, as a result of the consolidation of TAM's results only starting in June 23, 2012.

Administrative expenses increased by 27.8% from US\$888.7 million in 2012 to US\$1,136.1 million in 2013, mainly due to an increase of 30.6% in wages and benefits resulting from the higher number of employees following the combination of LAN and TAM in 2012.

Other operating expenses increased by 31.1% from US\$311.8 million in 2012 to US\$408.7 million in 2013, as a result of higher sales costs, advertising and marketing expenses and costs related to tours and travel services, related to the integration of TAM's operations from June 23, 2012.

Financial income decreased to US\$72.8 million in the year ended December 31, 2013 from US\$77.5 million in 2012, due to a lower average cash balance and interest rates during the period.

Financial costs (from non-financial activities) increased by 57.0% to US\$462.5 million in 2013 from US\$292.6 million in 2012 due to higher average long-term debt related to fleet financing mainly related to the consolidation of TAM's fleet.

Exchange rate differences decreased from a gain of US\$66.7 million in 2012 to a loss of US\$482.2 million in 2013, mainly resulting from the depreciation of the Brazilian real in the period.

Under other gains (losses), the Company recorded a net loss of US\$55.4 million in 2013 as compared to a net loss of US\$45.8 million in 2012.

Income tax credit for 2013 amounted to US\$ 20.1 million as compared to an income tax expense of US\$102.4 million in 2012. For more information, see "—Critical Accounting Policies—Deferred Taxes" below and Note 19 to our audited consolidated financial statements.

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LATAM Airlines Group Financial Results Discussion: Year ended December 31, 2013 (actual) compared to year ended December 31, 2012 (Pro forma)

The following table sets forth certain pro forma income statement data for LATAM Airlines Group. See “—Pro Forma Adjustments” below for further information. For certain operating data during these periods, see “Item 3. Key Information—A. Selected Financial Data—LATAM Unaudited Pro Forma Financial Information.”

	Year Ended December 31,				
	(on a Pro Forma Basis)				
	2013	2012	2013	2012	2013/2012
	(in millions of US\$, except per share and capital stock data)		As a percentage of total operating revenues		% change
Operating Revenues					
Passenger	11,061.6	11,017.0	85.6%	85.0%	0.4%
Cargo	1,863.0	1,939.8	14.4%	15.0%	(4.0)%
Total Operating revenues	12,924.5	12,956.7	100.0%	100.0%	(0.2)%
Cost of sales	(10,564.8)	(10,536.7)	(77.8)%	(81.3)%	(4.6)%
Gross Margin	2,870.4	2,420.1	22.2%	18.7%	18.6%
Other operating income	341.6	265.4	2.6%	2.0%	28.7%
Distribution costs	(1,025.9)	(1,059.7)	(7.9)%	(8.2)%	(3.2)%
Administrative expenses	(1,136.1)	(1,174.8)	(8.8)%	(9.1)%	(3.3)%
Other operating expenses	(408.7)	(364.5)	(3.2)%	(2.8)%	12.1%
Other gains/(losses)	(55.4)	(34.8)	(0.4)%	(0.3)%	59.2%
Financial income	72.8	117.2	0.6%	0.9%	(37.9)%
Financial costs (from non-financial activities)	(462.5)	(444.2)	(3.6)%	(3.4)%	4.1%
Earning on investments (equity method)	2.0	1.0	0.0%	0.0%	100.0%
Exchange rate differences	(482.2)	(290.1)	(3.7)%	(2.2)%	66.2%
Result of indexation units	0.2	0.0	0.0%	0.0%	100.0%
Income (loss) before taxes	(283.9)	(564.5)	(2.2)%	(4.4)%	(49.7)%
Income tax expense	20.1	69.7	0.2%	0.5%	(71.2)%
Net income (loss) for the year	(263.8)	(494.9)	(2.0)%	(3.8)%	(46.7)%
Income (loss) for the period attributable to the parent company's equity holders	(281.1)	(523.1)	(2.2)%	(4.0)%	(46.3)%
Income for the period attributable to non-controlling interests	17.3	28.3	0.1%	0.2%	(38.8)%
Net income for the year	(263.8)	(494.9)	(2.0)%	(3.8)%	(46.7)%
Earnings per share					
Basic earnings per share (US\$)	(0.57613)	(1.26891)	n.a.	n.a.	(54.6)%
Diluted earnings per share(US\$)	(0.57613)	(1.26891)	n.a.	n.a.	(54.6)%

* The abbreviation “n.a.” means “not available”.

Net loss

Net loss decreased by 46.7% to a loss of US\$263.8 million for the year ended December 31, 2013 from a pro forma loss of US\$494.9 million in 2012. Net loss attributable to the owners of the parent decreased by 46.3% to US\$281.1 million from a pro forma net loss of US\$523.1 million in 2012. Results for year 2013 were negatively impacted by a foreign exchange loss of US\$ 482.2 million primarily resulting from the 10.4% depreciation of the Brazilian real in 2013 as compared to 2012. Results for 2013 also include US\$ 29 million in non-recurring costs related to the restructuring of LATAM's fleet plan. For more information, see “—Business strategy – Fleet restructuring plan”.

LATAM's total operating revenues slightly decreased by 0.2% during 2013 as compared to pro forma revenues for 2012, reflecting the rationalization of our domestic Brazil and international operations and a still challenging scenario in the cargo business. These variations include the negative impact of the 10.4% average depreciation of the Brazilian real in 2013 as compared to 2012 in revenues denominated in that currency. The decrease in operating revenues was attributable to a decrease of 4.0% in cargo revenues, partially offset by an increase of 0.4% in passenger revenues. Passenger and cargo accounted to 85.6% and 14.4% of total operating revenues, respectively, for the year ended December 31, 2013.

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Total operating expenses decreased by 3.9%, mainly due to lower fuel expenses, reflecting the 2.2% decrease in consumption and the 5.6% decrease in fuel price (after hedge). Lower wages and benefits of 4.0% in the year also positively impacted our operating expenses in 2013 as compared to pro forma operating expenses in 2012.

Operating Revenues

LATAM's total operating revenues decreased 0.2% to US\$ 12,924.5 million for the year ended December 31, 2013 from pro forma operating revenues of US\$ 12,956.7 million in 2012, as a result of a 4.0% decrease in cargo revenues, partially offset by a 0.4% increase in passenger revenues.

Passenger revenues increased by 0.4% to US\$ 11,061.6 million in 2013 as compared to pro forma passenger revenues of US\$ 11,017.0 million in 2012, as a result of an increase of 2.5% in passenger traffic, partially offset by a decrease of 2.0% in passenger yields. Load factors increased by 2.3 percentage points from 78.6% (pro forma) to 80.8%, as the increase in traffic was despite the 0.4% decrease in capacity. Overall, revenues per ASK increased by 0.8% as compared to pro forma revenues per ASK for 2013, including the effect of the devaluation of the Brazilian real on revenues denominated in that currency during year 2013. During 2013, the 0.4% decrease in capacity as compared to pro forma capacity for 2012 was mainly a result of a strong decrease in capacity of 8.4% in the Brazilian domestic market and a rationalization of our international routes, mainly long haul routes from Brazil to Europe. This contraction was partially offset by still strong capacity increases of 11.0% in our Spanish speaking domestic markets in the period. Total passenger yields decreased mostly as a result of the depreciation of the Brazilian real and other currencies in LAN's domestic markets.

Cargo revenues decreased by 4.0% to US\$ 1,863.0 million in 2013 from pro forma cargo revenues of US\$1,939.8 million in 2012, as a result of a decline of 3.5% in cargo yields and a 0.5% decrease in traffic. Cargo demand continued to be weak in this period, in particular on import routes into Latin America. Additionally, the decline in yields reflects the 10.4% depreciation of the Brazilian real on cargo revenues in the Brazilian domestic market during 2013 as compared to 2012, and competitive pressures from regional and international cargo carriers.

Cost of Sales

Cost of sales decreased by 4.6% to US\$10,054.2 million for the year ended December 31, 2013 from a pro forma cost of sales of US\$10,536.7 million in 2012, mainly as a result of lower fuel expenses in the year. Cost of sales was positively impacted by the 10.4% average depreciation of the Brazilian real in 2013 as compared to 2012 in costs denominated in that currency. As a percentage of total revenues, cost of sales decreased from 81.3% in 2012 to 77.8% in 2013.

The table below presents cost of sales information for the fiscal year ended December 31, 2013 actual and 2012 pro forma.

	Year Ended December 31				2013/2012 % change
	2013 (in US\$millions, except as otherwise stated)	2012	2013 As a percentage of total operating revenues	2012	
Revenues	12,924.5	12,956.7	100.0%	100.0%	(0.2)%
Cost of sales	(10,564.8)	(10,536.7)	(77.8)%	(81.3)%	(4.6)%
Aircraft Fuel	(4,414.2)	(4,780.3)	(34.2)%	(36.9)%	(7.7)%
Wages and Benefits	(1,881.0)	(2,009.0)	(14.6)%	(15.5)%	(6.4)%
Other Rental and Landing Fees	(1,373.1)	(1,377.1)	(10.6)%	(10.6)%	(0.3)%
Depreciation and Amortization	(1,041.7)	(1,087.0)	(8.1)%	(8.4)%	(4.2)%
Aircraft Rentals	(441.1)	(422.0)	(3.4)%	(3.3)%	4.5%
Aircraft Maintenance	(477.1)	(424.4)	(3.7)%	(3.3)%	12.4%
Passenger Services	(331.4)	(314.9)	(2.6)%	(2.4)%	5.2%
Other Costs of Sales	(94.5)	(122.0)	(0.7)%	(0.9)%	(22.5)%

Aircraft fuel expense decreased by 7.7% to US\$ 4,414.2 million in 2013 compared to a pro forma fuel expense of US\$ 4,780.3 million in 2012. Fuel expense decreased both because of a decrease of 2.2% in consumption and a decrease in the cost of fuel. The decrease in consumption goes in line with the rationalization of passenger and cargo operations which resulted in a decrease of 0.2% in our ASK-equivalents in the year as compared to 2012 (pro forma), and ongoing fuel efficiency initiatives. The into-wing (fuel price

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plus taxes and transportation costs) 2013 average final price was US\$3.50 per gallon (without hedge), representing a 5.2% decrease from the 2012 average. In addition, during 2013 the Company recognized US\$19.0 million in fuel hedge gains as compared to fuel hedge losses of US\$ 1.8 million in year 2012.

Wages and benefits decreased 6.4% to US\$1,881.0 million in 2013 compared to US\$2,009.0 million in 2012, mainly as a result of the depreciation of the Brazilian real during 2013 as compared to 2012. This effect was partially offset by the increase in the average wages.

Depreciation and amortization decreased by 4.2% to US\$1,041.7 million in 2013 from US\$1,087.0 million in 2012 (pro forma), mainly as a result of the depreciation of the Brazilian real in the year as compared to 2012. Excluding this effect, depreciation would have increased slightly as a result of the incorporation of twenty-five aircraft from the Airbus A320 family, four Boeing 767 aircraft, two Boeing 777-300ER aircraft and two Boeing 787-800 aircraft to our total fleet (on and off balance sheet) during the year; partially offset by the phase out of thirteen Airbus A320 family aircraft, one Airbus A340 aircraft, one Boeing 767 aircraft, three Bombardier Dhc8-200 aircraft and one Bombardier Dhc-400 aircraft during the year.

Other rental and landing fees decreased by 0.3% to US\$ 1,373.1 million in 2013 from pro forma rentals and landing fees of US\$ 1,377.1 million in 2012, mainly as a result of lower aeronautical fees.

Aircraft maintenance expenses increased by 12.4% to US\$477.1 million in 2013 from US\$424.4 million in 2012 (pro forma) mainly due to more aircraft redeliveries, which resulted in increased maintenance expenses for required checks prior to the return of such aircraft to lessors during the year. This effect was partially offset by the depreciation of the Brazilian real on maintenance done in Brazil.

Aircraft rentals increased 4.5% to US\$ 441.1 million in 2013 from pro forma rentals of US\$ 422.0 million in 2012, explained by the incorporation under operating leases of five Airbus A320 family aircraft, ten Airbus A330 aircraft, two Boeing B777 aircraft and two Boeing B787 aircraft to our fleet. This effect was partially offset by the phase out of aircraft under operating leases, including eight Airbus A320 family aircraft, one Airbus A340 aircraft, one Boeing B737 aircraft, two Boeing B767 aircraft, three Bombardier Dhc 8-200 aircraft and one Bombardier Dhc 8-400 aircraft during the same period.

Passenger service expenses increased by 5.2% to US\$ 331.4 million from pro forma passenger services of US\$ 314.9 million in 2012, mainly resulting from the increase of 3.1% in passengers transported and increases in passenger concessions.

As a result of the above, gross margin increased by 22.2% from US\$2,420.1 million in 2012 (pro forma) to US\$2,870.4 million in 2013.

Other Consolidated Results

Other operating income increased by US\$ 76.2 million to US\$341.6 million in the year ended December 31, 2013 from US\$265.4 million in 2012 (pro forma), mainly as a result of increased income of US\$28.7 million from Multiplus resulting from breakage and non-air redemptions during 2013 and the income of US\$10.8 million and US\$ 8.2 million generated as a result of the sale and lease-back of ten Airbus A330 aircraft, and two Airbus A318 aircraft and an engine, during the second quarter of the year, respectively.

Distribution costs decreased by 3.2% from US\$1,059.7 million in 2012 (pro forma) to US\$1,025.9 million in 2013. This decrease was related to lower commissions to agents (related to both passenger and cargo sales), which decreased 2.0% to US\$408.7 million in 2013 from US\$417.1 million in 2012.

Administrative expenses decreased by 3.3% from US\$1,174.8 million in 2012 (pro forma) to US\$1,136.1 million in 2013 due to lower wages and benefits expenses resulting from a lower headcount in the period and the 10.4% depreciation of the Brazilian real as compared to 2012, partially offset by the recognition of US\$15.5 million in compensations related to the voluntary leave and retirement program of 800 employees at TAM.

Other operating expenses increased by 12.1% from US\$364.5 million in 2012 to US\$408.7 million in 2013.

Financial income decreased by 37.9% to US\$72.8 million in 2013 from US\$117.2 million in 2012, mainly due to a lower average cash balance and lower interest rates during the period.

Financial costs (from non-financial activities) increased by 4.1% to US\$462.5 million in 2013 from US\$444.2 million in 2012 (pro forma) mainly as a result of a new debt profile, which includes the securitized bond issued in November 2013.

Exchange rate differences resulted in a loss of US\$482.2 million in 2013 compared to a loss of US\$290.1 million in 2012. This variation is mainly explained due to a depreciation of the Brazilian real in 2013 compared to 2012 and the depreciation of local currencies in LAN's Spanish speaking countries in the period.

Income tax credit amounted to US\$20.1 million in 2013 as compared to a pro forma tax credit of US\$69.7 million in 2012. For more information, see “—Critical Accounting Policies—Deferred Taxes” below and Note 19 to our audited consolidated financial statements.

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Pro Forma Adjustments

The unaudited pro forma information had been prepared using the purchase method of accounting, with LAN treated as the acquirer of TAM.

	For the period ended December 31, 2012 (on a pro forma basis)				
	LATAM (As Revised)	TAM (a) (January 1, 2012 to June 22, 2012)	LATAM (consolidated)	Pro Forma Adjustments	Condensed Pro Forma
	(in millions of US\$, except per share and capital stock data)				
Passenger	7,966.8	3,050.1	11,017.0	0.0	11,017.0
Cargo	1,743.5	196.2	1,939.8	(0.0)	1,939.8
Total operating revenues	9,710.4	3,246.4	12,956.7	(0.0)	12,956.7
Cost of sales (b, c, d, e)	<u>(7,634.5)</u>	<u>(2,852.2)</u>	<u>(10,486.7)</u>	<u>(50.0)</u>	<u>(10,536.7)</u>
Gross Margin	2,075.9	394.1	2,470.1	(50.0)	2,420.1
Other operating income	220.2	45.2	265.4	0.0	265.4
Distribution costs	(803.6)	(256.1)	(1,059.7)	0.0	(1,059.7)
Administrative expenses (f)	(888.7)	(328.6)	(1,217.3)	42.4	(1,174.8)
Other expenses	(311.8)	(52.7)	(364.5)	(0.0)	(364.5)
Other gains/(losses) (d)	(45.8)	18.8	(27.0)	(7.8)	(34.8)
Financial income (g)	77.5	26.5	103.9	13.2	117.2
Financial costs (h, g)	(294.6)	(147.6)	(442.2)	(2.0)	(444.2)
Equity accounted earnings	1.0	0.0	1.0	0.0	1.0
Foreing exchange gains/(losses)	66.7	(356.7)	(290.1)	(0.0)	(290.1)
Result of indexation units	(0.0)	0.0	(0.0)	(0.0)	(0.0)
Income (loss) before taxes	96.7	(657.2)	(560.4)	(4.1)	(564.5)
Income tax expense (i)	<u>(102.4)</u>	<u>169.0</u>	<u>66.6</u>	<u>3.0</u>	<u>69.7</u>
Net (loss)/income for the period	(5.6)	(488.2)	(493.8)	(1.1)	(494.9)
	0.0	0.0	0.0	0.0	0.0
Income (loss) for the period attributable to the parent company's equity holders	0.0	0.0	0.0	0.0	0.0
Income for the period attributable to non-controlling interests	(19.1)	(501.2)	(520.3)	(2.9)	(523.1)
Income for the period attributable to non-controlling interests	0.0	0.0	0.0	0.0	0.0
	<u>13.4</u>	<u>13.0</u>	<u>26.5</u>	<u>1.8</u>	<u>28.3</u>
Net (loss)/income	(5.6)	(488.2)	(493.8)	(2.9)	(496.7)
Earnings per share (j)					
Basic loss per share (US\$)					(1.26891)
Diluted loss per share (US\$)					(1.26891)

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The Unaudited Pro Forma Statement of Income reflects the following adjustments:

- a) Exchange rate and reclassifications: TAM's functional and presentation currency under IFRS is the Brazilian real. Solely for the purpose of preparing these pro forma adjustments, TAM's income statements have been translated into U.S. dollars at the average exchange rate for each quarter. Furthermore, in order to conform TAM's financial figures to LATAM's financial statement presentation, certain reclassifications were made to TAM's income statement. In addition, TAM historical information for 2012 and prior periods had certain errors that were revised for 2012. For more information, see "Item 5. Operating and Financial Review and Prospects—Accounting Impact of the Business Combination."
- b) Property, plant and equipment (Fleet, including finance leases): The fair value of TAM's aircraft recorded as property, plant and equipment was decreased to reflect the fair value on the date of the business combination. As a result of this adjustment and adjustments related to changes in the method of depreciation of aircraft components, major maintenance associated with those components, useful lives and residual values, the Unaudited Pro Forma Statement of Income reflects an increase in cost of sales of US\$43.9 million for the year ended December 31, 2012. The details of the differences in depreciation methods are as follows:
 - I. TAM does not recognize and separately depreciate major maintenance components of aircraft and engines recorded as property, plant and equipment for which they hold power by the hour maintenance contracts; such maintenance costs are recorded as a liability in the balance sheet and expense in the statement of income as hours are flown and cycles incurred. See pro forma adjustment (e) where this provision in TAM's statement of income is reversed. LATAM recognizes separately and depreciates all such maintenance components over their technical useful lives as measured in flight hours or cycles. The effects on depreciation of applying LATAM's policy to TAM's aircraft and engines recorded as property, plant and equipment are included in the pro forma adjustment noted in (b) above.
 - II. The pro forma adjustments noted in (b) above include the effects of reassigning residual values to TAM's aircraft and engines recorded as property, plant and equipment for the purposes of calculating depreciation. Such residual values have been determined based on the expected market value of each aircraft or engine at the end of its expected useful life.
 - III. For the purposes of calculating the above pro forma adjustments to depreciation, the fair value of TAM's aircraft have been separated into components using the methodology and percentage benchmarks which LATAM has developed for the purposes of depreciating its fleet of aircraft and engines.
 - IV. The useful lives applied to depreciate the maintenance related components of TAM's aircraft and engines recorded as property, plant and equipment for the purposes of the Pro Forma Statement of Income have been determined, where applicable, based on the standards used by LATAM for each specific model of aircraft and engine. The useful lives applied to non-maintenance related components have been maintained as those applied by LATAM and TAM in each of their financial statements, as these useful lives are dependent on the contractual conditions of ownership or leasing of each individual aircraft and engine.
- c) Property, plant and equipment (Land and buildings): The carrying value of TAM's land and buildings was decreased to reflect the fair value on the date of the transaction. As a result of this adjustment, the Unaudited Pro Forma Statement of Income reflects a decrease in depreciation of US\$1.0 million for the year ended December 31, 2012.
- d) Aircraft operating leases: The provision for major maintenance on TAM's aircraft under operating leases with time & materials maintenance contracts was increased, in order to account for these maintenance costs in a manner consistent with that applied by LATAM in its consolidated financial statements. As a result of these adjustments, the Unaudited Pro Forma Statement of Income reflects an increase in cost of sales of US\$46.0 million for the year ended December 31, 2012 and an increase in other losses of US\$7.8 million. TAM does not establish a provision for these costs but rather records them in its statement of income when such costs are incurred. LATAM records a provision for these costs based on flight hours and cycles incurred from the date on which the aircraft is first leased and utilizes this provision as and when related major maintenance activity occurs or reimbursements are required to be made to the lessor at the end of the lease term.
- e) The provision for maintenance costs relating to TAM aircraft and engines recorded as property, plant and equipment was decreased to account for these costs in a manner consistent with that applied in the LATAM consolidated financial statements. As a result of these adjustments, the Unaudited Pro Forma Statement of Income reflects a decrease in cost of sales of US\$39.0 million for the year ended December 31, 2012. As discussed in the pro forma adjustments noted in in (b)(I) above, LATAM's accounting policy for aircraft and engines recorded in property plant and equipment provides for the major maintenance components of such aircraft to be designated as components within property plant and equipment and depreciated over their technical useful lives as measured in flight hours or cycles. TAM accounts for such costs for aircraft and engines under power by the hour contracts in its financial statements by creating a liability and recording the corresponding cost in its statement of income for each hour or cycle flown.

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- f) LAN and TAM incurred a total of US\$59.2 million in one-time costs directly attributable to the business combination for the year ended December 31, 2012. These costs relate primarily to fees paid to legal and other professional advisors. These non-recurring costs and the related tax effects have been eliminated in the Unaudited Pro Forma Statement of Income. Additionally, a fair value adjustment of US\$16.7 million relating to credit card chargebacks increased administrative expenses for the year. On a net basis, these adjustments resulted in a decrease in administrative expenses of US\$42.4 million.
- g) Hedge Accounting: The Unaudited Pro Forma Statement of Income reflects an increase in interest income of US\$13.2 million for the year 2012 and a decrease in interest expense of US\$7.6 million for year 2012, to account for TAM fuel hedging costs in a manner consistent with that applied by LATAM in its consolidated financial statements. Fuel hedging contracts are not subject to hedge accounting at TAM, but LATAM accounts for these contracts under hedge accounting.
- h) Financial liabilities: The difference between the fair value and the face amount of borrowings on the date of the business combination is amortized as an increase in financial costs over the remaining term of the borrowings based on their respective maturity dates. As a result of these adjustments, the Unaudited Pro Forma Statement of Income reflects higher financial costs of US\$9.7 million for the period the year ended December 31, 2012. On a net basis, when taken together with the decrease in interest expense as a result of TAM fuel hedging costs adjustments described in (f) above, the unaudited pro forma statement of income reflects an aggregate increase in financial costs of US\$2.0 million in the year ended December 31, 2012.
- i) Income Taxes: The Unaudited Pro Forma Statement of Income reflects a decrease in income tax expense of US\$3.1 million for the year ended December 31, 2012. These adjustments correspond to the deferred income tax effects of the purchase accounting and accounting policy adjustments to TAM's results. The deferred income tax effects have been calculated by applying the Brazilian statutory income tax rate of 34%, and the effective tax rate of LAN to the expenses corresponding to the Company.
- j) Earnings per share: Basic and diluted pro forma earnings per share have been calculated for the year ended December 31, 2012 based on the assumption that the shares issued in order to consummate the transaction had been issued at January 1, 2012.

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LATAM Airlines Group Financial Results Discussion: Year ended December 31, 2012 (actual) as retrospectively revised compared to year ended December 31, 2011 (actual)

The following table sets forth certain income statement data for LATAM Airlines Group, for the year ended December 31, 2012 (including TAM's results from June 23, 2012) and for LATAM Airlines Group, for the year ended December 31, 2011, which represents the historical income statement data of LAN for certain operating data during these years.

	Year Ended December 31				2012/2011 % change
	2012 (in US\$ millions, except as otherwise stated)	2011	2012 As a percentage of total operating revenues	2011	
Passenger	7,966.8	4,008.9	82.0%	71.8%	98.7 %
Cargo	1,743.5	1,576.5	18.0%	28.2%	10.6 %
Total operating revenues	9,710.4	5,585.4	100.0%	100.0%	73.9 %
Cost of sales	(7,634.5)	(4,078.6)	78.6%	73.0%	87.2 %
Gross margin	2,075.9	1,506.5	21.4%	27.0%	37.8 %
Other operating income	220.2	132.8	2.3%	2.4%	65.4 %
Distribution costs	(803.6)	(479.8)	8.3%	8.6%	67.5 %
Administrative expenses	(889)	(405.7)	9.2%	7.3%	119.0 %
Other expenses	(311.8)	(214.4)	3.2%	3.8%	44.9 %
Other gains/(losses)	(45.8)	(33.0)	0.5%	0.6%	39.4 %
Financial income	77.5	14.5	0.8%	0.3%	450.0 %
Financial costs	(294.6)	(139.1)	3.0%	2.5%	112.2%
Equity accounted earnings	1.0	0.5	0.0%	0.0%	100.0%
Foreign exchange gains/(losses)	66.7	(0.3)	0.7%	0.0%	100.0%
Result of indexation units	0.0	0.1	0.0%	0.0%	0%
Income before taxes	96.7	382.4	1.0%	6.8%	(74.6)%
Income tax expense	(102.4)	(61.8)	1.1%	1.1%	68.9%
Net (loss)/income for the year	(5.6)	320.6	0.1%	5.7%	(101.9)%
(Loss)/Income attributable to owners of the parent	(19.1)	320.2	0.2%	5.7%	(105.9)%
Income/(loss) attributable to non-controlling interest	13.4	0.4	0.1%	0.0%	100.0%
Net (loss)/income for the year	(5.6)	320.6	0.1%	5.7%	(101.9)%
Earnings per share					
Basic (loss)/earnings per share (US\$)	(0.0463)	0.9434	n.a.	n.a.	(104.9)%
Diluted (loss)/earnings per share (US\$)	(0.0463)	0.9426	n.a.	n.a.	(104.9)%

* The abbreviation "n.a." means "not available".

Net (Loss)/Income

Net income decreased by 101.9% to a loss of US\$6 million for the year ended December 31, 2012 from an income of US\$321 million in 2011. Net income attributable to the owners of the parent decreased by 105.9% to a loss of US\$19 million in 2012 from an income of US\$321 million in 2011. Results for the 2012 year were negatively impacted by a net loss of US\$45 million related to the business combination with TAM and integration costs of US\$47 million, due to the combination of LAN and TAM on June 22, 2012. In addition, LATAM recorded an accounting charge of US\$70 million related to the increase in the Chilean corporate tax rate from 17% to 20% during 2012.

LATAM's total operating revenues increased by 73.9% during 2012, reflecting the consolidation of TAM's revenues from June 23, 2012, as well as solid upward demand trends in our passenger business. The increase in operating revenues was attributable to an increase in passenger and cargo revenues of 98.7% and 10.6%, respectively. Passenger and cargo revenues accounted for 82% and 18% of total operating revenues in 2012, respectively.

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Passenger traffic and capacity increased significantly in 2012 following the consolidation of TAM's domestic and international operations. Other capacity increases were mainly focused on domestic routes within Chile, regional routes within Latin America, and long-haul routes to the United States, and were partially offset by decreased capacity on Brazilian domestic routes.

Operating expenses also increased as a result of our increase in operations (including a larger fleet) following the combination with TAM on June 22, 2012.

Operating Revenues

Operating revenues increased 73.9% to US\$9,710 million for the year ended December 31, 2012 from US\$5,585 million in 2011. Our consolidated passenger revenues increased by 98.7% to US\$7,967 million in 2012 from US\$4,009 million in 2011, primarily as a result of the consolidation of TAM's revenue from June 23, 2012. These consolidated revenues incorporate US\$3,645 million as a result of the business combination with TAM. Notwithstanding the combination with TAM, the increase in passenger revenues is mainly attributable to an increase of 12.0% in passenger capacity, as measured in ASKs, and a 0.9% increase in unit revenue per ASK.

Cargo revenues increased by 10.6% to US\$1,743 million in 2012 from US\$1,576 million in 2011, also as a result of the consolidation of TAM's cargo revenues from June 23, 2012. These consolidated Cargo revenues incorporate US\$196 million as a result of the combination with TAM. Excluding this effect, cargo revenues decreased 2.2%.

Other operating income also increased by US\$87 million to US\$133 million in 2012 from US\$220 million in 2011, due primarily to the sale of two properties owned by Inmobiliaria Aeronautica S.A., an affiliate of LATAM, and the sale of a Boeing 767-200 and three Airbus A318s. As a result of the combination with TAM, US\$50 million in other operating income relating to TAM has been included in our consolidated results.

Cost of Sales

Cost of sales increased by 87.2% to US\$7,634 million for the year ended December 31, 2012 from US\$4,078 million in 2011, mainly as a result of increase in operations due to the consolidation of TAM's costs from June 23, 2012. As a percentage of total revenues, cost of sales increased from 73.0% in 2011 to 78.6% in 2012.

The table below presents cost of sales information for the fiscal year ended December 31, 2012 and 2011 actual.

	Year Ended December 31				2012/2011 % change
	2012 (in US\$millions, except as otherwise stated)	2011	2012 As a percentage of total operating revenues	2011	
Revenues	9,710.4	5,585.4	82.0%	71.8%	98.7%
Cost of sales	(7,634.5)	(4,078.6)	78.6%	73.0%	87.2%
Aircraft Fuel	(3,434.6)	(1,750.1)	(35.4)%	(31.3)%	96.3%
Wages and Benefits	(1,431.2)	(717.5)	(14.7)%	(12.8)%	99.5%
Other Rental and Landing Fees	(1,052.6)	(671.6)	(10.8)%	(12.0)%	56.7%
Depreciation and Amortization	(771.1)	(396.5)	(7.9)%	(7.1)%	94.5%
Aircraft Rentals	(308.8)	(174.2)	(3.2)%	(3.1)%	77.3%
Aircraft Maintenance	(297.6)	(182.4)	(3.1)%	(3.3)%	63.2%
Passenger Services	(239.8)	(136.0)	(2.5)%	(2.4)%	76.3%
Other Costs of Sales	(98.8)	(50.3)	(1.0)%	(0.9)%	96.4%

The increase in cost of sales was driven by higher aircraft fuel expenses, which increased by 96.3% to US\$3,434 million in 2012 from US\$1,750 million in 2011. Fuel expenses increased mainly due to a 68.7% increase in consumption related to the incorporation of TAM's operations from June 23, 2012. Notwithstanding the incorporation of TAM's operations, the increase reflects a rise of 7.4% in prices and 6.1% in consumption. In addition, LATAM recognized a net loss of US\$1.8 million in fuel hedging, compared to a gain of US\$40 million in 2011.

Wages and benefits increased 99.5% to US\$1,431 million in 2012 compared to US\$718 million in 2011, mainly due to the combination between LAN and TAM.

Depreciation and amortization increased by US\$388 million of which US\$318 million was due to the combination with TAM. This represents an increase of 98% mainly due to the incorporation in 2012 under property, plant and equipment of all of TAM's fleet (including new TAM fleet deliveries in 2012). Notwithstanding the incorporation of TAM's fleet, the increase was mainly due to the addition to the LAN fleet of three Airbus A319 aircraft, seven A320 Airbus aircraft, nine Boeing 767 aircraft, three Boeing 787 aircraft, four Boeing 777 aircraft and two Boeing 777F aircraft during 2012.

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Other rental and landing fees increased by US\$381 million, of which US\$335 million was due to the combination with TAM. Notwithstanding the combination with TAM, the increase is largely due to higher charter aircraft rentals and aeronautical charges and handling fees, in line with the increase in the size of the LAN fleet during the year detailed above. This increase was partially offset by lower costs of aviation insurance.

Aircraft maintenance expenses increased by 63.7%, to US\$298 million in 2012 from US\$182 million in 2011, with US\$77 million due to the combination with TAM. Notwithstanding the combination with TAM, the increase is due to the increase in the size of the LAN fleet during the year detailed above.

Aircraft rentals increased by US\$139 million, primarily due to an increase of US\$133 million in aircraft rentals as a result of the combination with TAM. In addition, LATAM recently leased four Airbus A320 aircraft. This increase is partially offset by the return of three Boeing 737s and two Boeing 767s.

Passenger service expenses increased by 76.5%, to US\$240 million in 2012 when compared to passenger service expenses of US\$136 million in 2011. This increase was primarily due to the effect of the combination with TAM, which added US\$92 million to the passenger service expenses. Notwithstanding the combination with TAM, the increase is primarily due to a 16.4% increase in the number of passengers transported, partially offset by lower passenger compensation payments.

As a result of the above, gross margin increased by 37.8% to US\$2,076 million in 2012 from US\$1,507 million in 2011, as the increase in total revenues in 2012 following the combination of LAN and TAM were greater than the increase in costs of sales associated with the consolidation of TAM's operations.

Other Consolidated Results

Other operating income increased by US\$87 million to US\$220 million for the year ended December 31, 2012 from US\$133 million in 2011, due primarily to the sale of two properties owned by Imobiliária Aeronáutica S.A. and the sale of a Boeing 767-200 and three Airbus A318s, which together amounted to approximately US\$29 million. As a result of the combination with TAM, US\$50 million in other operating revenue relating to TAM has been included in our consolidated results.

Distribution costs increased by 67.5% to US\$804 million in 2012 from US\$480 million in 2011, as a result of the consolidation of TAM's results from June 23, 2012.

Administrative expenses increased by 119.0% to US\$889 million in 2012 from US\$406 million in 2011, due to the higher number of employees following the combination of LAN and TAM in 2012.

Other expenses increased by 44.4% to US\$310 million in 2012 from US\$214 million in 2011, as a result of higher sales costs, advertising and marketing expenses, and costs related to tours and travel services, related to the combination of TAM's operations from June 23, 2012.

Financial income increased to US\$77 million in 2012 from US\$14 million in 2011, due to a higher average cash balance during the period, following the consolidation of TAM's results from June 23, 2012.

Financial costs increased by 112.2% to US\$295 million in 2012 from US\$139 million in 2011 due to higher average long-term debt related to fleet financing mainly related to the consolidation of TAM's fleet.

Exchange rate differences increased to a gain of US\$67 million in 2012 from a loss of US\$0.3 million in 2011. The 2012 amount is primarily due to the consolidation of TAM operations from June 23, 2012, which are substantially conducted in Brazilian real.

Under other gains/(losses), the Company recorded a net loss of US\$46 million in 2012, mainly due to aircraft sale and redelivery costs.

Income tax expenses increased by 68.9%, totaling US\$103 million in 2012 as compared to US\$61 million in 2011.

Accounting impact of the business combination

The merger between LAN and TAM has been accounted for using the purchase method of accounting, with LAN treated as the acquirer of TAM.

Consideration paid was calculated, in accordance with IFRS 3, as the sum of the fair value of the LAN shares provided and the squeeze-out of the remaining TAM shareholders. Following this criteria, the total consideration paid as of June 22, 2012 was US\$ 3,782.2 million.

As a result of the consolidation, certain TAM assets and liabilities which were accounted for at historical values were incorporated into the consolidated balance sheet at their fair value, as required by applicable accounting principles. Applicable accountings standards permit a one year measurement period, requiring fair value adjustments completed during that period to be adjusted against previously reported goodwill. As of June 30, 2013, the purchase price allocation has been completed. Previously reported goodwill has been adjusted to reflect fair value changes in this one year period. Goodwill as of June 30, 2013 amounts to US\$ 3,890.2 million.

The main adjustments to the balance sheet accounts of TAM as a result of the consolidation with LATAM Airlines Group were related to the fair values of the following: (i) airport slots (Congonhas, JFK and Heathrow airports); (ii) the Multiplus loyalty program; (iii) fleet; and (iv) other provisions, including legal proceedings with a probability of loss below 50%, which are not accounted for under the normal course of business but must be accounted for under a business combination, according to applicable accounting standards (IFRS 3). In addition, during the first half of 2013, the Company identified and corrected certain errors in the financial statements of TAM, which are not material for LATAM.

Retrospective revision of the consolidated financial statements for fiscal year 2012

As required by IFRS, the consolidated financial statements of LATAM for 2012 have been retrospectively revised to reflect the following:

- (i) The fair value adjustments mentioned above, which resulted in an increase in the Company's assets (other than goodwill) of US\$ 485 million as of December 31, 2012 and an increase of US\$ 1,039 million in liabilities. This resulted in US\$ 19 million of lower net income for 2012.
- (ii) Error corrections in TAM's financial statements as of 2012 in a total amount of US\$599 million as of December 2012, of which US\$416 million are related to revenues and deferred revenues, and US\$183 million are related to taxes and deferred taxes. This adjustment resulted in US\$11 million of lower net income for LATAM in 2012. The corrections of these errors have been made retrospectively and are not material to LATAM. Therefore, they do not require LATAM to re-issue its 2012 financial statements.

The abovementioned errors have also been corrected for purposes of the pro forma financial statements for the first half of 2012, prior to the business combination, resulting in US\$30 million of less revenue during this period.

U.S. Dollar Presentation and Price-Level Adjustments

General

Foreign currency transactions

- (a) Presentation and functional currencies

The items included in the financial statements of LATAM are valued using the currency of the main economic environment in which the entity operates (the "functional currency"). The functional currency of LATAM is the U.S. dollar, which is also the currency of presentation of the audited consolidated financial statements of LATAM and its 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.

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(c) Group entities

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

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

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

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

Effects of Exchange Rate Fluctuations

Our functional currency is the U.S. dollar in terms of the pricing of our products, composition of our balance sheet and effects on our results of operations. Most of our revenues (42% in 2013) are in U.S. dollars or in prices pegged to the U.S. dollar and a substantial portion of our expenses (60% in 2013) is denominated in dollars or pegged to the U.S. dollar, particularly fuel costs, landing and over flight fees, aircraft rentals, insurance and aircraft components and supplies. Almost all of our liabilities are denominated in U.S. dollars (75% as of December 31, 2013), including bank loans, certain air traffic liabilities, and certain amounts payable to our suppliers. As of December 31, 2013, 48% of our assets were denominated in U.S. dollars, principally aircraft, cash and cash equivalents, accounts receivable and other fixed assets. Substantially all of our commitments, including operating lease and purchase commitments for aircraft, are denominated in U.S. dollars.

Although we generally maintain our international passenger fares and cargo prices in U.S. dollars or at prices pegged to the U.S. dollar, we are exposed to foreign exchange losses and gains due to exchange rate fluctuations. We recorded a net foreign exchange profit of US\$66.7 million in 2012 and a net foreign exchange loss of US\$482.2 million in 2013, which are set forth in our consolidated statement of income under "Exchange rates differences." For more information, see Notes 2.3(a) and 33 to our audited consolidated financial statements.

IFRS/Non-IFRS Reconciliation

We use "Cost per ASK-equivalent" and "Cost per ASK-equivalent excluding fuel price variations" in analyzing operating expenses on a per unit basis. "ASKs" (available seat kilometers) measures the number of seats of capacity available for the transportation of passengers multiplied by the kilometers flown. "ASK-equivalent" includes capacity for both passenger and cargo equivalent tons multiplied by the kilometers flown. The figure is obtained by adding passenger ASKs and the quotient of cargo ATKs (available ton kilometers) divided by 0.095. To obtain our unit costs, which are used by our management in the analysis of our results, we divide our "total costs" by our total ASK-equivalents. "Total costs" are calculated by starting with operating expenses as defined under IFRS and making certain adjustments for interest costs and other revenues. The cost component is further adjusted to obtain "costs per ASK-equivalents excluding fuel price variations," in order to remove the impact of changes in fuel prices for the year. "Cost per ASK-equivalent" and "Cost per ASK-equivalent excluding fuel price variations" do not have a standardized meaning, and as such may not be comparable to similarly titled measures provided by other companies. These metrics should not be considered in isolation or as a substitute for operating expenses or as indicators of performance or cash flows or as a measure of liquidity.

The table below reconciles our operating expenses (as defined by IFRS) for 2013, 2012 and 2011 to costs used in the calculation of "Cost per ASK-equivalent" and "Cost per ASK-equivalent excluding fuel price variations" for such periods. Figures for 2012 (pro forma) have been presented on a pro forma basis to include the operating data of TAM for all of 2012. Figures for LATAM 2012 (actual) correspond to LATAM's consolidated audited financial statements prepared in accordance with IFRS for the year ended December 31, 2012, including TAM's consolidated costs from June 23, 2012 and TAM's third and fourth quarter operating statistics. Figures for LAN 2011 (actual) represent LAN's historical operating expenses and statistics and do not include any costs or statistics from TAM.

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	2013 LATAM	2012 LATAM (pro forma)	2012 LATAM (actual)	2011 LAN (actual)
Cost per ASK-equivalent				
Operating expenses (US\$ thousands)	12,622,197	13,130,717	9,638,479	5,178,554
+ Interest expense (US\$ thousands)	462,524	444,201	294,598	139,077
– Interest income (US\$ thousands)	72,828	117,172	77,489	14,453
– Other operating income (US\$ thousands)	341,565	265,365	220,156	132,804
ASK-equivalent operating expenses	12,670,328	13,192,381	9,635,432	5,170,374
Divided by system's ASK-equivalents (thousands)	212,236,832	212,669,546	161,209.26	102,798.87
= Cost per ASK equivalent (US\$ cents)	5.97	6.20	5.98	5.03
Cost per ASK-equivalent excluding fuel price variations				
ASK-equivalent operating expenses (thousands)	12,670,328	13,192,381	9,635,432	5,170,374
– Actual fuel expenses (US\$ thousands)	4,414,249	4,780,289	3,434,569	1,750,052
+ (Gallons consumed) times (previous year's fuel price)	4,675,532	4,359,448	2,952,257	1,303,621
ASK-equivalent operating expenses excluding fuel price variations	12,931,611	12,771,540	9,153,120	4,723,943
Divided by system's ASK-equivalents (thousands)	212,236,832	212,669,546	161,209.26	102,798.87
= Cost per ASK-equivalent excluding fuel price variations (US\$ cents)	6.09	6.01	5.68	4.60

In addition, LATAM continues to use revenues per ASK or ATK, as applicable, in analyzing revenues on a per unit basis, which is consistent with how LAN analyzed its revenues before the merger. To obtain unit revenues, we divide our passenger revenues by our total ASKs and our cargo revenues by our total ATKs. We use our revenues as defined under IFRS for purposes of the calculation of this metric. Revenues per ASK or ATK, as the case may be, do not have a standardized meaning, and as such may not be comparable to similarly titled measures provided by other companies. It is not an IFRS based measure of performance or liquidity. This metric should not be considered in isolation or as a substitute for revenues or as indicators of performance or cash flows as a measure of liquidity.

The table below shows the calculation of our revenues per ASK or ATK, as applicable, in each of the periods indicated. Figures for 2012 (pro forma) have been presented on a pro forma basis to include the revenues of TAM for 2012. Figures for LATAM 2012 (actual) correspond to LATAM's consolidated audited financial statements prepared in accordance with IFRS for the year ended December 31, 2012, including TAM's consolidated revenues from June 23, 2012. Figures for LAN 2011 (actual) represent LAN's historical revenues and do not include any revenues from TAM.

	2013 LATAM	2012 LATAM (pro forma)	2012 LATAM (actual)	2011 LAN (actual)
Passenger Revenues (US\$ million)	11,061.56	11,016.98	7,966.85	4,008.91
ASK (million)	131,690.60	132,186.04	93,318.15	48,153.58
Passenger Revenues/ASK (US\$ cents)	8.40	8.33	8.54	8.33
Cargo Revenues (US\$ million)	1,862.98	1,939.75	1,743.53	1,576.53
ATK (million)	7,651.88	7,645.95	6,449.50	5,192.74
Cargo Revenues/ATK (US\$ cents)	24.35	25.37	27.03	30.36

Seasonality

Our operating revenues are substantially dependent on overall passenger and cargo traffic volume, which is subject to seasonal and other changes in traffic patterns. Our passenger revenues are generally higher in the first and fourth quarters of each year, during the southern hemisphere's spring and summer. In the Brazilian passenger air transportation market, there is always a higher demand for air transportation services in the second half of the year, leaving the second quarter as the weakest one for the Company. However, the seasonality is partially mitigated by the fact of LATAM having higher than market average concentration of business travel (which is less sensitive to seasonality). Additionally, the expansion of the Company in other countries with different seasonal patterns has also moderated the overall seasonality of the passenger business.

Critical Accounting Policies

The preparation of our consolidated financial statements in accordance with IFRS requires our management to adopt accounting policies and make estimates and judgments to develop amounts reported in our consolidated financial statements and related notes. We strive to maintain a process to review the application of our accounting policies and to evaluate the appropriateness of the estimates that are required to prepare our consolidated financial statements. We believe that the consistent application of these policies enables us and our subsidiaries to provide readers of the financial statements with more useful and reliable information about our operating results and financial condition.

Critical accounting policies and estimates are those that are reflective of significant judgments and uncertainties, and potentially result in materially different outcomes under different assumptions and conditions. For a discussion on these and other accounting policies, see Note 2 to our consolidated financial statements. The following are the accounting policies that we believe are the most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective or complex judgments.

Accounting estimates and judgments

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

- The evaluation of possible impairment loss for certain assets.
- The useful life and residual value of fixed assets and intangible assets.
- The criteria employed in the valuation of certain assets.
- Air tickets sold that are not actually used.
- The calculation of deferred income at the period-end corresponding to the valuation of kilometers or points credited to holders of the loyalty programs which have not yet been used.
- The need for provisioning and where required the determination of their values.
- The recoverability of deferred tax assets.

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

In any case, it is possible that events will require them to be modified in the future, in which case the effects would be accounted for prospectively.

Additionally, the management has applied judgment in determining that LATAM Airlines Group S.A. has control over TAM S.A. and Subsidiaries for accounting purposes and therefore has consolidated their financial statements. The above on the basis that LATAM issued their ordinary shares in exchange for all of the outstanding common and preferred shares of TAM (except those shareholders of TAM who did not accept exchange and which were subject of the squeeze-out described in Note 18.2.a), entitling LATAM to substantially all of the economic benefits that will be generated by the LATAM Group and also, consequently, exposing it to substantially all the risks incidental to the operations of TAM. This exchange aligns the economic interests of LATAM and all of its shareholders, including the TAM controlling shareholders, ensuring that the shareholders and directors of TAM will have no incentive to exercise their rights in a manner that is beneficial to TAM but detrimental to LATAM. Further, all significant actions required for the operation of the airlines require the affirmative vote of both LATAM and the TAM controlling shareholders.

In addition, LATAM is in the process of integrating the operations with TAM, and both entities will be operated as a single company. Within this, most critical airline activities will be managed in Brazil under the TAM CEO and globally by the LATAM CEO, who will be in charge of the overall operation of the LATAM Group and who will report to the LATAM board. Further, the LATAM CEO will evaluate the performance of the LATAM Group executives and, together with the LATAM board, determine compensation. Although there are restrictions on voting interests that currently may be held by foreign investors under Brazilian law, LATAM believes that the economic substance of these arrangements satisfies the requirements established by the applicable accounting standards and that consolidation by LATAM of TAM's operations is appropriate.

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Revenue Recognition

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

(a) Rendering of services

a.1 Passenger and cargo transport

We recognize passenger and cargo revenues either when the transportation service is provided or when we determine that the tickets will not be used or refunded, which, in the case of passenger revenues, reduces the air traffic liability. We estimate revenue breakage based on historical breakage experience that takes into account the aging of tickets that will not be used or refunded. Commissions payable related to such unearned earnings are shown net of the air traffic liability. Other revenues, including aircraft leases, courier, logistic and ground services, duty free sales, and storage and customs brokering, are recognized when services are provided.

The amount of passenger ticket sales not yet recognized as revenue is reflected as an air traffic liability. Air traffic liability includes estimates of the amount of future refunds and exchanges, net of forfeitures for all unused tickets once the flight date has passed. We perform periodic evaluations of this estimated liability based on actual results. Any adjustments, which can be significant, are included in the results of operations for the periods in which the evaluations are completed. These adjustments relate primarily to the differences between our estimation of certain revenue transactions and the related sales price, as well as refunds, exchanges and other items for which final settlement occurs in periods subsequent to the sale of the related tickets at amounts other than the original sales price.

Actual events and circumstances may differ from historical fare sale activity and customer travel patterns and can result in refunds, exchanges or forfeited tickets differing significantly from estimates. We evaluate our estimates periodically. If actual refunds, exchanges or forfeitures fall outside of our estimated ranges, we review our estimates and assumptions and adjust air traffic liability and passenger revenues as necessary. As with any estimates, actual results may vary from estimated amounts.

a.2 Frequent flyer program

The Company has a frequent flyer program for LATAM passengers called LANPASS and a frequent flyer program for TAM passengers called TAM Fidelidade. Customers can also earn points through Multiplus, a subsidiary of TAM, which permits the accrual of points for many products and services (not just airline flights) and had more than 200 partner establishments, including the TAM Fidelidade program, as of December 31, 2013.

Both frequent flyer programs' objective is customer loyalty through the delivery of LANPASS kilometers or Multiplus points every time that members of the program fly with the Company or its alliance partners, use the services of entities registered with the program or make purchases with an associated credit card. The kilometers/points earned can be exchanged for flights tickets or other services of associated entities.

The consolidated financial statements include LANPASS liabilities for this concept (deferred income), according to the estimate of the valuation established for the kilometers accumulated pending use at that date, in accordance with IFRIC 13: "Customer loyalty programs." Points earned from TAM Fidelidade members are bought from Multiplus and seats redeemed are sold to Multiplus. Multiplus manages the points liabilities. Revenue from both programs are recognized once the purchased tickets are flown.

LANPASS Kilometers expire if they are not utilized over a period of three years. This period is renewable if the passenger takes a flight or meets specific requirements regarding the accumulation of kilometers through one of the partners of the program. Multiplus Points expire if they are not utilized over a period of two years, this period is not renewable.

Property, Plant and Equipment

LATAM's land is recognized at cost less any accumulated impairment loss. The rest of the property, plant and equipment are shown, initially and subsequently, at their historic cost less the corresponding depreciation and any impairment loss.

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

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

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

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

When the carrying amount of an asset is higher than its estimated recoverable amount, its value is reduced immediately to its recoverable amount. For more information, see Note 2.8 to our audited consolidated financial statements.

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

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 on balance sheet aircraft, these maintenance costs are capitalized as Property, plant and equipment, while in the case of off balance sheet aircraft maintenance costs are periodically provided for and recognized through profit and loss as "Cost of sales".

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

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 a identified risk associated with a recognized liability or an expected highly probable transaction ("cash-flow hedge"); or
- (c) Derivatives that do not qualify for hedge accounting.

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

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

(a) Fair value hedges

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

(b) Cash flow hedges

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

In the case of variable interest-rate hedges, this means that the amounts recognized in equity are reclassified to results within financial cost at the same time the associated debts accrue interest.

For fuel price hedges, the amounts shown in equity are reclassified to results as Cost of sales to the extent that the fuel subject to the hedge is used.

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For foreign currency hedges, the amounts shown in equity are reclassified to results to the extent that the 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 net equity until that moment remains in equity 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 net equity 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).”

Deferred taxes

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

Recently Issued Accounting Pronouncements

- IAS 1 Presentation of financial statements (Amendment issued in June 2008)
- IAS 27 Separate financial statements (issued in May 2011)
- IFRS 7 Financial instruments: Disclosures (Amendment issued in December 2011)
- IFRS 10 Consolidated financial statements (issued in May 2011)
- IFRS 11 Joint arrangements (issued in May 2011)
- IFRS 12 Disclosures of interests in other entities (issued in May 2011)
- IFRS 13 Fair value measurement (issued in May 2011)
- IAS 19 Employee benefits (Amendment issued in June 2011 and November 2013)*
- IAS 32 Financial instruments: Presentation (Amendment issued in December 2011)*
- IFRS 9 Financial instruments (issued in December 2009 and November 2013)*
- IAS 36 impairment of assets (issued in May 2013)*
- IAS 39 Financial instruments: Recognition and measurement (issued in June 2013)*
- Improvements issued in 2012
 - (i) IAS 1 Presentation of financial statements (May 2012)
 - (ii) IAS 16 Property plant and equipment (May 2012)
 - (iii) IAS 32 Financial instrument: Presentation (May 2012)
 - (iv) IAS 34 Interim Financial Reporting (May 2012)
 - (v) Amendments to IFRS 10 Consolidated financial statement, IFRS 11 Joint arrangements and IFRS 12 Disclosure of interests in other entities (June 2012)
 - (vi) IAS 27 Separate financial statements, IFRS 10 Consolidated financial statements and IFRS 12 Disclosure of interest in other entities (October 2012)
- Improvements issued in 2013
 - (i) IFRS 2 Share-based payment (Dec 2013)*
 - (ii) IFRS 3 Business combinations (Dec 2013)*

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- (iii) IFRS 8 Operating segments (Dec 2013)*
- (iv) IFRS 13 Fair value measurement (Dec 2013)*
- (v) IAS 16 Property, plant and equipment (Dec 2013)*
- (vi) IAS 24 Related party disclosures (Dec 2013)*
- (vii) IFRS 1 First-time adoption of International Finance Reporting Standards (Dec 2013)*
- (viii) IAS 40 Investment property (Dec 2013)*
- IFRIC 21 Levies

* Standards not yet effective.

The Company's management believes that the early 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. The Company only has early adopted the amendment to IAS 36.

B. Liquidity and Capital Resources

LATAM cash and cash equivalents totaled US\$1,984.9 million as of December 31, 2013, US\$650.3 million as of December 31, 2012 and US\$374.4 million as of December 31, 2011. Additionally, the Company had short term marketable securities totaling US\$576.7 million as of December 31, 2013, US\$470.1 million as of December 31, 2012 and US\$98.1 million as of December 31, 2011. In the aggregate, LATAM's cash and marketable securities totaled US\$2,561.6 million as of December 31, 2013, US\$1,120.3 million as of December 31, 2012 and US\$472.5 million as of December 31, 2011.

The US\$1,441.3 million increase in our cash and marketable securities from 2012 to 2013 was mainly due to LATAM's Capital Increase of US\$784.0 million in 2013 representing a 83.4% of the total Capital Increase completed on January 10, 2014 (See "Item 4. Information on the Company—B. Business Overview—Business Strategy—Improve our Capital Structure.") and the Securitization of airline ticket credit card voucher receivables for US\$450 million. In January 2014, LATAM received an additional US\$ 156.5 million upon completion of the Capital Increase. Changes in our net cash generated from operating, investing and financing activities are described below.

Cash position and liquidity

The following table provides a summary of our cash flows from operating activities, investing activities and financing activities for the years ended December 31, 2013, 2012 and 2011 and our total cash position as of December 31, 2013, 2012 and 2011.

	2013	2012	2011
	(in US\$ millions)		
Net cash generated from operating activities	1,408.7	1,203.8	767.7
Net cash used in investing activities	(1,278.8)	(1,926.4)	(1,241.1)
Net cash generated from financing activities	1,205.8	1,005.2	216.9
Effects of variation in the exchange rate on cash and cash equivalents	1.0	(6.7)	(0.1)
Cash and cash equivalents at the beginning of the year	650.3	374.4	631.1
Cash and cash equivalents at the end of the year	1,984.9	650.3	374.4

In addition to the cash and marketable securities LATAM has access to short term credit lines. As of December 31, 2013, LATAM had working capital uncommitted credit facilities for a total amount of US\$ 1.9 billion, of which \$1,091 million was drawn as of December 31, 2013, and committed credit lines with a total available amount of US\$185 million, of which \$0 was drawn as of December 31, 2013.

Net cash generated from operating activities

Cash from operations is derived primarily from providing air passenger and cargo transportation to customers. Operating cash outflows are primarily related to the recurring expenses of airline operations, including fuel consumption. Net cash inflows from operating activities in 2013 increase \$204.9 million, or 17.0%, from US\$1,203.8 million in 2012, primarily due to an improvement in the operational margin and the turnaround of the Brazilian domestic market, mainly reflected in a stronger fourth quarter operational result. Net cash generated from LATAM's operating activities in 2012 increased US\$436.1 million from US\$767.7 million in 2011 to US\$1,203.8 million in 2012, mainly due to the increase in operations following the combination of LAN and TAM on June 22, 2012. In addition, cash flows from operations in 2011 were reduced by US\$84.0 million as a result of fine payments.

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Net cash used in investing activities

Net cash used in investing activities in 2013 decreased US\$647.6 million from US\$1,926.4 million in 2012 to US\$1,278.8 million in 2013, primarily due to LATAM's capital increase, the decrease in capital expenditure and the return of PDP payments relating to the aircraft deliveries. Aircraft purchases in 2013 included 20 narrow body aircraft and 4 wide body aircraft for a total of US\$1,219 million.

Net cash used in investing activities in 2012 increased US\$685.3 million from US\$1,241.1 million in 2011 to US\$1,926.4 million in 2012, primarily due to aircraft purchases which were partially offset by the inclusion of US\$264.0 million of cash on the balance sheet of TAM. Aircraft purchases in 2012 included 14 narrow body aircraft and 18 wide body aircraft for a total of US\$2,535 million.

Net cash generated from financing activities

Net cash generated from financing activities increased by US\$200.6 million from US\$1,005.2 million to US\$1,205.8 million in 2013, primarily due to increase long term debt related to new aircraft purchases, but partially offset by the voluntary prepayment of the BRL 400 million local Brazilian bonds.

Net cash generated from financing activities increased by US\$788.3 million from US\$216.9 million to US\$1,005.2 million in 2012, primarily due to increase long term debt related to new aircraft purchases. Of these 2012 aircraft purchases, approximately 85% of the net aircraft prices were financed.

Sources of financing

Long term

We typically finance our fleet with long-term loans covering between 80% and 100% of the net purchase price. We also finance our aircraft under sale and leaseback arrangements in order to add flexibility to our fleet. For more information regarding to the fleet financing, please refer to “—F. Tabular Disclosure of Contractual Obligations.”

From time to time in the past, we have considered, and may consider in the future, other forms of financing including securitization of ticket receivables or the securitization of fleet and engines or the issuance of additional debt or equity securities.

During 2013, LATAM completed two important debt structuring transactions. On November 7, 2013, LATAM issued a 7-year securitized bond, securitizing the future flow of receivables from certain foreign institutions operating credit card systems in the United States and Canada in the amount of US\$450 million, at an interest rate of 6.0% per annum. Later, on December 19th, LATAM completed the refinancing of five B767 aircrafts, including three passengers and two freighters B767, for a total amount of US\$95.3 million.

Short term

We have generally been able to arrange for short-term loans with local Chilean and international banks when we have needed to finance working capital expenditures or increase our liquidity. As of December 31, 2013, we maintained US\$629 million in short-term credit lines with both local and foreign banks, including US\$185 million of committed credit lines.

We have diversified our sources of short term financing to include the following: PAE (“*Prestamos a Exportadores*”), which are foreign currency short term loans granted to exporting parties in Chile mainly to finance working capital; FINIMPS (“*Financiamento à Importação*”), which are short term loans granted to importers in Brazil; Credit card advancements, a financial alternative where the bank advances to the Company the cash inflows related to the credit card sales on installments with a discount factor; and advance purchases by Multiplus of kilometers for TAM flights, in an amount at any time up to a maximum of R\$500 million.

Capital expenditures

Our capital expenditures are related to the acquisition of aircraft, aircraft-related equipment, IT equipment, support infrastructure and the funding of pre-delivery deposits. LATAM's capital expenditures totaled US\$1,381.8 million in 2013, US\$2,389.4 million in 2012 and US\$1,367.0 million in 2011. See “—Sources of financing” above.

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The following chart sets forth our estimate, as of December 31, 2013, of our future capital expenditures for 2014, 2015, 2016, 2017 and 2018 calendar years:

	Estimated capital expenditures by year, as of December 31, 2013				
	2014	2015	2016	2017	2018
	(in US\$ millions)				
Expenditures on aircraft	1,149	1,471	3,034	3,297	2,856
PDPs (1)	95	181	-96	-207	-369
Purchase Obligations	1244	1652	2938	3090	2487
Other expenditures(2)	399	375	353	336	312
Total	1,643	2,027	3,291	3,426	2,799

(1) Represents pre-delivery payments made by LATAM, or inflows received by LATAM after the delivery of the aircraft is made, when the manufacturer refunds the PDPs to LATAM.

(2) Includes expenditures on spare engines and parts, information technology and other expenditures.

The expenditures set out in the table above reflect payments for purchases and other fleet-related items, as well as for information technology and other items. See “Item 4. Information on the Company—B. Business Overview—Fleet.” We have projected our capital expenditures based on our anticipated deliveries of aircraft fleet. See “—F. Tabular Disclosure of Contractual Obligations” below for a description of our purchase obligations, borrowings and other contractual commitments as of December 31, 2013.

C. Research and Development, Patents and Licenses, etc.

LATAM has registered the trademarks “LAN,” “LAN Chile,” “LAN Peru,” “LAN Argentina” and “LAN Ecuador” with the trademark office in Chile, Peru, Argentina and Ecuador, respectively. We license certain brands, logos and trade dress under the alliance agreement with oneworld® related to LAN’s alliance. As long as LAN is a member of oneworld®, it will have the right to continue to use current logos on its aircraft.

TAM holds or has filed registration applications for 229 trademarks before the *Instituto Nacional da Propriedade Industrial*, or INPI, the body with jurisdiction for registering trademarks and patents in Brazil, and 74 trademarks before the bodies with jurisdiction for registering trademarks in other countries in which TAM operates. Currently, TAM is not aware of any third-party challenges to these applications.

D. Trend Information

During 2014, we expect to continue to experience positive trends in the passenger operations, where we see significant growth opportunities in domestic and international markets in Latin America, and believe that the positive integration of LAN’s and TAM’s operations will allow us to start achieving the estimated synergies of the combination. Fuel prices have remained relatively stable thus far in 2014. Nevertheless, geopolitical instability, which affects the supply of fuel, is a potential risk since fuel supply is key to our business, as it represents approximately 35% of our operating expenses. We can address increases in fuel prices through our fuel-hedging policy and the use of pass-through mechanisms for both the passenger and cargo operations. However, these strategies are never completely effective and our operating margins are negatively impacted by a higher fuel price scenario. Specifically, we expect to face:

- slight revenue growth in the passenger operations, resulting from a rationalization of passenger capacity in the domestic Brazil market and the international long haul operations, partially offset by still strong traffic growth in the operations in our Spanish speaking countries. During January and February 2014, passenger traffic decreased by 1.1% compared to the same period in 2013, driven mainly by a decrease of 3.0% in traffic in international routes and the continued rationalization in the domestic Brazil market, where traffic decreased by 1.9% in the period. This trend was partially offset by solid growth in domestic operations in Chile, Peru, Argentina, Ecuador and Colombia, where traffic increased 7.1% as compared to the same period in 2013. In the Brazilian domestic market, capacity decreased by 5.0% during the two month period ended February, leading to a load factor of 83.0%, an increase of 2.6 percentage points as compared to the same period in 2013. In our international operations, capacity strongly decreased by 7.2% in the period, resulting in a strong increase of 3.6 percentage points in load factors, from 79.8% to 83.4%. This capacity rationalization has been focused on unprofitable routes, mainly routes from Rio de Janeiro to Europe. Capacity increases have mainly been focused on domestic routes within our Spanish speaking countries. In these markets, capacity grew by 5.5% in January and February 2014 as compared to the same period in 2013, and traffic continued to increase at a strong pace.
- cargo operations continue to be adversely affected by the challenging macroeconomic environment, which we expect to be partially compensated by solid export volumes from Latin America to the United States and Europe. During January and February 2014, cargo traffic, as measured in RTKs, slightly increased by 0.1%, while capacity decreased by 5.2% as compared to the same period in 2013. As a consequence, the cargo load factor increased by 3.0 percentage points to 57.1% as compared to the same period in 2013. Despite the challenging scenario in the cargo business, we have been able to adjust our cargo freighter capacity and focus in the optimization of the belly capacity to better respond to the current situation.

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In 2014, we expect to continue expanding and diversifying our revenue base through the expansion of our network, namely, by further developing our existing routes, adding new destinations, developing new alliances, and entering new markets. During 2014, we expect to receive 14 Airbus A320-Family aircraft to operate domestic and regional routes, as well as 5 additional wide-body passenger aircraft (Models Boeing 767-300 and Boeing 787-8 Dreamliners) for long-haul routes. We also expect the return of 5 leased Boeing 737 aircraft, the return of 3 leased A340 aircraft, and the return of 3 leased Dash 8-Q400 aircraft operated by LAN Colombia. In addition, we expect to sale 7 Airbus A330 and take phase out some Airbus A320 family aircraft to be replaced by new aircraft of this family. See “Item 4. Information on the Company—B. Business Overview—Fleet.”

In the cargo business, we will continue to adjust capacity in response to weakened demand in our core markets and to macroeconomic conditions. We expect import flows to Latin America to recover, but weaker cargo markets globally might further drive additional competition to South America, especially Brazil. We will continue to monitor the cargo market trends on a weekly basis in order to react as soon as possible if necessary. Also, we plan to continue to optimize the utilization of the bellies of our passenger aircraft to maximize synergies associated with the Company’s integrated passenger/cargo business model.

We continue to maintain significant flexibility to adjust the physical size of our fleet. Between 2014 and 2016, we will have 25 operating lease expirations (including Japanese operating leases) in our wide-body passenger fleet, which can be terminated without cost. Starting in 2010, part of our Boeing 767 fleet has been fully paid, providing us with additional financial flexibility.

We also intend to make our cost structure more efficient and to offset potential decreases in demand with more efficient asset utilization, and we aim to enhance efficiency by streamlining our support processes, reducing commercial costs, continuing to develop our domestic business model for short-haul operations, and further developing the LEAN system in our processes.

Although we expect fuel prices to remain stable for the remainder of 2014, we will continue to use fuel hedging programs and fuel surcharge mechanisms in both the passenger and cargo businesses to help minimize the impact of short-term movements in crude oil prices. For instance, as of March 31, 2014 we have hedged approximately 56% of our estimated fuel requirements for the first quarter 2014, 51% for the second quarter and 25% for the third quarter. These hedging instruments are comprised of a combination of WTI and jet fuel collars and swaps. These hedges are for an average price between US\$120 and US\$122 dollars per barrel in jet fuel prices.

E. Off-Balance Sheet Arrangements

As of December 31, 2013 the Company had 128 aircraft (of which 79 are obligations of TAM and 49 are obligations of LAN) and 19 aircraft engines under operating leases. These operating leases provide us with flexibility to adjust our fleet to any demand volatility that may affect the airline industry and therefore we consider such arrangements to be of great value to our strategy and financial performance. The total future lease payments related to our operating leases as of December 31, 2013 were US\$1,912.0 million, for all remaining periods through maturity (the latest of which expires in 2020). See “—F. Tabular Disclosure of Contractual Obligations.”

Under the aforementioned operating leases, LATAM is responsible for all maintenance, insurance and other costs associated with operating these aircraft. The Company has not made any residual value or similar guarantees to our lessors. There are certain guarantees and indemnities to other unrelated parties that are not reflected on the Company’s balance sheet, but we believe that these will not have a significant impact on our results of operations or financial condition.

LATAM operates 22 aircraft under tax leasing structures. These methods involve the creation of special purpose entities that acquire aircraft with bank and third party financing. Under IFRS, these aircraft are shown in the consolidated statement of financial position as part of “Property, plant and equipment” and the corresponding debt is shown as a liability. Of LATAM’s total tax leases, nine TAM tax leases are classified as operating leases for accounting purposes as of December 31, 2013.

As of December 31, 2013, we are not aware of any event, lawsuit, commitment, trend or uncertainty that may result in, or is reasonably likely to result in, the termination of the operating leases. See Note 33 to our audited consolidated financial statements for a more detailed discussion of these commitments.

F. Tabular Disclosure of Contractual Obligations

We have contractual obligations and commitments primarily related to the payment of aircraft debt and lease arrangements, principal and interest on our non-aircraft long-term debt (which consists of senior notes, a securitized bond and bank loans), short-term export-import credits and for the future incorporation of aircraft to our fleet.

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The Company's debt that is secured by aircraft (including Export-Import Bank of the United States ("Ex-IM Bank") Bank guaranteed bonds, Export Credit Agency ("ECA") guaranteed loans, commercial loans, Japanese Lease with a call option ("JALCO") structures and capital leases) as of December 31, 2013, was US\$6,654.0 million. In general, LATAM's aircraft debt has 12 year repayment profiles. However, some financing structures feature a balloon payment or a purchase option at the end of the lease. By refinancing this balloon payment, the maturity dates of a number of our aircraft financings have been extended for another 3 to 8 years (some up to 20 years in total). Our 2013 aircraft acquisitions are described in further detail below under "—2013 Fleet Acquisitions."

During December 2013, following LATAM's strategy to reduce its short term debt and replace it by more structured long term facilities, the company pledged five fully paid B767 aircraft (three passenger and two Cargo aircraft) as collateral for a bank loan for an amount of US\$ 95 million due in December 2016.

Regarding non-aircraft debt, LATAM issued a securitized bond for an amount of US\$ 450 million in November 2013 with seven years tenor and two years interest only. This bond is backed by future flows of credit card sales of LATAM Airlines in the United States and Canada. The coupon is 6.0% fixed with quarterly payments.

In addition, TAM has three series of senior notes, totaling US\$1,100 million. TAM's senior notes comprise:

- US\$300 million due in 2017, with a fixed coupon of 7.375% payable semi-annually, issued by TAM Capital Inc. and guaranteed on a senior unsecured basis by TAM S.A. and TAM Linhas Aereas. These notes are listed on the Euro MTF market of the Luxembourg Stock Exchange. On December 18, 2007, TAM completed an exchange offer pursuant to which 99.2% of the holders exchanged these notes for new notes that are registered under the Securities Act and otherwise have identical terms;
- US\$300 million due in 2020, with a fixed coupon of 9.5% payable semi-annually, issued by TAM Capital 2 Inc. and guaranteed on a senior unsecured basis by TAM S.A. and TAM Linhas Aereas; and
- US\$500 million due in 2021, with a fixed coupon of 8.375% payable semi-annually, issued by TAM Capital 3 Inc. and guaranteed on a senior unsecured basis by TAM S.A. and TAM Linhas Aereas.

The average interest rate of all of our long term debt (which is our aircraft debt plus the senior notes issued by TAM, the LATAM securitization and bank loans) was 3.89% as of December 31, 2013. Out of the total long-term debt, 73% accrues interest at a fixed rate (either through a stated fixed interest rate or through our use of interest rate swap agreements) or is subject to interest rate caps.

As of December 2013, LATAM had US\$1,969.3 million in current debt liabilities. Of this amount, US\$896.1 million was short-term debt, which represents 46% of our total current debt liabilities. The remaining US\$1,073.1 million is composed mainly of amounts payable within the next 12 months related to aircraft financing.

Various EX-IM Bank loans signed by the Company for the financing of Boeing 767, 777 and 787 aircraft also contain financial covenants and other restrictions, including on the Company's management in terms of its ownership and disposal of assets. In connection with the financing of spare engines for its Boeing 767, 767 freighter, 777, 777 freighter and 787 fleet, which are also guaranteed by the EX-IM Bank, financial covenants and other customary restrictions also apply. Additionally, with respect to various EX-IM Bank loans signed by Lan Cargo S.A. for the financing of Boeing 767 freighter and 777 freighter aircraft, financial covenants and other restrictions have been established to the Company's management and its subsidiary Lan Cargo S.A. in terms of shareholder composition and disposal of assets.

As of December 31, 2013, we also had purchase obligations totaling US\$12.2 billion, with deliveries between 2014 and 2020, as set forth below:

- Airbus A320-Family, passenger aircraft deliveries: 116,
- Wide-body passenger aircraft deliveries (which include the Airbus A350 900XWB, the Boeing, the Boeing 787-8, and the Boeing 787-9): 48, and
- Boeing 777-Freighter, cargo aircraft deliveries: 2

The following table sets forth our material expected obligations and commitments as of December 31, 2013:

(US\$ in millions)	Payments due by period, as of December 31, 2013				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations ⁽¹⁾	US\$ 6,313	US\$ 534	US\$ 1,152	US\$ 1,385	US\$ 3,242
Capital (finance) lease obligations	US\$ 2,312	US\$ 410	US\$ 708	US\$ 580	US\$ 614
Operating lease obligations	US\$ 1,913	US\$ 476	US\$ 746	US\$ 356	US\$ 335
Purchase obligations	US\$ 12,213	US\$ 1,149	US\$ 4,505	US\$ 6,153	US\$ 406
TOTAL	US\$ 22,751	US\$ 2,569	US\$ 7,111	US\$ 8,474	US\$ 4,597

(1) Long-term debt obligations reflect principal payments on outstanding debt obligations, including aircraft debt, senior notes issued by LAN and TAM and long term bank loans.

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2013 Fleet Acquisitions

During 2013, LATAM completed the acquisition of the following wide body aircraft:

- 4 Boeing 767-300ER passenger aircraft, financed through EX-IM Bank guaranteed bond(s)
- 2 Boeing 787-8 passenger aircraft, financed through sale and leaseback transaction(s)
- 2 Boeing 777-300ER passenger aircraft, financed through sale and leaseback transaction(s)

These EX-IM Bank financial obligations have a repayment profile of 12 years, with a guarantee covering 85% of the net purchase price of the aircraft. The EX-IM Bank guarantee is secured with a first priority mortgage on the aircraft in favor of a security trustee on behalf of EX-IM Bank. We have financed the remaining 15% of the net purchase price with our own funds. The first two aircraft were financed by EX-IM supported loans which subsequently were refinanced by EX-IM bank supported bond. The second two aircraft were pre-funded by EX-IM bank supported bonds.

Wide-body aircraft financed through sale and leaseback transactions have lease terms between 4 and 12 years. These leases are denominated in U.S. dollars and have monthly payments.

In June 2013, LATAM entered into a sale-leaseback agreement with a leasing company for 10 A330 aircraft, which were operated by TAM, for a lease term of approximately 3 years following the company's plan to replace this type of aircraft with new technology aircraft in the next years. Additionally 9 A350-900, 4 B787-9 and 2 B787-8 future deliveries were part of this deal in order to add more flexibility to LATAM's wide body fleet plan.

During 2013, LATAM completed the acquisition of the following narrow body aircraft:

- 11 Airbus A320-200 passenger aircraft, financed through ECA guaranteed bond(s)
- 5 Airbus A320-200 passenger aircraft, financed through sale and leaseback transaction(s)
- 8 Airbus A320-200 passenger aircraft, financed through commercial loan(s)
- 1 Airbus 321-231 passenger aircraft, financed through ECA guaranteed bond(s)

Aircraft financed by ECA-guaranteed bonds have an advance rate equal to 80% of the net purchase price of the aircraft for a 12 year period, with the remaining 20% of the aircraft being financed by the Company's available cash flows. Initially these aircraft were financed through ECA guaranteed loans and later converted to ECA guaranteed bonds.

In the case of the commercial financing for our Airbus 320-200 fleet, there is a senior tranche financing 81.7% of the net purchase price of the aircraft. A first priority mortgage on the aircraft is in favor of a security trustee on behalf of the senior lender. The documentation for each loan follows standard market forms for the type of financing, including standard events of default.

Finally, narrow body aircraft financed through sale and leaseback transactions have lease terms of 8 years. These leases are denominated in U.S. dollars and have monthly payments.

The majority of our wide body and narrow body aircraft financings through EX-IM Bank bonds, ECA guaranteed loans or commercial loans are denominated in U.S. dollars and have quarterly amortizations with a combination of fixed and floating rates linked to USD LIBOR. A small portion of our aircraft debt has monthly or semiannual payments; nevertheless it is also denominated in US Dollars and linked to USD LIBOR. Through the use of interest rate swaps and fixed coupon Bond emissions in the case of Boeing aircraft, we have effectively converted a significant portion of our floating rate debt under these loans into fixed rate debt.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The management of LATAM Airlines Group is conducted by its board of directors which, in accordance with LATAM Airlines Group's by-laws, consists of nine directors who are elected every two years for two-year terms at annual regular shareholders' meetings or, if necessary, at an extraordinary shareholders' meeting, and may be re-elected. The board of directors may appoint replacements to fill any vacancies that occur during periods between elections. Scheduled meetings of the board of directors are held once a month and extraordinary board of directors' meetings are called when summoned by the chairman of the board of directors and two other directors, or when requested by a majority of the directors.

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The current board of directors was elected at the extraordinary shareholders' meeting held on September 4, 2012. Its term expires in September 2014. The following are LATAM Airlines Group's directors:

<u>Directors</u>	<u>Position</u>
Mauricio Rolim Amaro ⁽¹⁾	Director / Chairman
Maria Claudia Amaro ⁽¹⁾	Director
Juan José Cueto Plaza ⁽²⁾	Director
Ramón Eblen Kadis ⁽³⁾	Director
Georges de Bourguignon Arndt	Director
José María Eyzaguirre Baeza	Director
Carlos Heller Solari ⁽⁴⁾	Director
Gerardo Jofré Miranda	Director
Francisco Luzón López	Director

<u>Senior Management</u>	<u>Position</u>
Enrique Cueto Plaza ⁽²⁾	CEO LATAM
Ignacio Cueto Plaza ⁽²⁾	CEO LAN
Andrés Osorio Hermansen	CFO LATAM
Marco Antonio Bologna	CEO TAM
Armando Valdivieso Montes	President LATAM
Claudia Sender	President TAM
Cristián Ureta Larraín	Cargo President
Roberto Alvo Milosawlewitsch	Chief Corporate Officer
Damian Scokin	Senior VP International Passenger Operations
Emilio del Real Sota	Senior VP Human Resources
Jerome Cadier	Chief Marketing Officer

- (1) Mr. Mauricio Rolim Amaro and Mrs. Maria Claudia Amaro are brother and sister. Both are members of the Amaro Group, which is defined in Item 7 as a "Major Shareholder" and are the TAM controlling shareholders.
- (2) Messrs. Ignacio, Juan José and Enrique Cueto Plaza are brothers. All three are members of the Cueto Group, which is defined in Item 7 as a "Major Shareholder," and are the LATAM controlling shareholders.
- (3) Mr. Ramón Eblen Kadis is a member of the Eblen Group, which is defined in Item 7 as a "Major Shareholder."
- (4) Mr. Carlos Heller Solari is a member of the Bethia Group, which is defined in Item 7 as a "Major Shareholder."

Biographical Information

Set forth below are brief biographical descriptions of LATAM Airlines Group's directors and senior management. All of LATAM's directors were elected or reelected, as the case may be, in September 2012 for a two-year term, which expires in September 2014.

Directors

Mr. Mauricio Rolim Amaro, 43 years old, has served as member of LATAM Airlines Group's board of directors since June 2012, was reelected to the board of directors of LATAM in September 2012 and has served as Chairman since September 2012. Mr. Amaro current term as chairman ends in September 2014. Mr. Amaro has previously held various positions in the TAM Group and served as a professional pilot at TAM Linhas Aéreas S.A. and TAM Aviação Executiva S.A.. Mr. Amaro has been a member of the Board of TAM S.A. since 2004, and vice-chairman of the Board since April 2007. He is also an executive officer at TAM Empreendimentos e Participações S.A. and chairman of the boards of Multiplus S.A. (subsidiary of TAM S.A.) and of TAM Aviação Executiva e Taxi Aéreo S.A. As of January 31, 2014, according to shareholder registration data in Chile, Mr. Amaro shared in the beneficial ownership of 65,554,075 common shares of LATAM Airlines Group (12.01% of LATAM Airlines Group's outstanding shares), held by TEP Chile S.A. For more information see "Item 7. Controlling Shareholders and Related Party Transactions."

Mrs. Maria Claudia Amaro, 47 years old, has served on LATAM Airlines Group's board of directors since June 2012 and was reelected to the board of directors of LATAM in September 2012. Mrs. Amaro's term as a director ends in September 2014. She holds a bachelor's degree in Business Administration and Marketing. Previously she served as Marketing Director at TAM Linhas Aéreas. She has been a member of the Board of TAM S.A. since September 2003, and chairwoman of the Board since April 2007. She is also an Executive Officer at TAM Empreendimentos e Participações S.A. and a member of the boards of Multiplus S.A. and of TAM Aviação Executiva e Taxi Aéreo S.A. As of January 31, 2014, according to shareholder registration data in Chile, Mrs. Amaro shared in the beneficial ownership of 65,554,075 common shares of LATAM Airlines Group (12.01% of LATAM Airlines Group's outstanding shares), held by TEP Chile S.A. For more information see "Item 7. Controlling Shareholders and Related Party Transactions."

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Mr. Juan José Cueto Plaza, 53 years old, has served on LAN's board of directors since 1994 and was reelected to the board of directors of LATAM in September 2012. Mr. Cueto's term as a director ends in September 2014. Mr. Cueto currently serves as Executive Vice President of Inversiones Costa Verde S.A., a position he has held since 1990, and serves on the boards of directors of Consorcio Maderero S.A., Minera Michilla S.A., Inversiones del Buen Retiro S.A., Inmobiliaria e Inversiones Asturias S.A., Inversiones Mineras del Cantábrico S.A., Costa Verde Aeronáutica S.A., Sinergia Inmobiliaria S.A. and Valle Escondido S.A. Mr. Cueto is the brother of Messrs. Enrique and Ignacio Cueto Plaza, LATAM Airlines Group Executive Vice-President and LAN CEO, respectively. Mr. Cueto is a member of the Cueto Group (LATAM Airlines Group's Controlling Shareholder). As of January 31, 2014, Mr. Cueto shared in the beneficial ownership of 139,089,517 common shares of LATAM Airlines Group (25.49% of LATAM Airlines Group's outstanding shares) held by the Cueto Group. Mr. Cueto is also a member of the board of directors of Holdco II. For more information see "Item 7. Controlling Shareholders and Related Party Transactions."

Mr. Ramón Eblen Kadis, 69 years old, has served on LAN's board of directors since June 1994 and was reelected to the board of directors of LATAM in September 2012. Mr. Eblen's term as a director ends in September 2014. Mr. Eblen has served as President of Comercial Los Lagos Ltda., Inversiones Santa Blanca S.A., Inversiones Andes SpA, Granja Marina Tornagaleones S.A. and TJC Chile S.A. Mr. Eblen is a member of the Eblen Group (a major shareholder of LATAM Airlines Group). As of January 31, 2014, Mr. Eblen had the beneficial ownership of 27,945,199 common shares of LATAM Airlines Group (approximately 5.12% of LATAM Airlines Group's outstanding shares) held by the Eblen Group plus a 40% ownership of Costaverde Aeronautica SpA, which owns 20,000,000 common shares of LATAM Airlines Group. For more information see "Item 7. Controlling Shareholders and Related Party Transactions."

Mr. Georges de Bourguignon, 51 years old, has served on LATAM Airlines Group's board of directors since September 2012. Mr. de Bourguignon's term as a director ends in September 2014. Mr. de Bourguignon has been a partner and co-founder of Asset Chile SA, a Chilean investment bank, since 1994. He is currently member of the board of directors of the company Sal Lobos, Chilean subsidiary of the German group K+S. From 1990 to 1993 he served as Manager of Financial Institutions of Citibank SA in Chile. During 1993-2005 he was director of Intergenes Investment Fund Administrator. As of January 31, 2014, Mr. de Bourguignon indirectly held 33,153 common shares of LATAM Airlines Group (0.0057 % of LATAM Airlines Group's outstanding shares). *Mr. José María Eyzaguirre Baeza*, 51 years old, has served on LATAM Airlines Group's board of directors since September 2012. Mr. Eyzaguirre's term as a director ends in September 2014. Mr. Eyzaguirre has been a partner at Claro y Cia, a law firm in Chile, since 1993 and currently leads the M&A practice. During the practice of law, Mr. Eyzaguirre started in commercial litigation, then specialized in financial and capital markets and recently, and especially, in the areas of corporate nature, with special dedication to the area of mergers and acquisition of companies (cross-border). Currently Mr. Eyzaguirre is Director of Walmart Chile S.A. (since 2010), Komax S.A. (since 2010) and Sociedad Química y Minera de Chile S.A. (since 2001). Previously, Mr. Eyzaguirre has participated in several companies' boards, including Andina (until 2012) and AES Gener S.A. (until 2001).

Mr. Carlos Heller Solari, 52 years old, joined LAN's board of directors in May 2010 and was reelected to the board of directors of LATAM in September 2012. Mr. Heller's term as a director ends in September 2014. Mr. Heller has a vast experience in the retail, transports and agriculture sectors. Mr. Heller is President of Bethia S.A. ("Bethia") (holding company and owner of Axxion S.A. and Betlan Dos S.A.), Chairman of Axxion S.A., Club Hípico de Santiago, Sotraser S.A. and Agrícola Ancali. He also participates as a board of directors' member of SACI Falabella S.A., Falabella Retail S.A., Sodimac S.A., Titanium S.A., Viña Indómita S.A., Viña Santa Alicia S.A., Blue Express S.A. and Aero Andina S.A. Additionally he is the major shareholder and Vice President of "Azul Azul" (Universidad de Chile's first division soccer team administrator). As of January 31, 2014, Mr. Heller indirectly held 33,501,357 common shares of LATAM Airlines Group through Axxion S.A. and Inversiones HS Spa (6.14 % of LATAM Airlines Group's outstanding shares).

Mr. Gerardo Jofré Miranda, 64 years old, joined LAN's Board of directors on May 2010 and was reelected to the board of directors of LATAM in September 2012. Mr. Jofré's term as a director ends in September 2014. Mr. Jofré is Chairman of Codelco and member of the board of directors of Pan B Foundation. Mr. Jofré is President of Saber Más Foundation and member of the Real Estate Investment Council of Santander Real Estate Funds. From 2005 to 2010 he served as member of the boards of directors of Endesa Chile S.A., Viña San Pedro Tarapacá S.A., D&S S.A., Inmobiliaria Titanium S.A. Construmart S.A., Inmobiliaria Playa Amarilla S.A., Air Life Chile S.A. and Inmobiliaria Parque del Sendero S.A. Mr. Jofré was Director of Insurance for America for Santander Group of Spain between the years 2004 and 2005. From 1989 to 2004 he served on Santander Group in Chile, as Vice Chairman of the Group and as CEO, member of the boards of directors and Chairman of many of the Group's companies. As of January 31st, 2014, Mr. Jofre held 5,673 common shares of LATAM Airlines Group (0.0010% of LATAM Airlines Group's outstanding shares). *Mr. Francisco Luzón López*, 66 years old, has served on LATAM Airlines Group's board of directors since September 2012. Mr. Luzón's term as a director ends in September 2014. Consultant of the Inter-American Development Bank (IDB) and Teacher "Visiting Leader" of the School of Business China-Europe (CEIBS) in Shanghai (2012-2013). Current European Stability Mechanism (ESM) Advisor (September 2013) and Current Independent Director at Willis Group (June 2013). Between 1999 and 2012, Mr. Luzon served as Executive Vice President for Latin America of Banco Santander. In this period, he was also Worldwide Vice President of Universia SA. Between 1991 and 1996 he was Chairman and CEO of Argentaria Bank Group. Previously, in 1987, was appointed Director and General Manager of Banco Vizcaya and in 1988 Counselor and General Director Banking Group BBV. During his career Mr. Luzon has held positions on the boards of several companies most recently participating in the council of the global textile company Inditex-Zara from 1997 until 2012. As of January 31, 2014, Mr. Luzon held 12,200 common shares of LATAM Airlines Group (0.0022% of LATAM Airlines Group's outstanding shares).

Senior Management

Mr. Enrique Cueto Plaza, 55 years old, is LATAM Airlines Group's Chief Executive Officer ("CEO"). From 1994 to 2012, Mr. Cueto was the CEO of LAN. From 1983 to 1993, Mr. Cueto was Chief Executive Officer of Fast Air, a Chilean Cargo airline. Mr. Cueto also served on the LAN board of directors from 1993 to 1994. Mr. Cueto has in-depth knowledge of passenger and cargo airline management, both in commercial and operational aspects, gained during his 24 years in the airline industry. Mr. Cueto is an active member of the oneworld® Alliance Governing Board, the IATA (International Air Transport Association) Board of Governors. He is also member of the Board of the Federation of Chilean Industry (SOFOFA) and of the Board of the Endeavor foundation, an organization dedicated to the promotion of entrepreneurship in Chile. Mr. Cueto is the brother of Messrs. Juan José and Ignacio Cueto Plaza, member of the board and LAN CEO, respectively. Mr. Cueto is also a member of the Cueto Group (LATAM Airlines Group's Controlling Shareholder). As of January 31, 2014, Mr. Cueto jointly shared in the beneficial ownership of 139,089,517 common shares of LATAM Airlines Group (25.49% of LATAM Airlines Group's outstanding shares) held by the Cueto Group. For more information see "Item 7. Controlling Shareholders and Related Party Transactions."

Mr. Ignacio Cueto Plaza, 50 years old, is LAN's CEO. Mr. Cueto served as President of LAN Cargo from 1995 to 1998, as Chief Executive Officer-Passenger Business from 1999 to 2005, and as President and Chief Operating Officer of LAN since 2005 until the merger with TAM in 2012. Mr. Cueto has previously served on the board of directors of LAN (from 1995 to 1997) and Ladeco (from 1994 to 1997). In addition, Mr. Cueto served as Chief Executive Officer of Fast Air from 1993 to 1995. Between 1985 and 1993, Mr. Cueto held several positions at Fast Air, including Service Manager for the Miami sales office, Director of Sales for Chile and Vice President of Sales and Marketing. Mr. Cueto is the brother of Messrs. Juan José and Enrique Cueto Plaza, Director and LATAM's CEO, respectively. Mr. Cueto is also a member of the Cueto Group (which is a controlling shareholder of LATAM). As of January 31, 2014, Mr. Cueto shared in the beneficial ownership of 139,089,517 common shares of LATAM (25.49% of LATAM's outstanding shares) held by the Cueto Group. For more information see "Item 7. Controlling Shareholders and Related Party Transactions."

Mr. Andrés Osorio, 50 years old, is LATAM's Chief Financial Officer ("CFO"), and has held this position since August, 2013. Mr. Osorio joined LATAM in August, 2013. Prior to joining LATAM, Mr. Osorio served as CFO Cencosud S.A. As of January 31, 2014, Mr. Osorio owned 20,000 common shares of LATAM (0.0036% of LATAM Airlines Group's outstanding shares).

Mr. Marco Bologna, 59 years old, is TAM's CEO since May, 2010. He is also board member of Suzano Papel e Celulose S/A. He joined TAM in March 2001, when he was appointed Vice President for Finance and Management, and Market Relations Director. From 2004 to 2007 he served as President of TAM Linhas Aéreas, and in March 2009 he took over as President of TAM Aviação Executiva and Táxi Aéreo S.A. Since April 30, 2010 he has chaired the holding company TAM S.A., which brings together TAM Linhas Aéreas, TAM Airlines (formerly TAM Mercosur), Multiplus Fidelidade, and the maintenance unit TAM MRO. In February 2012, he was also appointed President of TAM Linhas Aéreas. Mr. Bologna has extensive experience in the aviation industry, and has worked in the financial markets for over 20 years.

Mr. Armando Valdivieso Montes, 51 years old, is President of LAN. Between 1997 and 2005 he served as Chief Executive Officer-Cargo Business of LAN and from 2006 until 2012 he served as the General Manager-Passenger. After the merger with TAM in 2012, Mr. Valdivieso served as LATAM's Spanish Speaking Countries Executive Vice-President, before being named to his current position. From 1994 to 1997, Mr. Valdivieso was President of Fast Air. From 1991 to 1994, Mr. Valdivieso served as Vice President, North America of Fast Air Miami. As of January 31, 2014, according to shareholder registration data in Chile, Mr. Valdivieso owned 67,359 common shares of LATAM Airlines Group (0.012% of LATAM Airlines Group's outstanding shares).

Mr. Cristian Ureta Larrain, 51 years old, is LATAM's Cargo Executive Vice-President. From 1998 and 2002, Mr. Ureta was LAN Cargo's Planning and Development Vice-President and in 2002 he was promoted to Production Vice President. In 2005, Mr. Ureta assumed the position of General Manager-Cargo. Mr. Ureta has an Engineering degree from Pontificia Universidad Católica and a Special Executive Program from Stanford University. Prior to that, Mr. Ureta served as General Director and Commercial Director at Mas Air, and as Service Manager for Fast Air.

Mr. Roberto Alvo Milosawlewitsch, 45 years old, is LATAM's Chief Corporate Officer. Mr. Alvo has served in various roles within LAN since 2001, including as CFO of LAN Argentina from 2005 until 2008, as Vice-president of Development of LATAM Airlines Group from 2003 until 2005 and Vice-President of Treasury of LATAM Airlines Group from 2001 until 2003. He assumed the position of Senior Vice-President Strategic Planning and Development in 2008. Before 2001 Mr. Alvo held various positions at Sociedad Química y Minera de Chile S.A., a leading non-metallic Chilean mining company. Mr. Alvo is a civil engineer and obtained an MBA from IMD in Lausanne, Switzerland.

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Mr. Damian Scokin, 47 years old, is LATAM's International Unit Business Executive Vice President. He joined LAN in 2005. Prior to his current position, Mr. Scokin was responsible for LAN International business and CEO of LAN Argentina, where he led the start up and development of LAN's new subsidiary in Argentina. Prior to joining LAN, he developed an extensive career as a management consultant at McKinsey & Company, where he worked for 11 years. During his consulting experience Mr. Scokin worked in the United States, Great Britain, Chile, Brazil, Peru and Argentina in a variety of projects. In 2000, Mr. Scokin was elected Partner of the Firm and in 2003 he became "Location Manager" of the Buenos Aires office, leading McKinsey's practice in Argentina. Damian Scokin obtained his MBA from Harvard Business School in 1995, after graduating as Bachelor in Economics (1991) and Industrial Engineer (1992) at the University of Buenos Aires. As of January 31, 2014, according to shareholder registration data in Chile, Mr. Scokin owned 7,730 common shares of LATAM Airlines Group (0.0014% of LATAM Airlines Group's outstanding shares).

Mrs. Claudia Sender Ramirez, 39, is TAM Airlines' CEO since May 2013. Mrs. Sender joined the company in December 2011, as Commercial and Marketing Vice-President. After June 2012, with the conclusion of TAM-LAN merger and the creation of LATAM Airlines Group, she became the head of Brazil Domestic Business Unit, and her functions were expanded in order to include TAM's entire Customer Service structure. Mrs. Sender dedicated most of her career in consumer goods industry, focused in Marketing and Strategic Planning. Prior to joining TAM, she was Marketing Vice-President at Whirlpool Latin America for seven years. She also worked as a consultant at Bain&Company, developing projects for large companies in various industries, including TAM Airlines and other players of the global aviation sector. She has a bachelor degree in Chemical Engineering from the Polytechnic School at the University of São Paulo (USP) and a MBA from Harvard Business School. As of January 31, 2014, Mrs. Sender did not own any shares of LATAM.

Mr. Emilio del Real Sota, 49 years old, is LATAM's HR Executive Vice-President, a position he assumed (with LAN) in August 2005. Mr. del Real has a Psychology degree from Universidad Gabriela Mistral. Between 2003 and 2005, Mr. del Real was the Human Resource Manager of D&S, a Chilean retail company. Between 1997 and 2003 Mr. del Real served in various positions in Unilever, including Human Resource Manager for Chile, and Training and Recruitment Manager and Management Development Manager for Latin America.

Mr. Jerome Cadier, 44 years old, is Chief Marketing Officer, a position he assumed in March 1st, 2013. Mr. Cadier has a Masters degree from the Kellogg Graduate School of Business, USA and and a Industrial Engineer degree from Escola Politecnica da Universidade de Sao Paulo, Brasil. Between 1994 and 2002, Mr. Cadier worked for McKinsey and Co in Sao Paulo, Brasil as a management consultant. In 2003 he joined Whirlpool Home Appliances where he held several positions among which are head of sales and marketing for Brazil and CEO for Whirlpool Oceania. As of January 31, 2014, Mr. Cadier did not own any shares of LATAM

B. Compensation

In 2013, the Company paid its principal executives (considering the levels of Vice- Presidents, General Managers, Senior Directors and Directors as defined above) a total of US\$43,644,704 plus US\$24,755,841 in incentives for performance during 2013, which were paid in March 2014. As a result, the Company paid its principal executives total gross remunerations of US\$68,400,545.

Under Chilean law, LATAM Airlines Group must disclose in its annual report details of all compensation paid to its directors during the relevant fiscal year, including any amounts that they received from LATAM Airlines Group for functions or employment other than serving as a member of the board of directors, including amounts received as per diem stipends, bonuses and, generally, all other payments. Additionally, pursuant to regulations of the Superintendencia de Valores y Seguros de Chile ("SVS"), the Chilean securities regulator, the annual report must also include the total compensation and severance payments received by managers and principal executives, and the terms of and the manner in which board members and executive officers participate in any stock option plans.

LATAM Airlines Group's directors are paid 50 UF per meeting (100 UF for the chairman of the board) and 40 UF for assistance to the subcommittee of Directors meetings. LATAM Airlines Group also provides certain benefits to its directors and executive officers, such as free and discounted airline tickets and health insurance. We do not have contracts with any of our directors to provide benefits upon termination of employment.

As set forth in further detail in the following table, in 2013 the members of our board of directors currently in office received fees and salaries in the aggregate amount of US\$377,383.

Board Members	Fees (US\$)(1)
Mauricio Rolim Amaro	58,912
Maria Claudia Amaro	27,850
Juan José Cueto Plaza	35,784

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<u>Board Members</u>	<u>Fees (US\$)(1)</u>
Ramon Eblen Kadis	63,128
Georges de Bourguignon	52,582
José María Eyzaguirre Baeza	23,483
Carlos Heller Solari	19,553
Juan Gerardo Jofre Miranda	63,109
Francisco Luzón López	32,982
Total	<u>377,383</u>

(1) Includes fees paid to members of the board of directors' committee, as described below.

All of the abovementioned directors were elected to the LATAM board of directors in September 2012.

As required by Chilean law, LATAM Airlines Group makes obligatory contributions to the privatized pension fund system on behalf of its senior managers and executives, but it does not maintain any separate program to provide pension, retirement or similar benefits to these or any other employees.

C. Board Practices

Our board of directors is currently comprised of nine members. The terms of each of our current directors will expire in September 2014. See “—A. Directors and Senior Management” above.

Committees

Board of Directors' Committee and Audit Committee

Pursuant to Chilean Corporation Law, LATAM Airlines Group must have a board of directors' committee composed of no less than three board members. LATAM Airlines Group has established a three-person committee of its board of directors, which, among other duties, is responsible for:

- examining the reports of LATAM Airlines Group's external auditors, the balance sheets and other financial statements submitted by LATAM Airlines Group's administrators to the shareholders, and issuing an opinion with respect thereto prior to their presentation to the shareholders for their approval;
- proposing external auditors and rating agencies to the board of directors;
- evaluating and proposing external auditors and rating agencies;
- reviewing internal control reports pertaining to related party transactions;
- examining and reporting on all related-party transactions; and
- reviewing the pay scale of LATAM Airlines Group's senior management.

Under Chilean law we are required, to the extent possible, to appoint a majority of independent directors to the Board of Directors Committee. The corresponding independence requirements are set forth in Chilean Corporation Law and relate to the relationship between the directors and the shareholders that control a corporation. A director is considered independent when he or she can be elected regardless of the voting of the controlling shareholders. See “Item 16. G. Corporate Governance.”

Pursuant to U.S. regulations, we are required to have an audit committee of at least three board members, which complies with the independence requirements set forth in Rule 10A-3 under the Exchange Act. Given the similarity in the functions that must be performed by our Board of Directors' Committee and the audit committee, our Board of Directors' Committee serves as our Audit Committee for purposes of Rule 10A-3 under the Exchange Act.

As of March 30, 2013, all of the members of our Board of Directors' Committee, which also serves as our Audit Committee, were independent under Rule 10A-3 of the Exchange Act. As of March 30, 2013, the committee members were Mr. Gerardo Jofre Miranda, Mr. Ramón Eblen Kadis and Mr. Georges de Bourguignon Arndt. We pay each member of the committee 32 UFs per meeting.

LATAM Board Committees

LATAM's board of directors also has established four other committees to review, discuss and make recommendations to our board of directors. These include a Strategy Committee, a Leadership Committee, a Finance Committee and a Brand, Product and Frequent Flyer Program Committee. The Strategy Committee focuses on the corporate strategy, current strategic issues and the three-year plans and budgets for the main business units and functional areas and high-level competitive strategy reviews. The Leadership Committee focuses on, among other things, group culture, high-level organizational structure, appointment of the LATAM CEO and

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his or her other reports, corporate compensation philosophy, compensation structures and levels for the LATAM CEO and other key executives, succession or contingency planning for the LATAM CEO and performance assessment of the LATAM CEO. The Finance Committee is responsible for financial policies and strategy, capital structure, monitoring policy compliance, tax optimization strategy and the quality and reliability of financial information. Finally, the Brand and Frequent Flyer Program Committee is responsible for brand strategies and brand building initiatives for the corporate and main business unit brands, the main characteristics of products and services for each of the main business units, frequent flyer program strategy and key program features and regular audit of brand performance.

Corporate Governance Practices

On March 31, 2014, the Board of Directors of LATAM Airlines Group filed the Company's Corporate Practices Report prepared according to General Rule N° 341 of the Securities and Insurance Commission issued November 29, 2012. The reporting obligation stipulated in this rule is for practices in place as of December 31st of each year and the report must be presented no later than March 31st of the following year.

The report provided each year to the Commission must cover the following subjects:

- How the Board works
- The relationship between the company, shareholders and the public in general
- How senior officers are replaced and compensated
- The definition, implementation and supervision of internal control and risk management policies and procedures inside the company.

D. Employees

The following table sets forth the number of employees in various positions at the Company.

<u>Employees</u>	<u>As of December 31,</u>		
	<u>2013</u>	<u>2012⁽²⁾</u>	<u>2011⁽¹⁾</u>
Administrative	9,908	8,980	4,170
Sales	5,680	4,858	2,750
Maintenance	6,925	6,932	2,918
Operations	17,054	18,138	6,194
Cabin crew	9,339	10,164	3,837
Cockpit crew	4,091	4,527	1,969
Total	52,997	53,473	21,838

(1) By the end of 2011, approximately 52% of our employees worked in Chile, 46% in other Latin American countries and 2% in the rest of the world.

(2) 2012 figures include both LAN and TAM employees which as of December 2012 were 23,099 employees from LAN and 30,500 employees of TAM and its affiliates (including Multiplus).

We have a performance-related pay structure for our administrative, management and flight personnel (such as cabin crew members, airport and sales agents, call-center employees, and some back office employees) including performance-based bonuses and pay scales that reward foreign language proficiency among counter, technical and administrative personnel. During 2013, 93% of our employees were eligible to receive performance related bonus payments that are linked to personal, team and corporate performance. TAM executives participate in the same program described below. For other employees there is a profit sharing program, which is a variable pay program based on the Company's financial performance.

We provide our employees with medical insurance complementary to the coverage of the private health system, and also grant other benefits, such as free and discounted airline tickets, to our permanent employees.

A stock option compensation plan is offered to key senior executives. For a detailed description of the stock option compensation plan, please see Note 38 to our audited consolidated financial statements for the fiscal year ended December 31, 2013.

As required by Chilean law, we make obligatory contributions to the privatized pension fund system on behalf of our employees, but we do not maintain any separate program to provide pension, retirement or similar benefits to these or any other employees. However, the pilots' collective bargaining agreement includes a clause that permits resignation with severance payment, in case a pilot reaches a certain age and is still providing services to the company. In Brazil TAM offers a private pension plan to its executives and pilots.

Long Term Incentive Compensation Program

On December 21, 2011, the extraordinary shareholders meeting approved a capital increase of 142,355,882 shares to a total of 488,355,791 shares. The same meeting designated 4,800,000 shares for purposes of a proposed employee stock option compensation plan. Those 4,800,000 shares represented a 0.98% of the total share capital after such capital increase. The shareholders' meeting authorized our board of directors to elaborate the compensation plan. This incentive compensation program is aimed at promoting our interests by encouraging senior management employees to contribute substantially to our success, by motivating them with stock options.

The general features of this stock option plan are:

- (a) The selection of the employees of the Company and its subsidiaries that were included by the Board of Directors in the compensation plan was made after a recommendation by our Executive Committee. A stock option agreement was signed with each selected employee for the number of options in connection to the acquisition of our shares to be allocated to such employee.
- (b) Until the shares in the option are subscribed, the optionee has no economic or political rights and is not considered in the quorums of shareholders meetings.
- (c) The options allocated to each employee are vested in parts, on the following two dates: (1) 30% on December 21, 2014; (2) 30% on December 21, 2015; and (3) 40% on June 21, 2016, subject to remaining employed by the Company.
- (d) The period during which the employee must exercise the options will expire December 21, 2016. If the employee has not exercised or waived the options in that period, the employee will be understood, for all purposes, to have waived the options and, accordingly, all rights, powers, promises or offers in relation to the subscription of cash shares in the Company will be deemed extinguished and it will be understood that the employee has irrevocably waived all rights or powers in relation thereto, releasing us from any obligation.
- (e) The price payable for these shares if the respective options are exercised is US\$23.19, adjusted by the variation in the *Consumer Price Index* ("CPI") published monthly by the U.S. Department of Labor, from the date it was set by our Board of Directors to the date of subscription and payment of the shares. Such price shall be paid in Chilean pesos, converted at the observed dollar exchange rate published in the Official Gazette on the same date as subscription and payment of the shares.

The selection of employees for participation in the stock option plan was based on, among other criteria that the Board determined at the time of employment with the Company, the position they hold, their importance in earning profits, the responsibility of their position, the amount of equity managed, the ability to work as a team, performance, potential for development and importance within the Company given their education and experience.

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As of December 31, 2013, Stock Option Contracts were issued by the Company to 46 employees of the Company and its subsidiaries for a total of 4,497,000 stock options. This stock option plan excludes members of the Cueto group, the LATAM Controlling Shareholders, that serve as senior management of the Company. The Company's shareholders approved the issuance of 1,500,000 shares at the Special Shareholders Meeting held June 11, 2013, among other matters. Those shares will be allocated to compensation plans for the employees of the Company and its subsidiaries (the "2013 Compensation Plan").

The general features of the 2013 Compensation Plan are:

1. The options allocated to each employee shall be exercisable entirely on November 15, 2017, provided the employee continues to work for the Company.
2. Employees may exercise such options, after they become exercisable on the aforesaid date, either all at once or in parts. They must subscribe and pay for those shares at once, at the time of subscription, in cash, by check, by bank check, by money transfer or by any other instrument or medium representing cash payable on demand. Partial option exercises cannot be for less than 10% of all options granted to the Employee.
3. The period in which employees must exercise options after they become exercisable, as explained in number 3) above, expires June 11, 2018. If employees have not exercised or waived options in that period, they shall be deemed to have waived the options for all purposes and, accordingly, all rights, powers, promises or offers in relation to the subscription of cash shares in the company shall be deemed extinguished, the employee shall be deemed to have irrevocably waived all rights or powers in relation thereto, and the company shall be released from any obligation.
4. The price payable per share allocated to the 2013 Compensation Plan is US\$16.40, if the respective options are exercised, adjusted by the change in the Consumer Price Index ("CPI") published monthly by the U.S. Department of Labor, starting the first day of the preemptive option period to the date of subscription and payment of the shares. The subscription price will be paid in Chilean pesos, converted using the Observed Dollar exchange rate published in the Official Gazette on the same date as subscription and payment of shares.

No options have been granted under the 2013 Compensation Plan.

Training

Some of our employees, such as the flight operations, maintenance and customer ground operations personnel undergo training when they join the Company and throughout their employment with us. We maintain an agreement with CAE (a Canadian firm specializing in flight simulators and training centers) to develop a pilot training center in Santiago de Chile and Sao Paulo. This training center includes Airbus and Boeing Full Flight simulators plus MFTD simulator. Our pilot staff also receives simulator training at sites in the United States.

Our pilots are rated for only one aircraft type by local aeronautical authorities, and they are not cross-qualified between two or more aircraft types. Regulations require pilots to be licensed as commercial pilots for a first officer position and as an airline transport pilot for a captain position, with specific type, function and special ratings for each aircraft to be flown, and to be medically certified as physically fit. Licenses and medical certifications are subject to periodic reevaluation, including flight simulator recurrent training, ground recurrent training, annual emergency procedures training, safety and security training and recent flying experience. Our pilots receive a variety of training, such as lectures, simulations and gaming and computer based training. Cabin crew must have initial and periodic competency fitness training.

Aircraft mechanics and maintenance supervisory personnel must be licensed by the DGAC and other corresponding authorities in other countries in which we operate. We train our technicians (Mechanics, Specialists, Inspectors and Maintenance Supervisors) in all programs required by both local authority (DGAC) and international authorities and aviation associations, such as the FAA, the European Aviation Safety Agency ("EASA"), IATA rules and regulations, those required by aircraft manufacturers and the training needs that we identify during our annual reviews. The program of study contains initial and continuing training. Initial training is level III ATA SPEC 104 and lasts forty to fifty days depending on the aircraft types and continuing training lasts up to five to six days.

During 2013, we continued training sales and administrative personnel in areas such as service and sales quality. We also continued delivering learning programs to develop leadership skills and others with different methodologies including e-learning.

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Labor Relations

We believe we generally maintain good relations with our employees and the unions, and expect to continue to enjoy good relations with our employees and the unions in the future. We also believe that we have built a solid base among our employees that will support and facilitate our growth plans. We can provide no assurance, however, that our employee compensation arrangements may not be subject to change or modification after the expiration of the contracts currently in effect, or that we will not be subject to labor-related disruptions due to strikes, stoppages or walk-outs.

Chile

We have negotiated longer-term labor contracts with the labor unions in anticipation of their scheduled expirations, which under Chilean law are limited to a period of four years. In general, the expiration of our labor agreements with the several unions that represent our pilots and other personnel are staggered in a way that we avoid being in the position of having to renegotiate contract terms with substantially all of our pilots or other personnel at the same time.

During 2013, we renegotiated our collective bargaining agreements with our pilots' union, which will be effective until 2016. Non-unionized pilots have the same benefits as unionized pilots, through a direct extension of the union's renegotiated agreement. We also negotiated agreements with pilots working for our subsidiaries, LAN Express and LAN Cargo, which agreements will also be in effect until 2016.

We have also entered into or renegotiated collective bargaining agreements with many of our other employees in Chile during 2012, including general airport, maintenance and supply staff of LATAM; administrative staff of LAN Express; and administration staff of LAN Cargo. Each of these agreements is effective for a four-year term, until 2016.

Ecuador

In Ecuador, two employee associations were formed (mechanical and airport/administration) in 2012. These employee associations maintain relations with the Company, but do not have the right to enter into or negotiate collective bargaining agreements under Ecuador law.

Also in Andes, a union of ground handling employees has been formed and was legally constituted in 2013. As of today there is no process of negotiations or bargainings agreements with this union.

Argentina

In Argentina, the majority of LAN Argentina's employees belong to industry-wide unions. In December 2013, salary agreements were finalized with the five unions in LAN Argentina. These negotiations are held annually.

Peru

LAN Peru is currently negotiating with its cabin crew and maintenance unions, and it expects to complete these negotiations and finalize a collective bargaining agreement with each union during the second or third quarter of 2014.

Brazil

Under Brazilian law, the validity of collective bargaining agreements is limited to two years. TAM's collective bargaining agreements are valid for one year (for economic clauses) and for two years (for social clauses). TAM has historically negotiated collective bargaining agreements with nine unions in Brazil: one flight crew union, which represents the functions of flying workers (pilots, copilots and flight attendants), and eight ground staff unions, which represent TAM employees who perform their duties on the ground in support of TAM's operations. In December 2013, TAM renegotiated collective bargaining agreements with five unions, which included a wage increase of 7% for ground workers (ground handling) earning minimum wage, and an increase of 5.6% for other salaried ground workers and flying workers (compared with an inflation rate for the period of 5.6%). Ground staff workers who earn salaries of up to R\$10,000 received an increase of 5.6%. Employees who earn more than R\$10,000 received an increase of R\$560.0. Negotiations with the other four unions are ongoing. However, the Company granted all employees the same rights accorded the five unions that signed collective bargaining agreements. Although 92% of wage negotiations in Brazil have resulted in real wage increase greater than inflation, we believe that the wage increases granted to our employees has been positive for the Company, since the majority of employee wage increases were within the rate of inflation. During these negotiations there were no strikes or labor stoppages.

E. Share Ownership

As of March 31, 2014, the members of our Board of Directors and our executive officers as a group own 48.77% of our shares. See "Item 7. Controlling Shareholders and Related Party Transactions."

For a description of stock options granted to our executive officers, see "—D. Employees—Long Term Incentive Compensation Program."

ITEM 7. CONTROLLING SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**A. Major Shareholders**

The Cueto Group is LATAM's controlling shareholder and it is comprised by Mr. Juan José Cueto Plaza (one of our directors), Mr. Ignacio Cueto Plaza (the CEO LAN), Mr. Enrique Cueto Plaza (the CEO LATAM) and certain other family members. As of March 31, 2014, the Cueto Group owned 25.49% of LATAM Airlines Group's common shares. The Cueto Group is entitled to elect three of the nine members of our board of directors and is in a position to direct the management of the Company. The Cueto Group, which we also refer to as the "LATAM controlling shareholders," have entered into a shareholder's agreement with LATAM, TEP Chile and the TAM controlling shareholders. See "—Shareholders' Agreements."

Following our combination with TAM, the Amaro Group is also a major shareholder of LATAM Airlines Group. The Amaro Group, which we also refer to as the "TAM controlling shareholders," are controlling shareholders of TAM, through their 100% ownership of TEP Chile and majority ownership of Holdco I voting shares, which owns 100% of the common shares of TAM. The Amaro Group's members include our chairman Mauricio Rolim Amaro and our director Maria Claudia Amaro. As of March 31, 2014, the Amaro Group owned 12.01% of LATAM Airlines Group's common shares. The Amaro Group has entered into a shareholder's agreement with LATAM and the LATAM controlling shareholders. The terms of this shareholder agreement require the LATAM controlling shareholders to vote to elect individuals nominated by TEP Chile as members of our board of directors. See "—Shareholders' Agreements."

In addition to these shareholders, there are two other major shareholder groups. As of March 31, 2014, the Bethia Group, which includes our director Carlos Heller Solari, owned 6.14% of our common shares and the Eblen Group, which includes our director Ramón Eblen Cádiz, owned 5.12% of our common shares.

The table below sets forth the beneficial owners, as of March 31, 2014, of our common shares, including our controlling shareholders, other major shareholders and minority shareholders.

Shareholder	Beneficial ownership (as of March 31, 2014)	
	Number of shares of common stock beneficially owned	Percentage of common stock beneficially owned
Cueto Group	139,089,517	25.49%
Costa Verde Aeronautica S.A.	86,386,914	15.83%
Inversiones Nueva Costa Verde Aeronautica Ltda.	22,314,277	4.19%
Costa Verde Aeronautica SpA	20,000,000	3.67%
Others	10,388,326	1.8%
Amaro Group	65,554,075	12.01%
TEP Chile S.A.	65,554,075	12.01%
Bethia Group.	33,501,357	6.14%
Axxion S.A.	18,473,333	3.38%
Inversiones HS SpA.	15,028,024	2.75%
Eblen Group.	27,945,199	5.12%
Inversiones Andes S.A.	17,146,529	3.14%
Inversiones Los Guindos S.A.	5,394,866	0.98%
Inversiones Alcalá S.A.	5,403,804	0.99%
All other minority shareholders	279,467,953	51.23%
Total	545,558,101	100.00%

As of March 31, 2014, investors outside of Chile held 8.63% of our capital stock in the form of ADSs, and 0.71% in the form of BDSs. Chilean pension funds held 16.13% of our capital stock and other minority investors held 25.76% in the form of common shares. It is not practicable for us to determine the number of ADSs or common shares beneficially owned in the United States. As of March 31, 2014, we had 1,654 record holders of our common shares. It is not practicable for us to determine the portion of shares held in Chile or the number of record holders in Chile. All of our shareholders have identical voting rights.

Shareholders' Agreements

As described above under "Item 4. Information on the Company—A. History and Development of the Company—Combination of LAN and TAM," following the combination of LAN and TAM in June 2012, TAM S.A. continues to exist as a subsidiary of Holdco I and a subsidiary of LATAM, and LAN Airlines S.A. has been redesignated as "LATAM Airlines Group S.A."

Prior to the consummation of the business combination, LATAM Airlines Group and the LATAM controlling shareholders entered into several shareholders agreements with TAM, the TAM controlling shareholders (acting through TEP Chile) and Holdco I that establish agreements and restrictions relating to corporate governance in an attempt to balance LATAM Airlines Group's interests, as the owner of substantially all of the economic rights in TAM, and the TAM controlling shareholders, as the continuing controlling shareholders of TAM under Brazilian law, by prohibiting the taking of certain specified material corporate actions and decisions without prior supermajority approval of the shareholders and/or the board of directors of Holdco I or TAM. These shareholder agreements also set forth the parties' agreement regarding the governance and management of the LATAM Airlines Group following the consummation of the business combination of LAN and TAM.

Governance and Management of LATAM Group

We refer to the shareholders agreement among the LATAM controlling shareholders and TEP Chile, which sets forth the parties' agreement concerning the governance, management and operation of the LATAM Group, and voting and transfer of their respective LATAM Airlines Group common shares and TEP Chile's voting shares of Holdco I, as the "control group shareholders agreement." We refer to the shareholders agreement between us and TEP Chile, which sets forth our agreement concerning the governance, management and operation of the LATAM Group as the "LATAM Airlines Group-TEP shareholders agreement." The control group shareholders agreement and the LATAM Airlines Group-TEP shareholders agreement set forth the parties' agreement on the governance and management of the LATAM Group following the effective time.

This section describes the key provisions of the control group shareholders agreement and the LATAM Airlines Group-TEP shareholders agreement. The rights and obligations of the parties to the control group shareholders agreement and the LATAM Airlines Group-TEP shareholders agreement are governed by the express terms and conditions of the aforementioned shareholders agreements and not by this summary or any other information contained in this annual report on Form 20-F. The description of these control group shareholders agreement and the LATAM Airlines Group-TEP shareholders agreement summarized below and elsewhere in this annual report on Form 20-F are qualified in their entirety by reference to the full text of the aforementioned shareholders agreements, which are incorporated by reference into this annual report on Form 20-F. For a full understanding of these agreements, we advise you to read these agreements carefully and in their entirety.

Composition of the LATAM Airlines Group Board

Mr. Maurício Rolim Amaro and Maria Cláudia Oliveira Amaro were elected to the LATAM Airlines Group board of directors in June 2012 and confirmed as directors at a special meeting of the shareholders of LATAM held on September 4, 2012 in which the entire LATAM Airlines Group board of directors was reelected or replaced. Mr. Maurício Rolim Amaro was appointed chairman of LATAM Airlines Group's board of directors for the first two years following such shareholders' meeting. If Mr. Amaro vacates this position for any reason within that two-year period, TEP Chile has the right to select a replacement to complete his term. Thereafter, LATAM Airlines Group's board of directors will appoint any of its members as the chairman of LATAM Airlines Group's board of directors, from time to time, in accordance with LATAM Airlines Group's by-laws.

Management of the LATAM Group

As of June 2012, Enrique Cueto Plaza became the CEO of LATAM or the ("CEO LATAM"). The CEO LATAM is the highest ranked officer of the LATAM Airlines Group and reports directly to the LATAM board of directors. The CEO LATAM is charged with the general supervision, direction and control of the business of the LATAM Airlines Group and certain other responsibilities set forth in the LATAM Airlines Group-TEP shareholders agreement. After any departure of the current CEO LATAM, our board of directors will select his or her successor after receiving the recommendation of the Leadership Committee.

As of June 2012, Ignacio Cueto Plaza became the CEO of LAN, or the "CEO LAN." The CEO LAN reports directly to the CEO LATAM and has general supervision, direction and control of the passenger and cargo operations of the LATAM Group, excluding those conducted by Holdco I, TAM and its subsidiaries, and the international passenger business of the LATAM Group. The CEO LAN, together with Marco Antonia Bologna, the current the CEO TAM, are responsible for recommending a candidate to the CEO LATAM to serve as the head of the international passenger business of the LATAM Group (including both long haul and regional operations), who shall report jointly to the CEO LAN and the CEO TAM. The key executives of the LATAM Group (other than the CEO LATAM and those in the TAM Group) will be appointed by, and will report, directly or indirectly, to the CEO LATAM.

The head office of the LATAM Airlines Group continues to be located in Santiago, Chile.

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Governance and Management of Holdco I and TAM

We refer to the shareholders agreement between us, Holdco I and TEP Chile, which sets forth our agreement concerning the governance, management and operation of Holdco I, and voting and transfer of voting shares of Holdco I, as the “Holdco I shareholders agreement” and to the shareholders agreement between us, Holdco I, TAM and TEP Chile, which sets forth our agreement concerning the governance, management and operation of TAM and its subsidiaries following the effective time as the “TAM shareholders agreement.” The Holdco I shareholders agreement and the TAM shareholders agreement set forth the parties’ agreement on the governance and management of Holdco I, TAM and its subsidiaries (collectively, the “TAM Group”) following the business combination of LAN and TAM.

This section describes the key provisions of the Holdco I shareholders agreement and the TAM shareholders agreement. The rights and obligations of the parties to the Holdco I shareholders agreement and the TAM shareholders agreement are governed by the express terms and conditions of the aforementioned shareholders agreements and not by this summary or any other information contained in this annual report on Form 20-F. The description of these Holdco I shareholders agreement and the TAM shareholders agreement summarized below and elsewhere in this annual report on Form 20-F are qualified in their entirety by reference to the full text of the aforementioned shareholders agreements, which are incorporated by reference into this annual report on Form 20-F. For a full understanding of these agreements, we advise you to read these agreements carefully and in their entirety.

Composition of the Holdco I and TAM Boards

The Holdco I shareholders agreement and TAM shareholders agreement generally provide for identical boards of directors and the same chief executive officer at Holdco I and TAM, with LATAM appointing two directors and TEP Chile appointing four directors (including the chairman of the board of directors). From September 2012 to September 2014, the chairman of the Holdco I and TAM boards of directors will be Maria Cláudia Oliveira Amaro.

The control group shareholders agreement provides that the persons elected by or on behalf of the LATAM controlling shareholders or the TAM controlling shareholders to our board of directors must also serve on the boards of directors of both Holdco I and TAM.

Management of Holdco I and TAM

The day-to-day business and affairs of Holdco I will be managed by the TAM Group CEO under the oversight of the board of directors of Holdco I. The day-to-day business and affairs of TAM will be managed by the *TAM Diretoria* under the oversight of the board of directors of TAM. The “*TAM Diretoria*” will be comprised of the TAM Group CEO, the TAM CFO, the TAM COO and the TAM CCO. Marco Bologna, currently the CEO of TAM, will be the initial CEO of Holdco I and TAM, or the “TAM Group CEO” and any successor CEO will be selected by us from three candidates proposed by TEP Chile. The TAM Group CEO will have general supervision, direction and control of the business and operations of the TAM Group (other than the international passenger business of the LATAM Group) and will carry out all orders and resolutions of the board of directors of TAM. The initial chief financial officer of TAM, or the “TAM CFO,” has been jointly selected by us and TEP Chile and any successor CFO will be selected by TEP Chile from three candidates proposed by us. The chief operating officer of TAM, or the “TAM COO,” and chief commercial officer of TAM, or the “TAM CCO,” will be jointly selected and recommended to the TAM board of directors by the TAM Group CEO and TAM CFO and approved by the TAM board of directors. These shareholders agreements also regulate the composition of the boards of directors of subsidiaries of TAM.

Following the combination, TAM continues to be headquartered in São Paulo, Brazil.

Supermajority Actions

Certain actions by Holdco I or TAM require supermajority approval by the board of directors or the shareholders of Holdco I or TAM which effectively require the approval of both LATAM and TEP Chile before the specified actions can be taken. Actions that require supermajority approval of the Holdco I board of directors or the TAM board of directors include, as applicable:

- to approve the annual budget and business plan and the multi-year business (which we refer to collectively as the “approved plans”), as well as any amendments to these plans;
- to take or agree to take any action which causes, or will reasonably cause, individually, or in the aggregate, any capital, operating or other expense of any TAM Company and its subsidiaries to be greater than (i) the lesser of 1% of revenue or 10% of profit under the approved plans, with respect to actions affecting the profit and loss statement, or (ii) the lesser of 2% of assets or 10% of cash and cash equivalents (as defined by IFRS) as set forth in the approved plan then in effect, with respect to actions affecting the cash flow statement;
- to create, dispose of or admit new shareholders to any subsidiary of the relevant company, except to the extent expressly contemplated in the approved plans;

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- to approve the acquisition, disposal, modification or encumbrance by any TAM company of any asset greater than \$15 million or of any equity securities or securities convertible into equity securities of any TAM Company or other company, except to the extent expressly contemplated in the approved plans;
- to approve any investment in assets not related to the corporate purpose of any TAM company, except to the extent expressly contemplated in the approved plans;
- to enter into any agreement in an amount greater than \$15 million, except to the extent expressly contemplated in the approved plans;
- to enter into any agreement related to profit sharing, joint ventures, business collaborations, alliance memberships, code sharing arrangements, except as approved by the business plans and budget then in effect, except to the extent expressly contemplated in the approved plans;
- to terminate, modify or waive any rights or claims of a relevant company or its subsidiaries under any arrangement in any amount greater than \$15 million, except to the extent expressly contemplated in the approved plans;
- to commence, participate in, compromise or settle any material action with respect to any litigation or proceeding in an amount greater than \$15 million, relating to the relevant company, except to the extent expressly permitted in the approved plans;
- to approve the execution, amendment, termination or ratification of agreements with related parties, except to the extent expressly contemplated in the approved plans;
- to approve any financial statements, amendments, or to any accounting, dividend or tax policy of the relevant company;
- to approve the grant of any security interest or guarantee to secure obligations of third parties;
- to appoint executives other than the Holdco I CEO or the TAM Diretoria or to re-elect the then current TAM CEO or TAM CFO; and
- to approve any vote to be cast by the relevant company or its subsidiaries in its capacity as a shareholder.

Actions requiring supermajority shareholder approval include:

- to approve any amendments to the by-laws of any relevant company or its subsidiaries in respect to the following matters: (i) corporate purpose, (ii) corporate capital; (iii) the rights inherent to each class of shares and its shareholders; (iv) the attributions of shareholder regular meetings or limitations to attributions of the board of directors; (v) changes in the number of directors or officers; (vi) the term; (vii) the change in the corporate headquarters of a relevant company; (viii) the composition, attributions and liabilities of management of any relevant company; and (ix) dividends and other distributions;
- to approve the dissolution, liquidation, winding up of a relevant company;
- to approve the transformation, merger, spin-up or any kind of corporate re-organization of a relevant company;
- to pay or distribute dividends or any other kind of distribution to the shareholders;
- to approve the issuance, redemption or amortization of any debt securities, equity securities or convertible securities;
- to approve a plan or the disposal by sale, encumbrance or otherwise of 50% or more of the assets, as determined by the balance sheet of the previous year, of Holdco I;
- to approve the disposal by sale, encumbrance or otherwise of 50% or more of the assets of a subsidiary of Holdco I representing at least 20% of Holdco I or to approve the sale, encumbrance or disposition of equity securities such that Holdco I loses control;
- to approve the grant of any security interest or guarantee to secure obligations in excess of 50% of the assets of the relevant company; and
- to approve the execution, amendment, termination or ratification of acts or agreement with related parties but only if applicable law requires approval of such matters.

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Voting Agreements, Transfers and Other Arrangements

Voting Agreements

The LATAM controlling shareholders and TEP Chile have agreed in the control group shareholders agreement to vote their respective LATAM Airlines Group common shares as follows:

- until such time as TEP Chile sells any of its LAN common shares (other than the exempted shares as defined below held by TEP Chile), the LATAM Airlines Group controlling shareholders will vote their LATAM Airlines Group common shares to elect to the LATAM Airlines Group board of directors any individual designated by TEP Chile unless TEP Chile beneficially owns enough LATAM Airlines Group common shares to directly elect two directors to the LATAM Airlines Group board of directors;
- the parties agree to vote their LATAM Airlines Group common shares to assist the other parties in removing and replacing the directors such other parties elected to the LATAM Airlines Group board of directors;
- the parties agree to consult with one another and use their good faith efforts to reach an agreement and act jointly on all actions (other than actions requiring supermajority approval under Chilean law) to be taken by the LATAM Airlines Group board of directors or the LATAM Airlines Group shareholders;
- the parties agree to maintain the size of the LATAM Airlines Group board of directors at a total of nine directors and to maintain the quorum required for action by the LATAM Airlines Group board of directors at a majority of the total number of directors of the LATAM Airlines Group board of directors; and
- if, after good faith efforts to reach an agreement with respect to any action that requires supermajority approval under Chilean law and a mediation period, the parties do not reach such an agreement then TEP Chile has agreed to vote its shares on such supermajority matter as directed by the LATAM Airlines Group controlling shareholders, which we refer to as a “directed vote.”

The number of “exempted shares” of TEP Chile means that number of LATAM Airlines Group common shares which TEP Chile owns immediately after the effective time in excess of 12.5% of the outstanding LATAM Airlines Group common shares at such time as determined on a fully diluted basis.

The parties to the Holdco I shareholders agreement and TAM shareholders agreement have agreed to vote their voting shares of Holdco I and shares of TAM so as to give effect to the agreements with respect to representation on the TAM board of directors discussed above.

Transfer Restrictions

Pursuant to the control group shareholders agreement, the LATAM Airlines Group controlling shareholders and TEP Chile are subject to certain restrictions on sales, transfers and pledges of the LATAM Airlines Group common shares and (in the case of TEP Chile only) the voting shares of Holdco I beneficially owned by them. Except for a limited amount of LATAM Airlines Group common shares, neither the LATAM Airlines Group controlling shareholders nor TEP Chile may sell any of its LATAM Airlines Group common shares, and TEP Chile may not sell its voting shares of Holdco I, until June 2015. Thereafter, sales of LATAM Airlines Group common shares by either party are permitted, subject to (i) certain limitations on the volume and frequency of such sales and (ii) in the case of TEP Chile only, TEP Chile satisfying certain minimum ownership requirements. After June 2022, TEP Chile may sell all of its LATAM Airlines Group common shares and voting shares of Holdco I as a block, subject to (x) approval of the transferee by the LATAM board of directors, (y) the condition that the sale not have an adverse effect and (z) a right of first offer in favor of the LATAM Airlines Group controlling shareholders, which we refer to collectively as “block sale provisions.” An “adverse effect” is defined in the control group shareholders agreement to mean a material adverse effect on our and Holdco I’s ability to own or receive the full benefits of ownership of TAM and its subsidiaries or the ability of TAM and its subsidiaries to operate their airline businesses worldwide. The LATAM Airlines Group controlling shareholders have agreed to transfer any voting shares of Holdco I acquired pursuant to such right of first offer to us for the same consideration paid for such shares.

In addition, TEP Chile may sell all LATAM Airlines Group common shares and voting shares of Holdco I beneficially owned by it as a block, subject to satisfaction of the block sale provisions, after June 2015 if a release event (as described below) occurs or if TEP Chile is required to make two or more directed votes during any 24-month period at two meetings (consecutive or not) of the shareholders of LATAM Airlines Group held at least 12 months apart and LATAM Airlines Group has not yet fully exercised its conversion option described below. A “release event” will occur if (i) a capital increase of LATAM Airlines Group occurs, (ii) TEP Chile does not fully exercise the preemptive rights granted to it under applicable law in Chile with respect to such capital increase in respect of all of its restricted LATAM Airlines Group common shares, and (iii) after such capital increase is completed, the individual designated by TEP Chile for election to the board of directors of LATAM Airlines Group with the assistance of the LATAM Airlines Group controlling shareholders is not elected to the board of directors of LATAM Airlines Group.

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In addition, after June 2022 and after the occurrence of the full ownership trigger date (as described below under the “—Conversion Option”), TEP Chile may sell all or any portion of its LATAM Airlines Group common shares, subject to (x) a right of first offer in favor of the LATAM Airlines Group controlling shareholders and (y) the restrictions on sales of LATAM Airlines Group common shares more than once in a 12-month period.

The control group shareholders agreement provides certain exceptions to these restrictions on transfer for certain pledges of LATAM Airlines Group common shares made by the parties and for transfers to affiliates, in each case under certain limited circumstances.

In addition, TEP Chile agreed in the Holdco I shareholders agreement not to vote its voting shares of Holdco I, or to take any other action, in support of any transfer by Holdco I of any equity securities or convertible securities issued by it or by any of TAM or its subsidiaries without our prior written consent.

Restriction on transfer of TAM shares

We agreed in the Holdco I shareholders agreement not to sell or transfer any shares of TAM stock to any person (other than our affiliates) at any time when TEP Chile owns any voting shares of Holdco I. However, we will have the right to effect such a sale or transfer if, at the same time as such sale or transfer, we (or our assignee) acquires all the voting shares of Holdco I beneficially owned by TEP Chile for an amount equal to TEP Chile’s then current tax basis in such shares and any costs TEP Chile is required to incur to effect such sale or transfer. TEP Chile has irrevocably granted us the assignable right to purchase all of the voting shares of Holdco I beneficially owned by TEP Chile in connection with any such sale.

Conversion Option

Pursuant to the control group shareholders agreement and the Holdco I shareholders agreement, we have the unilateral right to convert our shares of non-voting stock of Holdco I into shares of voting stock of Holdco I to the maximum extent allowed under law and to increase our representation on the TAM and Holdco I boards of directors if and when permitted in accordance with foreign ownership control laws in Brazil and other applicable laws if the conversion would not have an adverse effect (as defined above under the “—Transfer Restrictions”).

On or after June 2022, and after we have fully converted all of our shares of non-voting stock of Holdco I into shares of voting stock of Holdco I as permitted by Brazilian law and other applicable laws, we will have the right to purchase all of the voting shares of Holdco I held by the controlling shareholders of TAM for an amount equal to their then current tax basis in such shares and any costs incurred by them to effect such sale, which amount we refer to as the “sale consideration.” If we do not timely exercise our right to purchase these shares or if, after June 2022, we have the right under applicable law in Brazil and other applicable law to fully convert all the shares of non-voting stock of Holdco I beneficially owned by us into shares of voting stock of Holdco I and such conversion would not have an adverse effect but we have not fully exercised such right within a specified period, then the controlling shareholders of TAM will have the right to put their shares of voting stock of Holdco I to us for an amount equal to the sale consideration.

Acquisitions of TAM Stock

The parties have agreed that all acquisitions of TAM common shares by LATAM Airlines Group, Holdco I, TAM or any of their respective subsidiaries from and after the effective time of the business combination will be made by Holdco I.

B. Related Party Transactions

General

We have engaged in a variety of transactions with our affiliates, including entities owned or controlled by certain of our controlling shareholders. In the ordinary course of our business we render to and receive from related companies services of various types, including aircraft leases, aircraft interchanges, freight transportation and reservation services.

It is our policy not to engage in any transaction with or for the benefit of any shareholder or member of the board of directors, or any entity controlled by such a person or in which such a person has a substantial economic interest, unless the transaction is related to our business and the price and other terms are at least as favorable to us as those that could be obtained on an arm’s-length basis from a third party. Such transactions, none of which is individually material, are summarized in Note 35 to our audited consolidated financial statements for the fiscal year ended December 31, 2013.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Financial Statements and Other Financial Information

See “Item 3. Key Information—A. Selected Financial Data,” “Item 18. Financial Statements” and pages F-1 through F-219.

Legal and Arbitration Proceedings

We are involved in routine litigation and other proceedings relating to the ordinary course of our business.

In February 2006 the European Commission (“EC”), in conjunction with the Department of Justice of the United States (“DOJ”), initiated a global investigation of a large number of international cargo airlines (among them LAN Cargo) for possible price fixing of cargo fuel surcharges and other fees in the European and United States air cargo markets. On December 26, 2007, the European competition authorities notified LAN Cargo and LATAM of the initiation of proceedings against twenty-five cargo airlines, among them LAN Cargo, for allegations of anti-competitive behavior in the airfreight business.

On January 21, 2009, LAN Cargo announced that it had reached a plea agreement with the DOJ in relation to the DOJ’s ongoing investigation regarding price fixing of fuel surcharges and other fees for cargo shipments. Under the plea agreement, LAN Cargo agreed to pay a fine of US\$88 million. In addition, ABSA also reached a plea agreement with the DOJ and agreed to pay a fine of US\$21 million. These amounts were stipulated to be paid over a five-year payment schedule starting in 2009. As of December 31, 2013, the pending amount to be paid during the next year is approximately US\$18 million and has been recorded within “Other Accounts Payable.” As of March 31, 2014 there is no amount remaining to be paid.

On November 9, 2010, the EC imposed fines on 11 air carriers for a total amount of €800 million (equivalent to approximately US\$1.1 billion). The fine imposed against LAN Cargo and its parent company, LAN, totaled €8.2 million (equivalent to approximately US\$10.9 million). The Company provisioned US\$25 million during the fourth quarter of 2007 for such fines, and maintained this provision until the fine was imposed in 2010. In 2010, the Company recorded a US\$14.1 million gain (pre-tax) from the reversal of a portion of this provision. See “Item 5. Operating and Financial Review and Prospects—Operating Results.” This was the lowest fine applied by the EC, which includes a significant reduction due to the Company’s cooperation with the Commission during the course of the investigation. In accordance with European Union law, on January 24, 2011 this administrative decision was appealed by LAN Cargo and LAN to the General Court in Luxembourg. Any judgment by the General Court may also be appealed to the Court of Justice of the European Union.

The investigation by the DOJ prompted the filing of numerous civil class actions by freight forwarding and shipping companies against many airlines, including LAN Cargo and LATAM Airlines Group, including fifty-four in the United States. The cases filed in the United States were consolidated in the United States District Court, Eastern District of New York and the original complaint was subsequently amended to include additional airlines, including ABSA. On May 11, 2011, LAN Cargo announced that it had reached a settlement agreement with the class action plaintiffs in relation to this litigation. As per the settlement agreement, LAN Cargo agreed to pay US\$59.7 million. Furthermore, ABSA also reached a settlement agreement with class action plaintiffs and agreed to pay US\$6.3 million. The amounts were paid to plaintiffs’ counsel escrow account in 2011. DHL, a former member of the civil class action plaintiffs, timely opted out of the settlements agreement. LAN Cargo recently reached a settlement agreement with StarBroker A.G., on behalf of DHL Global Forwarding, whereby LAN Cargo agreed to pay US\$8.2 million, of which US\$7.1 million was shall be recovered by LAN Cargo from the escrow amount set aside in the class action settlement previously paid by LAN Cargo for opt out plaintiffs.

The Canadian Competition Bureau (“CCB”), in conjunction with the DOJ, also initiated a global investigation of a large number of international cargo airlines (among them LAN Cargo) for possible price fixing of cargo fuel surcharges and other fees in the Canadian air cargo markets in 2006. On August 20, 2013, LAN Cargo reached a plea agreement with the CCB in relation to the CCB’s ongoing investigation regarding price fixing of fuel surcharges and other fees for cargo shipments. Under the plea agreement, LAN Cargo agreed to pay a fine of US\$975,000.000. The CCB’s investigation prompted the filing of four separate civil class actions by freight forwarding and shipping companies against many airlines, including LAN Cargo and LAN, in Canada. On January 31, 2012, LAN and LAN Cargo approved a settlement agreement with the class actions plaintiffs for an amount of CAD\$700,000 (Canadian Dollars), which is pending court approval.

On April 5, 2008, Brazilian authorities notified ABSA of the initiation of administrative proceedings before the Conselho Administrativo de Defesa Econômica (CADE the Brazilian Antitrust Authority) against several cargo airlines and airline officers, among them ABSA, for allegations of anticompetitive practices regarding fuel surcharges in the air cargo business. On September 3, 2013, CADE published its decision to impose a fine of US\$51,020 million against ABSA. CADE also imposed fines upon a former Director and two former employees in the amounts of US\$1.020 million and US\$510,000.00 respectively. On December 5, 2013 ABSA filed its application for Administrative Reconsideration before CADE which remains pending. ABSA will also have the right to appeal the final decision of CADE before Judge in a formal judicial proceeding. Given the current stage of the proceedings, it is not possible at this time to anticipate with any precision the outcome of this matter, although it is expected to be a lengthy process.

Legal proceedings involving TAM

TAM Linhas Aéreas is party to 1 action filed by relatives of victims of an accident that occurred in October 1996 involving one of its Fokker 100 aircraft which crashed during departure, in addition to 22 actions filed by residents of the region of where the accident occurred, who are claiming pain and suffering, and a class action related to this crash. Any damages resulting from the aforementioned legal claims are covered by the civil liability guarantee provided for in TAM’s insurance policy with ItaúUnibancoSeguros S.A. We believe that the cap of U.S.\$ 400 million in that insurance policy is sufficient to cover any potential penalties and judicial or extrajudicial agreements arising as a result of this matter.

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Insurance coverage has been sufficient to cover the liabilities arising from an accident that occurred in July 2007 involving an Airbus A320 aircraft from TAM Linhas Aereas. Settlements have been made directly between the insurance company and the victims' families. As of December 31, 2013, approximately 196 settlements have occurred and others are under negotiation between the insurance company and victims' families. Management believes that the insurance coverage is adequate and that TAM will not incur any expenses that were not contemplated by the scope of the insurance policy that would result in TAM's obligation to pay damages.

TAM Linhas Aereas challenged the constitutionality of a change in the tax basis of the PIS and the increase in the contribution and basis calculation of COFINS, introduced under Law No. 9.718/98. On November 9, 2005, the Brazilian Supreme Court of Justice ruled that the change in the tax basis of the PIS was unconstitutional. During 2006, TAM Linhas Aereas was successful in obtaining one favorable ruling which enabled TAM to partially reverse a tax assessment of R\$46. In November 2009, Brazil established the Fiscal Recovery Program ("REFIS") to refund amounts previously required under Law No. 9.718/98. TAM Linhas Aereas has applied to REFIS to settle its outstanding tax assessments relating to Law No. 9.718/98.

Proceedings had been filed against TAM Linhas Aereas concerning the alleged failure to pay ICMS due on imported aircraft, parts and engines. In response, TAM had filed the appropriate challenges on the basis that ICMS should not be payable on leased aircraft. On May 30, 2007, the *Supremo Tribunal Federal* (Federal Supreme Court) ruled in TAM's favor in respect of one of these cases. On the basis of this precedent decision and of recent rulings of the Superior Tribunal of Justice, we believe our chance of loss in respect of the other pending cases is remote. We had not established any provisions for the amounts in question.

TAM Linhas Aereas filed an ordinary action with a request for injunctive relief for non-payment of the Airline Workers Fund, a tax charged monthly at the rate of 2.5% of an airline's total payroll. Payment of the tax credit is suspended by virtue of the injunctive relief granted in TAM's favor. Currently, judgment is pending on an appeal that TAM lodged challenging the initial decision (which was ruled in favor of the INSS). In 2004 and 2011, the INSS issued an assessment notice tolling the Statute of Limitations of the social security credit as a result of TAM Linhas Aereas' non-payment of the Airline Workers Fund. The administrative proceedings have been suspended until completion of the judicial process. The approximate adjusted value of this proceeding as of December 31, 2012 was R\$ 271 million. In the opinion of our legal advisors, chance of losing in this proceeding is possible. Assuming payment of this tax is required by law, we have established a provision in the amount of R\$271 million pending the final outcome of the matter.

TAM Linhas Aereas is a plaintiff in an action filed against the Brazilian government in 1993 seeking damages for the break-up of an air transport concession agreement that resulted in the freezing of TAM's prices from 1988 to September 1993 in order to maintain operations with the prices set by the Brazilian government during that period. The process is currently being heard before the Federal Regional Court and judgment is pending an appeal by TAM requesting clarification of the initial decision. The estimated value of the action is R\$245 million, based on a calculation made by an expert witness of the court. This sum is subject to delinquent interest since September 1993 and inflation adjustment since November 1994. Based on the opinion of TAM's legal advisors, and recent rulings handed down by the Brazilian Supreme Court of Justice in favor of airlines in similar cases (specifically, actions filed by Transbrasil and Varig), we believe that TAM's likelihood of success is probable. We have not recognized these credits in our financial statements and will only do so if and when the aforementioned decision is final.

TAM Linhas Aereas filed an ordinary claim, with a request for early judgment, in relation to a dispute concerning the legality of charging the *Adicional das Tarifas Aeroportuárias* ("Additional Airport Tariffs," or "ATAERO"), which are charged at a rate of 50% on the value of tariffs and airport tariffs. The total amount involved, adjusted for inflation, as of December 31, 2012 totaled R\$1,146 million.

In addition, one administrative proceeding had been filed against TAM Linhas Aereas concerning the alleged failure to pay an Industrialized Products Tax ("IPI") and Import Tax ("II") due on imported aircraft. In response, we filed the appropriate challenges on the basis that no federal tax should be payable on the imported aircraft because it is leased aircraft. The total amount involved in this administrative proceeding is R\$770 million. In April 2013, the Conselho Administrativo de Recursos Fiscais ("CARF") ruled the case in our favor and definitively released the Company from paying the initial debt.

Dividend Policy

In accordance with the Chilean Corporation Law, LATAM must distribute cash dividends equal to at least 30% of its annual consolidated net income calculated in accordance with IFRS, unless otherwise decided by a unanimous vote of the holders of all issued shares and unless and except to the extent it has accumulated losses. If there is no net income in a given year, LATAM can elect but is not legally obligated to distribute dividends out of retained earnings. The board of directors may declare interim dividends out of profits earned during such interim period. Pursuant to LATAM's by-laws, the annual cash dividend is approved by the shareholders at the annual ordinary shareholders' meeting held between February 1 and April 30 of the year following the year with respect to which the dividend is proposed. All outstanding common shares are entitled to share equally in all dividends declared by LATAM, unless the shares have not been fully paid by the shareholder after being subscribed.

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Holders of ADSs will be entitled to receive dividends on the underlying common shares to the same extent as holders of common shares. Holders of ADRs on the applicable record dates will be entitled to receive dividends paid on the common shares represented by the ADSs evidenced by such ADRs. Dividends payable to holders of ADSs will be paid by us to the depositary in Chilean pesos and remitted by the depositary to such holders net of foreign currency conversion fees and expenses of the depositary and will be subject to Chilean withholding tax currently imposed at a rate of 35% (subject to credits in certain cases as described under “Item 10. Additional Information—E. Taxation—Chilean Tax—Cash Dividends and Other Distributions”). Owners of the ADSs will not be charged any dividend remittance fee by the depositary with respect to cash dividends.

Chilean law requires that holders of shares of Chilean companies that are not residents of Chile register as foreign investors under one of the foreign investment regimes established by Chilean law in order to have dividends, sale proceeds or other amounts with respect to their shares remitted outside Chile through the Formal Exchange Market (*Mercado Cambiario Formal*). Under our Foreign Investment Contract, the depositary, on behalf of ADS holders, will be granted access to the Formal Exchange Market to convert cash dividends from pesos to U.S. dollars and to pay such U.S. dollars to ADS holders outside Chile.

B. Significant Changes

None.

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ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

The principal trading market for our common shares is the SSE. The common shares have been listed on the SSE under the symbol “LAN” since 1989, and the ADSs have been listed on the NYSE under the symbol “LFL” since November 7, 1997. The common shares also trade on the *Bolsa de Valores de Valparaiso* and the *Bolsa Electrónica de Chile*. On June 22nd the common shares additionally started to be traded on the Brazilian Stock Exchange (“Bovespa”) under the symbol LATM11. The outstanding ADSs are identified by the CUSIP number 501723100. The following table sets forth, for the periods indicated, the high and low closing sale prices on the SSE for the common shares and the high and low closing prices on the NYSE for the common shares represented by ADSs. The information set forth in the table below reflects actual historical amounts and has not been restated in constant Chilean pesos.

Period	Ch\$ per Common Share		US\$ per ADS		R\$ per BDR	
	Low	High	Low	High	Low	High
2009	7,798.10	8,664.30	15.77	16.90		
2010	14,790.00	15,600.0	30.79	32.68		
2011	14,790.00	15,600.0	18.65	31.91		
2012						
Quarters:						
First	11,918.1	14,360.7	23.28	29.40		
Second(*)	11,833.1	14,290.7	23.47	29.39	52.40	53.35
Third	11,084.2	12,939.9	22.73	26.10	45.50	52.30
Fourth	10,577.3	12,393.0	22.10	26.10	45.33	52.01
Annual:						
Annual 2012	10,577.3	14,360.7	22.10	29.40	45.33	53.35
2013						
Quarters:						
First	10,112.5	11,755.4	21.53	24.84	42.38	49.00
Second	7,800.9	10,100.6	15.17	21.22	31.73	42.30
Third	5,967.3	8,313.9	11.62	16.45	26.53	35.16
Fourth	7,388.0	8,726.6	14.91	16.86	32.94	38.59
Months:						
September	6,553.0	7,779.0	12.93	15.42	27.72	34.44
October	7,388.0	8,413.8	14.91	16.68	32.94	36.12
November	8,081.6	8,726.6	15.80	16.86	36.64	38.59
December	8,052.7	8,579.4	15.48	16.31	35.77	37.10
Annual:						
Annual 2013	5,967.3	11,755.4	11.62	24.84	26.53	49.00
2014						
Months:						
January	7,695.8	8,971.6	13.90	16.36	35.30	38.00
February	7,517.5	8,645.8	11.62	24.40	31.01	36.00
March ⁽¹⁾	7,936.1	8,587.3	11.62	21.22	32.01	35.00

Source: Santiago Stock Exchange, the New York Stock Exchange and the Bovespa

(*) From June 22, 2012, following the combination of LAN and TAM, the trading stock continues to be listed as “LFL” on the NYSE and as “LAN” on the SSE, but reflects the value of the combined operating entity, LATAM Airlines Group.

(1) As of March 31, 2014.

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As of January 31, 2014, a total of 545,558,101 million common shares were outstanding, including common shares represented by ADSs.

B. Plan of Distribution

Not applicable.

C. Markets

Trading

Chile

The Chilean stock market, which is regulated by the SVS under Law 18,045 of October 22, 1981, as amended, which we refer to as the Securities Market Law, is one of the most developed among emerging markets, reflecting the particular economic history and development of Chile. The Chilean government's policy of privatizing state-owned companies, implemented during the 1980s, led to an expansion of private ownership of shares, resulting in an increase in the importance of stock markets. Privatization extended to the social security system, which was converted into a privately managed pension fund system. These pension funds have been allowed, subject to certain limitations, to invest in stocks and are currently major investors in the stock market. Some market participants, including pension fund administrators, are highly regulated with respect to investment and remuneration criteria, but the general market is less regulated than the U.S. market with respect to disclosure requirements and information usage.

The SSE is Chile's principal exchange and accounts for approximately 86.87% of securities traded in Chile. Approximately 12.91% of equity trading is conducted on the Chilean Electronic Stock Exchange, an electronic trading market created by banks and non-member brokerage houses. The remaining equity trading is conducted on the Valparaíso Stock Exchange.

Equities, closed-end funds, fixed-income securities, short-term and money market securities, gold and U.S. dollars are traded on the SSE. In 1991, the SSE initiated a futures market with two instruments: U.S. dollar futures and Selective Shares Price Index, or IPSA, futures. Securities are traded primarily through an open voice auction system; a firm offers system or daily auctions. Trading through the open voice system occurs on each business day between 9:30 a.m. to 4:30 p.m. The SSE has an electronic system of trade, called *Telepregón HT*, which operates continuously for stocks trading in high volumes from 9:30 a.m. to 4:00 p.m. (or 5:00 p.m., depending on the period of the year). The Chilean Electronic Stock Exchange operates continuously from 9:30 a.m. to 4:30 p.m. (or 5:30 p.m., depending on the period of the year) on each business day. In February 2000, the SSE Off-Shore Market began operations. In the Off-Shore Market, publicly offered foreign securities are traded and quoted in U.S. dollars.

Brazil

Bovespa is a Brazilian publicly-held company, created in 2008, through the integration between the São Paulo Stock Exchange (Bolsa de Valores de São Paulo) and the Brazilian Mercantile & Futures Exchange (Bolsa de Mercadorias e Futuros).

Bovespa is the most important Brazilian institution to intermediate equity market transactions and the only securities, commodities and futures exchange in Brazil. Trading on such exchanges is limited to member brokerage firms and to limited number of authorized non-members. LATAM's common shares are listed on the Bovespa.

Although the Brazilian equity market is Latin America's largest in terms of market capitalization, it is smaller and less liquid than major U.S. and European securities markets. Any of the outstanding shares of a listed company may trade on a Brazilian stock exchange, but in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, governmental entities or one principal shareholder.

The Brazilian securities markets are principally governed by Law No. 6,385, of December 7, 1976, and Brazilian corporation law, each as amended and supplemented, and by regulations issued by the CVM, which has authority over stock exchanges and the securities markets generally; the National Monetary Council; and the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions.

Trading through Bovespa occurs on each business day between 10:00 a.m. to 4:20 pm (Brazilian local time).

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

This Item reflects recent legal amendments effected by Chilean Law No. 20,382 on Corporate Governance, which was enacted on October 20, 2009, and came into effect on January 1, 2010, and Chilean Law No. 20,552, which modernize and encourage competition in the financial system, enacted on November 6, 2011 and into effect on December 17, 2011.

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Set forth below is information concerning our share capital and a brief summary of certain significant provisions of our by-laws and Chilean law. This description contains all material information concerning the common shares but does not purport to be complete and is qualified in its entirety by reference to our by-laws, the Chilean Corporation Law and the Securities Market Law, each referred to below. For additional information regarding the common shares, reference is made to our by-laws, a copy of which is included as Exhibit 1.1 to this annual report on Form 20-F.

Organization and Register

LATAM Airlines Group is a publicly held stock corporation (*sociedad anónima abierta*) incorporated under the laws of Chile. LATAM Airlines Group was incorporated by a public deed dated December 30, 1983, an abstract of which was published in the Chilean Official Gazette (*Diario Oficial de la República de Chile*) No. 31.759 on December 31, 1983, and registered on page 20,341, No. 11,248 of the Chilean Real Estate and Commercial Registrar (*Registro de Comercio del Conservador de Bienes Raíces y Comercio de Santiago*) for the year 1983. Our corporate purpose, as stated in our by-laws, is to provide a broad range of transportation and related services, as more fully set forth in Article Four thereof.

General

Shareholders' rights in a Chilean company are generally governed by the company's by-laws and the Chilean Corporation Law. Article 22 of the Chilean Corporation Law states that the purchaser of shares of a company implicitly accepts its by-laws and any prior agreements adopted at shareholders' meetings. Additionally, the Chilean Corporation Law regulates the government and operation of corporations (" *sociedades anónimas*," or S.A.) and provides for certain shareholder rights. Article 137 of the Chilean Corporation Law provides that the provisions of the Chilean Corporation Law take precedence over any contrary provision in a corporation's by-laws. The Chilean Corporation Law and our by-laws also provide that all disputes arising among shareholders in their capacity as such or between us or our administrators and the shareholders may either be submitted to arbitration in Chile or to the courts of Chile at the election of the plaintiff initiating the action. Despite the foregoing, a recent legal amendment has forbidden certain individuals (directors, senior managers, administrators and main executives of the corporation, and any shareholder that directly or indirectly holds shares whose book or market value exceed 5,000 UF at the moment of filing of the action) from submitting such action before the ordinary courts, thus obligating them to proceed with arbitration in all situations. Finally, Decree-Law No. 3,500 on Pension Fund Administrators, which allows pension funds to invest in the stock of qualified corporations, indirectly affects corporate governance and prescribes certain rights of shareholders. The Chilean Corporation Law sets forth the rules and requirements under which a corporation is deemed to be "publicly held." Article 2 of the Chilean Corporation Law defines publicly held corporations as corporations that register their shares with the *Registro de Valores* (Securities Registry) of the SVS, either voluntarily or pursuant to a legal obligation. In addition, Article 5 of the Chilean Securities Market Law indicates which corporation's shares must be registered with the Securities Registry:

- one with 500 or more shareholders; and
- one in which 100 or more shareholders own at least 10% of the subscribed capital (excluding any direct or indirect individual holdings exceeding 10%).

The framework of the Chilean securities market is regulated by the SVS under the Securities Market Law and the Chilean Corporation Law, which imposes certain disclosure requirements, restricts insider trading, prohibits price manipulation and protects minority investors. In particular, the Securities Market Law establishes requirements for public offerings, stock exchanges and brokers and outlines disclosure requirements for corporations that issue publicly offered securities.

Ownership Restrictions

Under Articles 12 and 20 of the Securities Market Law and General Rule 269 issued by the SVS in 2009, certain information regarding transactions in shares of publicly held corporations must be reported to the SVS and the Chilean stock exchanges on which the shares are listed. Since the ADRs are deemed to represent the shares underlying the ADSs, transactions in ADRs will be subject to those reporting requirements. Among other matters, the beneficial owners of ADSs that directly or indirectly hold 10% or more of the subscribed capital of LATAM Airlines Group, or that reach or exceed such percentage through an acquisition, are required to report to the SVS and the Chilean stock exchanges, the day following the event:

- any acquisition or sale of shares; and
- any acquisition or sale of contracts or securities the price or performance of which depends on the price variation of the LATAM Airlines Group's shares.

These obligations are extended (i) to certain individuals (immediate family, next of kin and others) if the ADSs holder is a natural person; (ii) to any entity controlled by the holder, if the ADSs is an legal entity,; and (iii) to groups, if a holder has any joint action agreement with other holders and the group reaches or exceeds the cited threshold.

In addition, majority shareholders must state in their report whether their purpose is to acquire control of the company or if they are making a financial investment.

Under Article 54 of the Securities Market Law and under SVS regulations, persons or entities that intend to acquire control, whether directly or indirectly, of a publicly traded company, must follow certain notice requirements, regardless of the acquisition vehicle or procedure or whether the acquisition will be made through direct subscriptions or private transactions. In the first place, the potential acquiror must send a written communication to the target corporation, any companies controlling or controlled by the target corporation, the SVS and the Chilean stock exchanges on which the target's securities are listed, stating, among other things, the person or entity purchasing or selling and the price and conditions of any negotiations. Subsequently, the potential acquiror must also inform the public of its planned acquisition by means of a publication in two Chilean newspapers with national distribution and by uploading such notice to the acquiror's website, if available. Both requirements shall be met at least ten business days prior to the date on which the acquisition transaction is to close, and in any event, as soon as negotiations regarding the change of control have been formalized or when confidential information or documents concerning the target are delivered to the potential acquiror. The notices must state, among other things, the person or entity purchasing or selling and the price and conditions of any negotiations.

In addition to the foregoing, Article 54A of the Securities Market Law requires that within two business days of the completion of the transactions pursuant to which a person has acquired control of a publicly traded company, a notice shall be published in the same newspapers in which the notice referred to above was published and notices shall be sent to the same persons mentioned in the preceding paragraphs.

Consequently, a beneficial owner of ADSs intending to acquire control of LATAM Airlines Group will be subject to the foregoing reporting requirements.

The provisions of the aforementioned articles do not apply whenever the acquisition is being made through a tender or exchange offer.

Title XXV of the Securities Market Law on tender offers and SVS regulations provide that the following transactions shall be carried out through a tender offer:

- an offer which allows to take control of a publicly traded company, unless the shares are being sold by a controlling shareholder of such company at a price in cash which is not substantially higher than the market price and the shares of such company are actively traded on a stock exchange;
- an offer for all the outstanding shares of a publicly traded company upon acquiring two-thirds or more of its voting shares (this offer must be made at a price not lower than the price at which appraisal rights may be exercised, that is, book value if the shares of the company are not actively traded or, if the shares of the company are actively traded, the weighted average price at which the stock has been traded during the two months immediately preceding the acquisition); and
- an offer for a controlling percentage of the shares of a publicly traded company if the acquiror intends to take control of the company (whether publicly-traded or privately held) controlling such publicly traded company, to the extent that the latter represents 75.0% or more of the consolidated net assets of the former.

Article 200 of the Securities Market Law prohibits any shareholder that has taken control of a publicly traded company from acquiring, for a period of twelve months from the date of the transaction that granted it control of the publicly traded company, a number of shares equal to or higher than 3.0% of the outstanding issued shares of the target without making a tender offer at a price per share not lower than the price paid at the time of taking control. Should the acquisition from the other shareholders of the company be made on the floor of a stock exchange and on a pro rata basis, the controlling shareholder may purchase a higher percentage of shares, if so permitted by the regulations of the stock exchange.

Title XV of the Securities Market Law sets forth the basis for determining what constitutes a controlling power, a direct holding and a related party.

Capitalization

Under Chilean law, the shareholders of a company, acting at an extraordinary shareholders' meeting, have the power to authorize an increase in the company's share capital. When an investor subscribes issued shares, the shares are registered in that investor's name even without payment, and the investor is treated as a shareholder for all purposes except with regard to receipt of dividends and return of capital, provided that the shareholders may, by amending the by-laws, also grant the right to receive dividends of distribution of capital despite not having paid for the subscribed shares. The investor becomes eligible to receive dividends once it has paid for the shares, or, if it has paid for only a portion of such shares, it is entitled to receive a corresponding pro rata portion of the dividends declared with respect to such shares, unless the company's by-laws provide otherwise. If an investor does not pay for shares for which it has subscribed on or prior to the date agreed upon for payment, the company is entitled under Chilean law to auction the shares on the appropriate stock exchange, and it has a cause of action against the investor to recover the difference between the subscription price and the price received for the sale of those shares at auction. However, until such shares are sold at auction, the investor continues to exercise all the rights of a shareholder (except the right to receive dividends and return of capital, as noted above). Regarding shares issued but not paid for within the period determined by the extraordinary shareholders' meeting for their payment (which period cannot exceed three years from the date of such shareholders' meeting), until January 1, 2010 they were canceled and no longer available for issuance by us. As of January 1, 2010, the board of directors of LATAM Airlines Group has a legal obligation to initiate the necessary legal actions to collect the unpaid amounts, unless the shareholders' meeting which authorized the capital increase, allowed the board to abstain from taking such action by a vote of two thirds of the issued shares, in which case the former rule still applies. Once the foregoing legal actions are exhausted, the board of directors shall propose to the shareholders' meeting the appropriate capital adjustment measures, to be decided by simple majority. Fully paid shares are not subject to further calls or assessments or to liabilities of LATAM Airlines Group.

As of March 31, 2014, our share capital consisted of 545,558,101 common shares, all of which were subscribed and fully paid. Chilean law recognizes the right of corporations to issue common and preferred shares. To date, we have issued and are authorized by our shareholders to issue only common shares. Each share of stock is entitled to one vote. Pursuant to two employee compensation plans: (i) 2011: approved by extraordinary shareholders' meetings held on December 21, 2011 and September 4, 2012, the issuance of the shares for this compensation plan has been authorized but has not been made effective, as such issuance is subject to the exercising of rights granted to certain employees that expire on December 21, 2016; and (ii) 2013: approved by extraordinary shareholders' meeting held on June 11, 2013, the issuance of the shares for this compensation plan has been authorized but has not been made effective, as such issuance is subject to the exercising of rights granted to certain employees that expire on November 15, 2017.

Preemptive Rights and Increases in Share Capital

The Chilean Corporation Law requires Chilean companies to offer existing shareholders the right to purchase a sufficient number of shares to maintain their existing percentage of ownership in a company whenever that company issues new shares for cash, except for up to 10% of the capital increase which may be designated to employee compensation pursuant to article 24 of the Corporation Law. Under this requirement, any preemptive rights will be offered by us to the depositary as the registered owner of the common shares underlying the ADSs, but holders of ADSs and shareholders located in the United States will not be allowed to exercise preemptive rights with respect to new issuances of shares by us unless a registration statement under the Securities Act is effective with respect to those common shares or an exemption from the registration requirements thereunder is available.

We intend to evaluate at the time of any preemptive rights offering the costs and potential liabilities associated with the preparation and filing of a registration statement with the SEC, as well as the indirect benefits of enabling the exercise by the holders of ADSs and shareholders located in the United States of preemptive rights and any other factors we consider appropriate at the time. No assurances can be given that any registration statement would be filed. If preemptive rights are not made available to ADS holders, the depositary may sell those holders' preemptive rights and distribute the proceeds thereof if a secondary market for such rights exists and a premium can be recognized over the cost of such sale. In the event that the depositary does not sell such rights at a premium over the cost of any such sale, all or certain holders of ADRs may receive no value for the preemptive rights. The inability of holders of ADSs to exercise preemptive rights in respect of common shares underlying their ADSs could result in a change in their percentage ownership of common shares following a preemptive rights offering.

Under Chilean law, preemptive rights are freely exercisable, transferable or waived by shareholders during a thirty-day period commencing upon publication of the official notice announcing the start of the preemptive rights period in the newspaper designated by the shareholders' meeting. The preemptive right of the shareholders is the pro rata amount of the shares registered in their name in the shareholders' registry of LATAM Airlines Group as of the fifth business day prior to the date of publication of the notice announcing the start of the preemptive rights period. During such thirty-day period (except for shares as to which preemptive rights have been waived), Chilean companies are not permitted to offer any newly issued common shares for sale to third parties. For that thirty-day period and an additional thirty-day period, Chilean publicly held corporations are not permitted to offer any unsubscribed common shares for sale to third parties on terms that are more favorable to the purchaser than those offered to shareholders. At the end of such additional thirty-day period, Chilean publicly held corporations are authorized to sell non-subscribed shares to third-parties on any terms, provided they are sold on a Chilean stock exchange.

Directors

Our by-laws provide for a board of nine directors. Compensation to be paid to directors must be approved by vote at the annual shareholders' meeting. We hold elections for all positions on the board of directors every two years. Under our by-laws, directors are elected by cumulative voting. Each shareholder has one vote per share and may cast all of his or her votes in favor of one nominee or may apportion his or her votes among any number of nominees. These voting provisions currently ensure that a shareholder owning more than 10% of our outstanding shares is able to elect at least one representative to our board of directors.

Under the Chilean Corporation Law, transactions of a publicly-traded company with a "related" party must be conducted on an arm's-length basis and must satisfy certain approval and disclosure requirements which are different from the ones that apply to a privately-held company. The conditions apply to the publicly-traded company and to all of its subsidiaries.

These transactions include any negotiation, act, contract or operation in which the publicly-traded company intervenes together with either (i) parties which are legally deemed related pursuant to article 100 of the Chilean Securities Market Law, (ii) a director, senior manager, administrator, main executive or liquidator of the company, either on their own behalf or on behalf of a third party, including those individuals' spouses or close relatives, (iii) companies in which the foregoing individuals own at least 10% (directly or indirectly), or in which they serve as directors, senior managers, administrators or main executives (iv) parties indicated as such in the publicly-traded company's by-laws, or identified by the directors' committee, or (v) those who have served as directors, senior managers, administrators, main executives or liquidators of the counterparty in the last eighteen months and are now serving in one of those positions at the publicly-traded company.

Corporations may enter into transactions with related parties if (i) the transaction is in the interest of the corporation, (ii) the transaction is made on an arm's-length basis at market conditions, (iii) the individuals involved in the transactions report them immediately to the board, (iv) the transaction is approved after a reasoned explanation by the majority of the board, excluding those directors or liquidators that are involved in the transaction (who shall, nonetheless, render an opinion on the matter if required by the board), (v) the decisions of the board is disclosed at the next shareholders' meeting, and (vi) in case the majority of the board is disqualified to vote, the majority of the non-involved directors have approved the transaction, or two thirds of the voting shares have approved the transaction).

If as noted in clause (vi) of the preceding paragraph, the transaction is to be approved by the shareholder's meeting, the following additional rules apply: (i) the board shall appoint an independent appraiser that shall report to the shareholders on the transaction; (ii) the director's committee or the non-involved directors may appoint a second independent appraiser; (iii) the appraiser's reports shall be made available for fifteen days; (iv) the receipt and availability of the reports shall be disclosed as a material fact; (iv) directors shall render an opinion on the transaction within five business days after receiving the reports.

Transactions which do not meet the foregoing requirements are valid and enforceable, but neither the corporation nor its shareholders shall have a cause of action to sue the infringing party for reimbursement on behalf of the corporation, for a total of the benefits reported to the interested party, in addition to indemnification for the damages caused. In such proceedings, the defendant shall prove that the transaction met the legal requirements.

The Chilean Corporation Law sets forth a number of exceptions to the foregoing rules. In the following situations, transactions with related parties may be carried out without complying with the foregoing rules: (i) if a transaction does not involve a substantial amount (if it does not exceed 1.0% of the net worth of the company and does not exceed the equivalent of 2,000 UF or approximately US\$96,554 as of the date of this annual report on Form 20F) unless such a transaction exceeds 20,000 UF (for this calculation all similar transactions carried out within a consecutive 12-month period between the same parties or for the same subject matter, shall be deemed as a single transaction), (ii) transactions which according to the policies determined by the board of directors, are deemed to be within the ordinary course of business (the determination of such policies shall be disclosed as a material fact and made available to shareholders), and (iii) if the counterparty is an entity in which the publicly-traded company has, directly or indirectly, at least a 95.0% ownership. As per the exemption indicated in (ii) above, on December 29, 2009, the Board of Directors of LATAM Airlines Group established policies setting forth the transactions that fall within the ordinary course of business. That determination was publicly disclosed on the same day and is currently available on LATAM Airlines Group's website under the "Corporate Governance" section.

Shareholders' Meetings and Voting Rights

The Chilean Corporation Law requires that an ordinary annual meeting of shareholders be held within the first four months of each year after being called by the board of directors (generally they are held in April, but in any case following the preparation of our financial statements, including the report of our auditors, for the previous fiscal year). LATAM Airlines Group's by-laws further provide that the ordinary annual meeting of shareholders must take place between February 1 and April 30. The shareholders at the ordinary annual meeting approve the annual financial statements, including the report of our auditors, the annual report, the dividend policy and the final dividend on the prior year's profits, elect the board of directors (in our case, every two years or earlier if a vacancy occurs) and approve any other matter that does not require an extraordinary shareholders' meeting. The most recent extraordinary meeting of our shareholders was held on June 11, 2013, and the most recent ordinary annual meeting of our shareholders was held on April 29, 2013.

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Extraordinary shareholders' meetings may be called by the board of directors, if deemed appropriate, and ordinary or extraordinary shareholders' meetings must be called by the board of directors when requested by shareholders representing at least 10.0% of the issued voting shares or by the SVS. In addition, as from January 1, 2010 there are two new rules in this regard: (i) the SVS may directly call for an extraordinary shareholders' meeting in case of a publicly-traded companies, and (ii) any kind of shareholders' meeting may be self-convened and take place if all voting shares attend, regardless of the fulfillment of the notice and other type of procedural requirements.

Notice to convene the ordinary annual meeting or an extraordinary meeting is given by means of three notices which must be published in a newspaper of our corporate domicile (currently Santiago, Chile) designated by the shareholders at their annual meeting and, if the shareholders fail to make such designation, the notice must be published in the Chilean Official Gazette pursuant to legal requirements. The first notice must be published not less than fifteen days and not more than twenty days in advance of the scheduled meeting. Notice also must be mailed not less than fifteen days in advance of the meeting to each shareholder and to the SVS and the Chilean stock exchanges. Currently, we publish our official notices in the newspaper *La Tercera* (available online at www.latercera.com).

The quorum for a shareholders' meeting is established by the presence, in person or by proxy, of shareholders representing a majority of our issued common shares. If that quorum is not reached, the meeting can be reconvened within forty-five days, and at the second meeting the shareholders present are deemed to constitute a quorum regardless of the percentage of the common shares that they represent.

Only shareholders registered with us on the fifth business day prior to the date of a meeting are entitled to attend and vote their shares. A shareholder may appoint another individual (who need not be a shareholder) as his or her proxy to attend and vote on his or her behalf. Proxies addressed to us that do not designate a person to exercise the proxy are taken into account in order to determine if there is a sufficient quorum to hold the meeting, but the shares represented thereby are not entitled to vote at the meeting. The proxies must fulfill the requirements set forth by the Chilean Corporation Law and its regulatory norms. Every shareholder entitled to attend and vote at a shareholders' meeting has one vote for every share subscribed.

The following matters can only be considered at an extraordinary shareholders' meeting:

- our dissolution;
- a merger, transformation, division or other change in our corporate form or the amendment of our by-laws;
- the issuance of bonds or debentures convertible into shares;
- the conveyance of 50% or more of our assets (whether or not it includes our liabilities);
- the adoption or amendment of any business plan which contemplates the conveyance of assets in excess of the foregoing percentage;
- the conveyance of 50% or more of the assets of a subsidiary, if the latter represents at least 20% of our assets;
- the conveyance of shares of a subsidiary which entails the transfer of control;
- granting of a security interest or a personal guarantee in each case to secure the obligations of third parties, unless to secure or guarantee the obligations of a subsidiary, in which case only the approval of the board of directors will suffice; and
- other matters that require shareholder approval according to Chilean law or the by-laws.

The matters referred to in the first seven items listed above may only be approved at a meeting held before a notary public, who shall certify that the minutes are a true record of the events and resolutions of the meeting.

The by-laws establish that resolutions are passed at shareholders' meetings by the affirmative vote of an absolute majority of those voting shares present or represented at the meeting. However, under the Chilean Corporation Law, the vote of a two-thirds majority of the outstanding voting shares is required to approve any of the following actions:

- a change in our corporate form, division or merger with another entity;
- amendment to our term of existence, if any;
- our early dissolution;
- change in our corporate domicile;
- decrease of our capital stock;

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- approval of contributions and the assessment thereof whenever consisting of assets other than money;
- any modification of the authority reserved for the shareholders' meetings or limitations on the powers of the board of directors;
- decrease in the number of members of the board of directors;
- the conveyance of 50% or more our assets (whether or not it includes our liabilities);
- the adoption or amendment of any business plan which contemplates the conveyance of assets in excess of the foregoing percentage;
- the conveyance of 50% or more of the assets of a subsidiary, if the latter represents at least 20% of our assets;
- the conveyance of shares of a subsidiary which entails the transfer of control;
- the form that dividends are paid in;
- granting a security interest or a personal guarantee in each case to secure obligations of third parties that exceeds 50% of our assets, unless to secure or guarantee the obligations of a subsidiary, in which case only approval of the board of directors will suffice;
- the acquisition of our own shares, when, and on the terms and conditions, permitted by law;
- all other matters provided for in the by-laws; and
- the correction of any formal defect in our incorporation or any amendment to our by-laws that refers to any of the matters indicated in the first thirteen items listed above;
- the institution of the right of the controlling shareholder who has purchases at least 95% of the shares, to purchase shares of the outstanding minority shareholders pursuant to the procedure set forth in article 71 bis of the Corporation Law;
- the approval or ratification of transactions with related parties, as per article 147 of the Corporation Law (described above).

Amendments to the by-laws that have the effect of establishing, modifying or eliminating any special rights pertaining to any series of shares require the consenting vote of holders of two-thirds of the shares of the affected series. As noted above, LATAM Airlines Group does not have special series of shares.

In general, Chilean law does not require a publicly held corporation to provide the level and type of information that the U.S. securities laws require a reporting company to provide to its shareholders in connection with a solicitation of proxies. However, shareholders are entitled to examine the books of the company and its subsidiaries within the fifteen-day period before a scheduled meeting. No later than the first notice summoning an ordinary shareholder's meeting, the board of directors of a publicly held corporation is required to send to every shareholder notice by regular mail, a notice containing a reference to the issues that will be discussed, together with instructions to obtain all the appropriate documentation regarding those issues, and publish such notice on its website. The board is also required to provide a copy of the annual report and the financial statements of the company. However, the SVS may authorize companies that have a large number of shareholders to limit the sending of such documents only to those shareholders who have a number of shares exceeding a certain number, and, in any case, to any shareholder who has requested a written notice. Shareholders who do not fall into this category but who request it must be sent a copy of our annual report. In addition to these requirements, we regularly have provided, and currently intend to continue to provide, together with the notice of shareholders' meeting, a proposal for the final annual dividend for shareholder approval. See "—Dividend and Liquidation Rights" below.

The Chilean Corporation Law provides that, whenever shareholders representing 10% or more of the issued voting shares so request, a Chilean company's annual report must include such shareholders' comments and proposal in relation to the company's affairs, together with the comments and proposals set forth by the directors' committee. Similarly, the Chilean Corporation Law provides that whenever the board of directors of a publicly held corporation convenes an ordinary meeting of the shareholders and solicits proxies for that meeting, or distributes information supporting its decisions or other similar material, it is obligated to include as an annex to its annual report any pertinent comments and proposals that may have been made by shareholders owning 10% or more of the company's voting shares who have requested that such comments and proposals be included, together with the comments and proposals set forth by the directors' committee.

Dividend and Liquidation Rights

In accordance with the Chilean Corporation Law, LATAM Airlines Group must distribute an annual cash dividend equal to at least 30% of its annual net income calculated in accordance with IFRS, unless otherwise decided by a unanimous vote of the holders of all issued shares, and unless and except to the extent it has accumulated losses. If there is no net income in a given year, LATAM Airlines Group can elect but is not legally obligated to distribute dividends out of retained earnings. All outstanding common shares are entitled to share equally in all dividends declared by LATAM Airlines Group, unless the shares have not been fully paid by the shareholder after being subscribed.

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For all dividend distributions agreed by the board of directors in excess of the mandatory minimum of 30% noted in the preceding paragraph, LATAM Airlines Group may grant an option to its shareholders to receive those dividends in cash, or in shares issued by either LATAM Airlines Group or other corporations. Shareholders who do not expressly elect to receive a dividend other than in cash are legally presumed to have decided to receive the dividend in cash. A U.S. holder of ADSs may, in the absence of an effective registration statement under the Securities Act or an available exemption from the registration requirement thereunder, effectively be required to receive a dividend in cash. See “—Preemptive Rights and Increases in Share Capital” above .

Dividends that are declared but not paid within the appropriate time period set forth in the Chilean Corporation Law (as to minimum dividends, thirty days after declaration; as to additional dividends, the date set for payment at the time of declaration) are adjusted to reflect the change in the value of the UF. The UF is a daily indexed, Chilean peso-denominated accounting unit designed to discount the effect of Chilean inflation and it is based on the previous month’s inflation rate as officially determined. Such dividends also accrue interest at the then-prevailing rate for UF-denominated deposits during such period. The right to receive a dividend lapses if it is not claimed within five years from the date such dividend is payable. After that period, the amount not claimed is given to a non-profit organization, the *Junta Nacional de Cuerpos de Bomberos de Chile* (the National Corporation of Firefighters).

In the event of LATAM Airlines Group’s liquidation, the holders of fully paid common shares would participate pro rata in the distribution of assets remaining after payment of all creditors. Holders of shares not fully paid will participate in such distribution in proportion to the amount paid.

Approval of Financial Statements

The board of directors is required to submit our consolidated financial statements to the shareholders for their approval at the annual ordinary shareholders’ meeting. If the shareholders reject the financial statements, the board of directors must submit new financial statements not later than sixty days from the date of that meeting. If the shareholders reject the new financial statements, the entire board of directors is deemed removed from office and a new board is to be elected at the same meeting. Directors who approved such financial statements are disqualified for re-election for the ensuing period.

Right of Dissenting Shareholders to Tender Their Shares

The Chilean Corporation Law provides that, upon the adoption at an extraordinary meeting of shareholders of any of the resolutions or if it takes place any of the situations enumerated below, dissenting or affected shareholders acquire the right to withdraw and to compel the company to repurchase their shares, subject to the fulfillment of certain terms and conditions. However, such right shall be suspended if we are declared bankrupt or are subject to a creditor’s agreement pursuant to Title XII of Book IV of the Commerce Code. In the case of holders of ADRs, however, in order to exercise such rights, holders of ADRs would be required to first withdraw the common shares represented by the ADRs pursuant to the terms of the deposit agreement. Such holders of ADRs would need to perfect the withdrawal of the common shares on or before the fifth business day prior to the date of the meeting.

“Dissenting shareholders” are defined as those who attend a shareholders’ meeting and vote against a resolution which results in the withdrawal right, or, if absent at such a meeting, those who state in writing to the company their opposition to such resolution within the following thirty days. Dissenting shareholders must perfect their withdrawal rights by tendering their stock to the company within thirty days after adoption of the resolution.

The price paid to a dissenting shareholder of a publicly held corporation is the weighted average of the sales prices for the shares as reported on the Chilean stock exchanges on which the shares are quoted for the two-month period preceding the event giving rise to the withdrawal right. If, because of the volume, frequency, number and diversity of the buyers and sellers, the SVS determines that the shares are not shares actively traded on a stock exchange (*acciones de transacción bursátil*), the price paid to the dissenting shareholder is the book value. Book value for this purpose equals paid capital plus reserves and profits, less losses, divided by the total number of subscribed shares (whether entirely or partially paid). For the purpose of making this calculation, the last annual balance sheet is used and adjusted to reflect inflation up to the date of the shareholders’ meeting that gave rise to the withdrawal right.

The resolutions and situations that result in a shareholder’s right to withdraw are the following:

- the transformation of the company into an entity that is not a publicly held corporation governed by the Chilean Corporation Law;
- the merger of the company with or into another company;
- the conveyance of 50% or more of the assets of the company, whether or not such sale includes the company’s liabilities;
- the adoption or amendment of any business plan which contemplates the conveyance of assets in excess of the foregoing percentage;

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- the conveyance of 50% or more of the assets of a subsidiary, if the latter represents at least 20% of our assets;
- the conveyance of shares of a subsidiary which entails the transfer of control;
- the creation of preferential rights for a class of shares or an extension, amendment or reduction to those already existing, in which case the right to withdraw only accrues to the dissenting shareholders of the class or classes of shares adversely affected;
- the correction of any formal defect in the incorporation of the company or any amendment to the company's by-laws that grants the right to withdraw;
- the granting of security interests or personal guarantees to secure or guarantee third parties' obligations exceeding 50% of the company's assets, except with regard to subsidiaries;
- resolutions of the shareholders' meeting approving the decision to make private a public corporation in the case the requirements set forth in "—General" cease to be met;
- if a publicly-traded company ceases to be obligated to register its shares in the Securities Registry of the SVS, and an extraordinary shareholders' meeting agrees to de-register the shares and finalize its disclosure obligations mandated by the Corporation Law;
- if the controlling shareholder of a publicly-traded company reaches over 95% of the shares (in such case, the right must be exercised within 30 days of the date in which the threshold is reached, circumstance that must be communicated by means of a publication); and
- such other causes as may be established by the company's by-laws (no such additional resolutions currently are specified in our by-laws).

In addition, shareholders of publicly held corporations have the right to withdraw if a person acquires two-thirds or more of the outstanding shares of such corporation with the right to vote (except as a result of other shareholders not having subscribed and paid a capital increase) and does not make a tender offer for the remaining shares within thirty days after acquisition.

Under Article 69(bis) of the Chilean Corporation Law, the right to withdraw also is granted to shareholders (other than pension funds that administer private pension plans under the national pension law), under certain terms and conditions, if a company were to become controlled by the Chilean government, directly or through any of its agencies, and if two independent rating agencies downgrade the rating of its stock from first class because of certain actions specified in Article 69(bis) undertaken by the company or the Chilean government that affect negatively and substantially the earnings of the company. Shareholders must perfect their withdrawal rights by tendering their shares to the company within thirty days of the date of the publication of the new rating by two independent rating agencies. If the withdrawal right is exercised by a shareholder invoking Article 69(bis), the price paid to the dissenting shareholder shall be the weighted average of the sales price for the shares as reported on the stock exchanges on which the company's shares are quoted for the six-month period preceding the publication of the new rating by two independent rating agencies. If, as previously described, the SVS determines that the shares are not actively traded on a stock exchange, the price shall be the book value calculated as described above.

There is no legal precedent as to whether a shareholder that has voted both for and against a proposal (such as the depositary) may exercise withdrawal rights with respect to the shares voted against the proposal. As such, there is doubt as to whether holders of ADRs who have not surrendered their ADRs and withdrawn common shares on or before the fifth business day prior to the shareholder meeting will be able to exercise withdrawal rights either directly or through the depositary with respect to the shares represented by ADRs. Under the provisions of the deposit agreement the depositary will not exercise these withdrawal rights.

The circumstance indicated above regarding ownership in excess of 95% by the controlling shareholder creates not only a withdrawal right for the remaining minority shareholders, but as of January 1, 2010, it also creates a "squeeze out" right by the controlling shareholder with respect to those same shareholders (granting a call option by means of which the controlling shareholder may buy-out the existing ownership participations pursuant to the provisions of article 71 bis of the Corporation Law).

Registration and Transfers

The *Depósito Central de Valores*, ("DCV"), acts as LATAM Airlines Group's registration agent. In the case of jointly owned common shares, an attorney-in-fact must be appointed to represent the joint owners in dealings with us.

C. Material Contracts

Boeing

Boeing 767-300 Fleet

On May 9, 1997, we entered into the Aircraft General Terms Agreement with The Boeing Company ("AGTA"), applicable to all Boeing aircraft contracted for purchase from The Boeing Company.

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On January 30, 1998, we entered into Purchase Agreement No. 2126 with The Boeing Company (“Purchase Agreement No. 2126”) to acquire two Boeing 767-300 passenger aircraft.

On November 11, 2004, we entered into supplemental agreement No. 16 to the Purchase Agreement No. 2126 to acquire one additional Boeing 767-300 freighter aircraft and three Boeing 767-300 passenger aircraft. The estimated gross value (at list prices) of these aircraft was US\$140,000,000.

On April 28, 2005, we entered into supplemental agreement No. 20 to the Purchase Agreement No. 2126 to acquire two additional Boeing 767-300 freighter aircraft and one Boeing 767-300 passenger aircraft. The estimated gross value (at list prices) of these aircraft was US\$300,000,000.

On July 20, 2005, we entered into supplemental agreement No. 21 to the Purchase Agreement No. 2126 to acquire three Boeing 767-300 passenger aircraft. The estimated gross value (at list prices) of these aircraft was US\$410,000,000.

On March 31, 2006, we entered into supplemental agreement No. 22 to the Purchase Agreement No. 2126 to acquire three Boeing 767-300 aircraft. Furthermore, we converted two Boeing 767-300 freighter aircraft to two Boeing 767-300 passenger aircraft. The estimated gross value (at list prices) of these aircraft was US\$430,000,000.

On December 14, 2006, we entered into supplemental agreement No. 23 to the Purchase Agreement No. 2126 to acquire three additional Boeing 767-300 passenger aircraft. The estimated gross value (at list prices) of these aircraft was US\$460,000,000.

On November 10, 2008, we entered into supplemental agreement No. 24 to the Purchase Agreement No. 2126 to acquire four additional Boeing 767-300 passenger aircraft and two purchase rights for Boeing 767-300 aircraft. Two of these aircraft were delivered in 2011, while the other two aircraft have a scheduled delivery date in 2012. The estimated gross value (at list prices) of these aircraft was US\$636 million.

On March 22, 2010, we entered into supplemental agreement No. 28 to the Purchase Agreement No. 2126, whereby we agreed to accelerate the delivery of ten 787-8 aircraft, substitute four aircraft from 787-916 to 787-816 and substitute three 767-316ER to 767-316F freighter aircraft. Moreover, on November 10, 2010, we entered into supplemental agreement No. 29 to the Purchase Agreement No. 2126, whereby we agreed to accelerate the delivery of three Aircraft and substitute those three aircraft from 767-316F to 767-316ER.

On February 15, 2011, we entered into supplemental agreement No.30 to the Purchase Agreement No.2126 to acquire three additional Boeing 767-300 passenger aircraft. Delivery is scheduled to take place in 2012. The estimated gross value (at list prices) of these aircraft was US\$510 million.

On May 10, 2011, we entered into supplemental agreement No.31 to the Purchase Agreement No.2126 to acquire five additional Boeing 767-300 passenger aircraft and four purchase rights for Boeing 767-300 passenger aircraft. Delivery is scheduled to take place in 2012. The estimated gross value (at list prices) of these aircraft was US\$870 million.

On December 22, 2011 we entered into supplemental agreement No.32 to the Purchase Agreement No.2126 to exercise two purchase options for two additional Boeing 767-300 passenger aircraft, while the remaining purchase options were deleted. Delivery is scheduled to take place in 2012. The estimated gross value (at list prices) of these aircraft was US\$340 million.

Boeing 787-8/9 Fleet

On October 29, 2007, we entered into Purchase Agreement No. 3256 with the Boeing Company (“Purchase Agreement No. 3256”) to acquire 18 Boeing 787-8 aircraft and eight Boeing 787-9 aircraft to be delivered between 2012 and 2016. This purchase agreement provides us with the option of purchasing fifteen additional aircraft to be delivered in 2017 and 2018. The estimated gross value (at list prices) of the Boeing aircraft for which we had firm commitments to take delivery under this contract is US\$3.2 billion.

On March 22, 2010, we entered into supplemental agreement No. 1 to the Purchase Agreement No. 3256 to advance the schedule delivery date of ten Boeing 787-8 aircraft and substitute four Boeing 787-9 aircraft into four Boeing 787-8 aircraft.

On July 8, 2010, we entered into supplemental agreement No. 2 to the Purchase Agreement No. 3256 to advance the schedule delivery date of two Boeing 787-8 aircraft.

On August 24, 2012, we entered into supplemental agreement No. 3 to the Purchase Agreement No. 3256 to replace two Boeing 787-8 aircraft with two Boeing 787-8 aircraft with a later delivery.

On September 16, 2013, we entered into a delay settlement agreement with respect to Purchase Agreement No. 3256, whereby we agreed to update delivery dates, settle consequences of the currently known delays and convert several future deliveries of B787-8 aircraft to B787-9 aircraft.

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Boeing 777 Freighter Fleet

On July 3, 2007, we entered into Purchase Agreement No. 3194 with the Boeing Company (“Purchase Agreement No. 3194”) to acquire two Boeing 777 freighter aircraft with schedule deliveries dates in 2011 and 2012. The estimated gross value (at list prices) of the Boeing aircraft for which we had firm commitments to take delivery under this contract was US\$545 million.

On March 22, 2010, we entered into letter agreement 6-1162-KSW-6454R2 to the Purchase Agreement No. 3194 to transfer two purchase rights from Purchase Agreement No. 2126 to Purchase Agreement No. 3194.

On November 2, 2010, we entered into supplemental agreement No. 2 to the Purchase Agreement No. 3194, to exercise one of the two options for a Boeing 777 freighter aircraft with schedule delivery date in 2012. The estimated gross value (at list prices) of this aircraft was US\$280 million.

On September 22, 2011, we entered into supplemental agreement No. 3 to the Purchase Agreement No. 3194 to advance the schedule delivery date of one firm Boeing 777 freighter aircraft during 2012.

On August 9, 2012, we entered into supplemental agreement No. 4 to the Purchase Agreement No. 3194 to reflect the configuration of the aircraft covered under such Purchase Agreement.

Airbus

On March 20, 1998, we entered into the Second A320-Family Purchase Agreement with Airbus S.A.S. (“Second A320-Family Purchase Agreement”) to acquire five Airbus 320 family aircraft.

On November 14, 2003, we entered into amendment No. 1 to the Second A320-Family Purchase Agreement to exercise three purchase rights for Airbus 319 aircraft, among other things.

On October 4, 2005, we entered into amendment No. 2 to the Second A320-Family Purchase Agreement to acquire twenty five additional Airbus 320 family aircraft and fifteen purchase rights for Airbus A320-Family aircraft.

On March 6, 2007, we entered into amendment No. 3 to the Second A320-Family Purchase Agreement to exercise fifteen purchase rights for fifteen Airbus A320-Family aircraft.

On December 23, 2009, we entered into amendment No. 5 to the Second A320-Family Purchase Agreement to acquire thirty additional Airbus A320-Family aircraft. The estimated gross value (at list prices) of these aircraft was US\$2.0 billion.

According to clause 12.2 of the Second A320-Family Purchase Agreement, applicable to all subsequent amendments, in case of a failure, as defined in such agreement, a service life policy for a period of 12 years after delivery of any given aircraft shall apply.

On May 10, 2010, we entered into amendment No. 6 to the Second A320-Family Purchase Agreement to convert the aircraft type of three aircraft and advance the scheduled delivery date of thirteen aircraft.

On May 19, 2010, we entered into amendment No. 7 to the Second A320-Family Purchase Agreement to advance the scheduled delivery date of three aircraft.

On September 23, 2010, we entered into amendment No. 8 to the Second A320-Family Purchase Agreement to convert the aircraft type of one aircraft and advance the scheduled delivery date of four aircraft.

On December 21, 2010, we entered into amendment No. 9 to the Second A320-Family Purchase Agreement to acquire fifty additional Airbus A320-Family aircraft. The estimated gross value (at list prices) of these aircraft was US\$2,600,000,000.

On June 10, 2011, we entered into amendment No. 10 to the Second A320-Family Purchase Agreement to convert the aircraft type of three aircraft, to select sharklets for some aircraft and to notify delivery dates for some aircraft.

On November 3, 2011, we entered into amendment No. 11 to the Second A320-Family Purchase Agreement to convert the aircraft type of three aircraft and defer the schedule delivery date of four aircraft.

On November 19, 2012, we entered into amendment No. 12 to the Second A320-Family Purchase Agreement to convert the aircraft type of three aircraft, identify certain Aircraft as Sharklet Installed Aircraft and others as Sharklet Capable Aircraft, as those are defined in such Purchase Agreement, and notify the scheduled delivery month for certain aircraft.

On August 19, 2013, we entered into amendment No. 13 to the Second A320-Family Purchase Agreement to convert several A320 aircraft to A321 aircraft and to postpone the scheduled delivery dates of several aircraft.

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On June 22, 2011, we entered into A320 NEO Purchase Agreement (“A320 NEO Purchase Agreement”) to acquire twenty Airbus 320 NEO family aircraft with schedule delivery dates in 2017 and 2018. The estimated gross value (at list prices) of these aircraft is US\$1.7 billion.

Between April and August 2011, we entered into Buyback Agreements No. 3001, 3030, 3062, 3214 and 3216 with Airbus Financial Services for the sale of five A318 aircraft for approximately US\$107 million. Between August 2012 and January 2013, we entered into Buyback Agreements No. 3371, 3390, 3438, 3469 and 3509 with Airbus Financial Services for the sale of five A318 aircraft for approximately US\$102 million.

Aercap Holdings N.V.

On May 28, 2013, we entered into a framework deed with Aercap Holdings N.V. for the sale and leaseback of several A330-200 aircraft already in fleet and several new aircraft to be received from the manufacturer including A350-00, B787-8 and B787-9 aircraft. The estimated gross value (at list prices) of these aircraft is US\$3.0 billion.

For more information, see “Item 4. Information on the Company—B. Business Overview—Fleet—Fleet Leasing and Financing Arrangements.”

GE Commercial Aviation

On April 30, 2007, we also entered into an Aircraft Lease Common Terms Agreement with GE Commercial Aviation Services Limited and two Aircraft Lease Agreements with Wells Fargo Bank Northwest N.A., as owner trustee, for the lease of two Boeing B777-200LRF aircraft. These aircraft were delivered in 2009 and the leases shall remain in place for a term of 96 months.

For more information, see “Item 4. Information on the Company—B. Business Overview—Fleet—Fleet Leasing and Financing Arrangements.”

GE Engine Services

On December 17, 2010, we entered into a Digital Services Agreement with GE Engine Services, LLC, for the provision of operational analysis, performance and maintenance services of aircraft engines.

CFM International

On December 17, 2010, we entered into General Terms Agreement No. CFM-1-2377460475 (the “GTA”) and Letter Agreement No. 1 to GTA with CFM International, Inc. (“CFM”) for the sale and support by CFM of spare engines, related equipment and spare parts. Moreover, on December 17, 2010, we entered into a Rate Per Flight Hour Engine Shop Maintenance Services Agreement with CFM for the provision by CMF of maintenance services over our aircraft engines.

General Electric Company

On July 11, 2011 we entered into Letter Agreement No.12 to the General Terms Agreements No. 6-9576 with General Electric Company for the purchase of four new CF6 80CB6F engines with delivery on 2013 and one purchase right for a CF6 80CB6F engine.

Pratt & Whitney Engine Leasing

On July 28, 2011, we entered into Used PW6122A Five Engine Purchase Agreement with Pratt & Whitney Engine Leasing, LLC for the sale of five PW6122A engines.

PW1100G-JM Engine Maintenance Agreement

In February 2014, we entered into an engine maintenance services agreement with Pratt & Whitney covering PW1100G-JM aircraft engines. It is also a rate per engine flight hour contract agreement, which includes cost control mechanisms for LATAM.

TAM Material Contracts

A320/A330 Family Purchase Agreements

In November 2006, TAM entered into a purchase agreement with Airbus S.A.S. for the purchase of 31 A320-Family Aircraft and 6 A330-200 aircraft, with deliveries between 2007 and 2010.

In January 2008, TAM entered into a new purchase agreement for 20 A320-Family Aircraft and 4 A330-200 aircraft, with deliveries between 2007 and 2014.

In July 2010, TAM entered a purchase agreement for 20 A320-Family Aircraft with deliveries between 2014 and 2015.

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In October 2011, TAM entered into a new purchase agreement for 10 A320-Family Aircraft with deliveries between 2016 and 2017, plus 22 A320 NEO Family Aircraft with deliveries between 2016 and 2018, plus 10 options rights for A320 NEO Family Aircraft.

In January 2012, TAM entered into Amendment No. 12 to the A320/A330 Purchase Agreement to reschedule the delivery dates of certain aircraft.

In November 2012, TAM entered into Amendment No. 13 to the A320/A330 Purchase Agreement to convert the aircraft type of A320 family aircraft.

In December 2012, TAM entered into Amendment No. 14 to the A320/A330 Purchase Agreement to convert the aircraft type of an A320 family aircraft and reschedule the delivery date of such aircraft.

A350 Family Purchase Agreement

In January 2008, TAM entered into a purchase agreement with Airbus S.A.S. for the purchase of 22 A350 aircraft plus 10 options rights for A350 aircraft. On July 2010, TAM exercised option rights for 5 of the A350 aircraft, with the remaining 5 option rights to be exercised in the future.

CFM56-5B Engine Maintenance Contract

In March 2006, TAM entered into an exclusive services agreement with GE Celma, a Brazilian subsidiary of General Electric Engine Services division, which remains in force until the latest Airbus A320 family aircraft powered by CFM56-5B engines is delivered to TAM (scheduled to occur in 2026).

V2500-A5 Engine Maintenance Agreement

In 2000, TAM entered into an engine maintenance contract with MTU Motoren-und Turbinen-Union München GmbH, or MTU, pursuant to which MTU agreed to provide certain maintenance, refurbishment, repair and modification services with respect to approximately 105 TAY650-15 aircraft engines. This contract is complemented by a novation and amendment agreement between us and Rolls-Royce Brazil Ltda. pursuant to which Rolls-Royce Brazil Ltda., replaced MTU as contract counterparty. This agreement terminates on June 30, 2015.

PW4168 Engine Maintenance Agreement

In June 2007, TAM Linhas Aéreas S.A. entered into an engine maintenance services agreement with Pratt & Whitney covering more than 20 engines contained in TAM's A330-200 fleet. It is also a rate per engine flight hour contract agreement, which includes cost control mechanisms for TAM.

Sabre Contract

In October 2003, TAM entered into a general services agreement with Sabre Travel International Limited, pursuant to which TAM was granted a license (relating to the provision of maintenance services) for electronic reservation technology and database backup. This agreement will remain in force for ten years, unless cancelled early by either party.

Amadeus Contract

In July 2009, TAM entered into a general services agreement with Amadeus IT Group S.A., pursuant to which TAM was granted a license (relating to the provision of maintenance services) for electronic reservation technology and database backup. This agreement will remain in force for ten years, unless cancelled early by either party.

D. Exchange Controls

Foreign Investment and Exchange Controls in Chile

The Central Bank of Chile is responsible, among other things, for monetary policies and exchange controls in Chile. Equity investments, including investments in shares of stock by persons who are non-Chilean residents, have been generally subject in the past to various exchange control regulations restricting the repatriation of their investments and the earnings thereon.

Article 47 of the Central Bank Act and former Chapter XXVI of the Central Bank Foreign Exchange Regulations regulated the foreign exchange aspects of the issuance of ADSs by a Chilean company until April 2001. According to former Chapter XXVI, the Central Bank of Chile and the depositary had to enter into an agreement in order to gain access to the formal exchange market. The issuers of the shares underlying the ADSs and the custodian could also be parties to these agreements.

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On April 16, 2001, the Central Bank of Chile agreed that, effective April 19, 2001:

- prior foreign exchange restrictions would be eliminated: and
- a new Compendium of Foreign Exchange Regulations (*Compendio de Normas de Cambios Internacionales*) would be applied.

The main objective of these amendments, as declared by the Central Bank of Chile, is to facilitate movement of capital in and out of Chile and to encourage foreign investment.

In connection with the change in policy, the Central Bank of Chile eliminated the following restrictions:

- a reserve requirement with the Central Bank of Chile for a period of one year (this mandatory reserve was imposed on foreign loans and funds brought into Chile to purchase shares other than those acquired in the establishment of a new company or in the capital increase of the issuing company; the reserve requirement was gradually decreased from 30% of the proposed investment to 0%);
- the requirement of prior approval by the Central Bank of Chile for certain operations;
- mandatory return of foreign currency to Chile; and
- mandatory conversion of foreign currency into Chilean pesos.

Under the new regulations, only the following limitations apply to these operations:

- the Central Bank of Chile must be provided with information related to certain operations; and
- certain operations must be conducted with the Formal Exchange Market.

The Central Bank of Chile also eliminated Chapter XXVI of the Compendium of Foreign Exchange Regulations, which regulated the establishment of an ADR facility by a Chilean company. Pursuant to the new rules, it is no longer necessary to seek the Central Bank of Chile's prior approval in order to establish an ADR facility nor to enter into a foreign investment contract with the Central Bank of Chile. The establishment of an ADR facility is now regarded as an ordinary foreign investment, and simply requires that the Central Bank of Chile be informed of the transaction pursuant to Chapter XIV of the amended Compendium of Foreign Exchange Regulations and that the foreign currency transactions related thereby be conducted through the Formal Exchange Market.

However, all contracts executed under the provisions of former Chapter XXVI (including the foreign investment contract among LATAM Airlines Group, the Central Bank of Chile and the ADS depository, or the "Foreign Investment Contract"), remained in full force and effect and continued to be governed by the provisions, and continued to be subject to the restrictions, set forth in former Chapter XXVI at the time of its abrogation. Our Foreign Investment Contract guaranteed ADS investors access to the Formal Exchange Market to convert amounts from Chilean pesos into U.S. dollars and repatriate amounts received with respect to deposited common shares or common shares withdrawn from deposit or surrender of ADRs (including amounts received as cash dividends and proceeds from the sale in Chile of the underlying common shares and any rights arising from them).

On May 10, 2007, the Board of the Central Bank of Chile resolved to interpret the regulations regarding the former Chapter XXVI in connection with the access granted to the Formal Exchange Market. These regulations allowed entities that carry out capital increases by means of the issuance of cash shares before August 31, 2007 to apply the aforementioned regulation to their capital increases, but only once and only if those shares can be fully subscribed and paid by August 31, 2008, among other conditions. Consequently, capital increases carried out after August 31, 2007 will have no guaranteed access to the Formal Exchange Market.

On October 17, 2012, the Central Bank of Chile, the depository and LATAM Airlines Group entered into a termination agreement in respect of LATAM's existing foreign investment contract. ADR holders were notified about this termination in accordance with Section 16 of the Deposit Agreement. Upon termination of the foreign investment contract, holders of ADSs and the depository no longer have guaranteed access to the Formal Exchange Market. Currently, the ADS facility is governed by Chapter XIV of the Compendium on "Regulations applicable to Credits, Deposits, Investments and Capital Contributions from Abroad." According to Chapter XIV, the establishment or maintenance of an ADS facility is regarded as an ordinary foreign investment, and it is not necessary to seek the Central Bank of Chile's prior approval in order to establish an ADS facility. The establishment or maintenance of an ADS facility only requires that the Central Bank of Chile be informed of the transaction, and that the foreign currency transactions related thereby be conducted through the Formal Exchange Market.

Investment in Our Shares and ADRs after the business combination with TAM

As a result of the merger with TAM, investments made in shares of our common stock are subject to the following requirements:

- any foreign investor acquiring shares of our common stock who brought funds into Chile for that purpose must bring those funds through an entity participating in the Formal Exchange Market;

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- any foreign investor acquiring shares of our common stock to be converted into ADSs or deposited into an ADR program who brought funds into Chile for that purpose must bring those funds through an entity participating in the Formal Exchange Market;
- in both cases, the entity of the Formal Exchange Market through which the funds are brought into Chile must report such investment to the Central Bank of Chile;
- all remittances of funds from Chile to the foreign investor upon the sale of the acquired shares of our common stock or from dividends or other distributions made in connection therewith must be made through the Formal Exchange Market;
- all remittances of funds from Chile to the foreign investor upon the sale of shares underlying ADSs or from dividends or other distributions made in connection therewith must be made through the Formal Exchange Market; and
- all remittances of funds made to the foreign investor must be reported to the Central Bank of Chile by the intervening entity of the Formal Exchange Market.

When funds are brought into Chile for a purpose other than to acquire shares to convert them into ADSs or deposit them into an ADR program and subsequently such funds are used to acquire shares to be converted into ADSs or deposited into an ADR program such investment must be reported to the Central Bank of Chile by the custodian within 10 days following the end of each month within which the custodian is obligated to deliver periodic reports to the Central Bank of Chile.

When funds to acquire shares of our common stock or to acquire shares to convert them into ADSs or deposit them into an ADR program are received by us abroad (i.e., outside of Chile), such investment must be reported to the Central Bank of Chile directly by the foreign investor or by an entity participating in the Formal Exchange Market within ten days following the end of the month in which the investment was made.

All payments in foreign currency in connection with our shares of common stock or ADSs made from Chile through the Formal Exchange Market must be reported to the Central Bank of Chile by the entity participating in the transaction. In the event there are payments made outside of Chile, the foreign investor must provide the relevant information to the Central Bank of Chile directly or through an entity of the Formal Exchange Market within the first ten calendar days of the month following the date on which the payment was made.

There can be no assurance that additional Chilean restrictions applicable to the holders of ADSs, the disposition of shares of our common shares underlying ADSs or the conversion or repatriation of the proceeds from such disposition will not be imposed in the future, nor can we assess the duration or impact of such restriction if imposed.

This summary does not purport to be complete and is qualified by reference to Chapter XIV of the Central Bank of Chile's Foreign Exchange Regulations, a copy of which is available in Spanish and English versions at the Central Bank's website at www.bcentral.cl.

Voting Rights

Holders of our ADSs, which represent common shares, may instruct the depositary to vote the shares underlying their ADRs. If we ask holders for instructions, the depositary will notify such holders of the upcoming vote and arrange to deliver our voting materials to such holders. The materials will describe the matters to be voted on and explain how holders may instruct the depositary to vote the shares or other deposited securities underlying their ADSs as they direct by a specified date. For instructions to be valid, the depositary must receive them on or before the date specified as "Vote Cut-Off Date." The depositary will try, as far as practical, subject to Chilean law and the provisions of our by-laws, to vote or to have its agents vote the shares or other deposited securities as holders instruct. Otherwise, holders will not be able to exercise their right to vote unless they withdraw the shares. However, holders may not know about the meeting far enough in advance to withdraw the shares. We will use our best efforts to request that the depositary notify holders of upcoming votes and ask for their instructions.

If the depositary does not receive voting instructions from a holder by the specified date, it will consider such holder to have authorized and directed it to give a discretionary proxy to a person designated by our board of directors to vote the number of deposited securities represented by such holder's ADSs. The depositary will give a discretionary proxy in those circumstances to vote on all questions to be voted upon unless we notify the depositary that:

- we do not wish to receive a discretionary proxy;
- we think there is substantial shareholder opposition to the particular question; or
- we think the particular question would have an adverse impact on our shareholders.

The depositary will only vote or attempt to vote as such holder instructs or as described above.

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We cannot assure holders that they receive the voting materials in time to ensure that they can instruct the depository to vote their shares. This means that holders may not be able to exercise their right to vote and there may be nothing they can do if their shares are not voted as they requested.

Exchange Rates

Prior to 1989, Chilean law permitted the purchase and sale of foreign exchange only in those cases explicitly authorized by the Central Bank of Chile. The Central Bank Act liberalized the rules that govern the ability to buy and sell foreign currency. The Central Bank Act empowers the Central Bank of Chile to determine that certain purchases and sales of foreign currency specified by law must be carried out exclusively in the Formal Exchange Market, which is made up of the banks and other entities authorized by the Central Bank of Chile. All payments and distributions with respect to the ADSs must be conducted exclusively in the Formal Exchange Market.

For purposes of the operation of the Formal Exchange Market, the Central Bank of Chile sets a reference exchange rate (*dólar acuerdo*). The Central Bank of Chile resets the reference exchange rate monthly, taking internal and external inflation into account, and adjusts the reference exchange rate daily to reflect variations in parities between the Chilean peso, the U.S. dollar, the Japanese yen and the European euro.

The observed exchange rate (*dólar observado*) is the average exchange rate at which transactions were actually carried out in the Formal Exchange Market on a particular day, as certified by the Central Bank of Chile on the next banking day.

Prior to September 3, 1999, the Central Bank of Chile was authorized to buy or sell dollars in the Formal Exchange Market to maintain the observed exchange rate within a specified range above or below the reference exchange rate. On September 3, 1999, the Central Bank of Chile eliminated the exchange band. As a result, the Central Bank of Chile may buy and sell foreign exchange in the Formal Exchange Market in order to maintain the observed exchange rate at a level the Central Bank of Chile determines.

Purchases and sales of foreign exchange may be effected outside the Formal Exchange Market through the Informal Exchange Market (*Mercado Cambiario Informal*) established by the Central Bank in 1990. There are no limits on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the observed exchange rate.

Although our results of operations have not been significantly affected by fluctuations in the exchange rates between the peso and the U.S. dollar because our functional currency is the U.S. dollar, we are exposed to foreign exchange losses and gains due to exchange rate fluctuations. Even though the majority of our revenues are denominated in or pegged to the U.S. dollar, the Chilean government's economic policies affecting foreign exchange and future fluctuations in the value of the peso against the U.S. dollar could adversely affect our results of operations and an investor's return on an investment in ADSs.

E. Taxation

Chilean Tax

The following discussion relates to Chilean income tax laws presently in force, including Ruling No. 324 of January 29, 1990 of the Chilean Internal Revenue Service ("Chilean IRS") and other applicable regulations and rulings, all of which are subject to change. The discussion summarizes the principal Chilean income tax consequences of an investment in the ADSs or common shares by a person who is neither domiciled in, nor a resident of, Chile or by a legal entity that is not organized under the laws of Chile and does not have a branch or a permanent establishment located in Chile (such an individual or entity is referred to herein as a Foreign Holder). For purposes of Chilean tax law, an individual holder is a resident of Chile if such person has resided in Chile for more than six consecutive months in one calendar year or for a total of six months, whether consecutive or not, in two consecutive tax years. In addition, an individual is considered domiciled in Chile in case he or she resides in Chile with the actual or presumptive intent of staying in the country. The discussion is not intended as tax advice to any particular investor, which can be rendered only in light of that investor's particular tax situation.

Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign investors, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may only be amended by another statute. In addition, the Chilean tax authorities enact rulings and regulations of either general or specific application and interpret the provisions of Chilean tax law. Chilean tax may not be assessed retroactively against taxpayers who act in good faith relying on such rulings, regulations and interpretations, but Chilean tax authorities may change these rulings, regulations and interpretations prospectively. On February 4, 2010, representatives of the governments of the United States and Chile signed an income tax treaty, which takes effect only upon ratification by both countries.

Cash Dividends and Other Distributions

Cash dividends we pay with respect to the ADSs or common shares held by a Foreign Holder will be subject to a 35% Chilean withholding tax, which we withhold and pay over to the Chilean tax authorities and which we refer to as the Withholding Tax. A

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credit against the Withholding Tax is available based on the level of corporate income tax we actually paid on the income to be distributed (referred to herein as the First Category Tax); however, this credit does not reduce the Withholding Tax on a one-for-one basis because it also increases the base on which the Withholding Tax is imposed. If we register net income but taxable losses, no credit against the Withholding Tax will be available. In addition, if we distribute less than all of our distributable income, the credit for First Category Tax we pay is proportionately reduced. Last year, law 20.630 modified and fixed the rate provisional of the first category tax from 18.5% to 20% from 2012 onwards.

In general, the example below illustrates the effective Withholding Tax burden on a cash dividend received by a Foreign Holder, assuming a Withholding Tax rate of 35%, a First Category Tax rate of 20%, and a distribution of 30% of the consolidated net income of the Company after payment of the First Category Tax:

The Company's taxable income	100.00
First Category Tax (20% of Ch\$100)	(20)
Net distributable income	80.00
Dividend distributed (30% of net distributable income)	24
First category increase	6.00
Withholding Tax (35% of the sum of Ch\$24 dividend plus Ch\$6 First Category Tax paid)	(10.5)
Credit for 20% of First Category Tax	6.00
Net tax withheld	(4.5)
Net dividend received	19.5
Effective dividend withholding rate	18.75%

In general, the effective dividend Withholding Tax rate, after giving effect to the credit for the First Category Tax, can be calculated using the following formula:

$$\text{(Withholding Tax rate)} - (\text{First Category Tax effective rate})^1 - (\text{First Category Tax effective rate})$$

Under Chilean income tax law, dividends generally are assumed to have been paid out of our oldest retained profits for purposes of determining the level of First Category Tax that we paid. The effective rate of Withholding Tax to be imposed on dividends we pay will vary depending upon the amount of First Category Tax we paid (if any) on the earnings to which the dividends are attributed, according to the Company's Taxable Profit Fund. The Effective Withholding Tax rate for dividends attributed to earnings from 1991 until 2001, for which the First Category Tax rate was 15%, which results in an effective rate of 23.5%. For 2002, the First Category Tax rate was 16.0%, which results in an effective rate of 22.62%. In 2003, the First Category Tax rate was 16.5%, which results in an effective rate of 22.16%, from 2004 until 2010, the First Category Tax rate was 17%, which results in an effective rate of Withholding Tax of 21.69%. In 2011 the First Category Tax rate was 20%, which results in an effective rate of Withholding Tax of 18.75%. In 2012 the First category Tax rate was 20%, which results in an effective rate of Withholding Tax of 18.75%. From 2013 onwards the First category Tax rate will be 20%, which results in an effective rate of Withholding Tax of 18.75%.

For dividends attributable to our profits during years when the First Category Tax was 10% (before 1991), the effective rate will be 27.8%. However, whether the First Category Tax is 10%, 15%, 16%, 16.5% or 17%, the effective overall combined tax rate imposed on our distributed profits will be 35%. In the event that profits from previous years are not sufficient to cover a particular dividend, and the dividend is attributable to the current year, we will generally withhold tax from the dividend at the full 35% rate. If as of December 31 of the year in which the dividend is paid, the withholding is determined to be excessive taking into account First Category Tax, holders may file for a refund.

Dividend distributions made in property would be subject to the same Chilean tax rules as cash dividends based on the fair market value of such property. Stock dividends and the distribution of preemptive rights are not subject to Chilean taxation.

Capital Gains

Gain from the sale or other disposition by a Foreign Holder of ADRs evidencing ADSs outside Chile will not be subject to Chilean taxation. The deposit and withdrawal of common shares in exchange for ADRs will not be subject to any Chilean taxes.

Gain recognized on a sale or disposition of common shares (as distinguished from sales or exchanges of ADRs evidencing ADSs representing such common shares) may be subject to both the First Category Tax and the Withholding Tax (the former being creditable against the latter) if:

- the Foreign Holder has held the common shares for less than one year since exchanging ADSs for the shares;

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- the Foreign Holder acquired and disposed of the common shares in the ordinary course of its business or as a habitual trader of shares; or
- the Foreign Holder and the purchaser of the common shares are “related parties” or has an interest in the latter within the meaning of Article 17, Number 8, of the Chilean Income Tax Law.

In all other cases, gain on the disposition of common shares will be subject only to a flat capital gains tax which is assessed at the same rate as the First Category Tax as sole income tax (18.5% or 20% in 2012, and from 2013 onwards 20%) and no withholding tax will apply. The sale of shares of common stock by a Foreign Holder to an individual or entity resident or domiciled in Chile is subject to a provisional withholding. Such a provisional withholding will be equal to (i) 5% of the total (sale price) amount, without any deduction, paid to, credited to, account for, put at the disposal of, or corresponding to, the Foreign Holder if the transaction is subject to the First Category Tax, as a sole tax. Unless the gain subject to taxation can be determined, case in which the withholding is equal to 20% or 18.5% (this last rate if the sale was between January to August 2012) , on the gain, or (ii) 20% of the total amount (the sale price without any deduction), paid to, credited to, account for, put at the disposal of, or corresponding to, the Foreign Holder if the transaction is subject to the general tax regime, that is, the First Category Tax, and the Withholding Tax, with a credit of the First Category Tax already paid. The Foreign Holder would be entitled to request a tax refund for any amounts withheld in excess of the taxes actually due, in April of the following year upon filing its corresponding tax return. Gain recognized in the transfer of common shares that have a high presence in the stock exchange, however, is not subject to capital gains tax in Chile, provided that the common shares are transferred in a local stock exchange, in other authorized stock exchanges or within the process of a public tender of common shares governed by the Securities Market Law.

Chile’s Internal Revenue Service Ruling N°224 (issued on January 30, 2008) confirmed that capital gains stemming from the sale of shares with high stock-market presence acquired through the exchange of American Depositary Receipts (ADRs) for shares is not subject to capital gains tax in Chile. Such exemption is applicable provided that the purchase of such ADR certificates has been made at stock exchanges duly authorized by SVS (which includes the New York Stock Exchange).

The common shares must also have been acquired either in a stock exchange, within the process of a public tender of common shares governed by the Securities Market Law, in an initial public offer of common shares resulting from the formation of a corporation or a capital increase of the same, or in an exchange of convertible bonds. Shares are considered to have a high presence in the stock exchange when they:

- are registered in the Securities Registry;
- are registered in a Chilean Stock exchange; and
- have an adjusted presence equal to or above 25%.

To calculate the adjusted presence of a particular share, the aforementioned regulation first requires a determination of the number of days in which the operations regarding the stock exceeded, in Chilean pesos, the equivalent of 1,000 UF (US\$44,432 as of December 31, 2013) within the previous 180 business days of the stock market. That number must then be divided by 180, multiplied by 100, and expressed in a percentage value. This tax regime does not apply if the transaction involves an amount of shares that would allow the acquirer to take control of the publicly traded corporation, in which case the ordinary tax regime referred to in the previous paragraph will apply, unless the transfer is part of a tender offer governed by the Securities Market Law or the transfer is done on a Chilean stock exchange, without substantially exceeding the market price.

Capital gains obtained in the sale of shares that are publicly traded and have a high presence in a stock exchange are also exempt from capital gains tax in Chile when the sale is made by “foreign institutional investors” such as mutual funds and pension funds, provided that the sale is made in a stock exchange or in accordance with the provisions of the Securities Market Law, or in any other form authorized by the SVS. To qualify as a foreign institutional investor, an entity must be formed outside of Chile, not have a domicile in Chile, and must be at least one of the following:

- a fund that offers its common shares or quotas publicly in a country with investment grade public debt, according to a classification performed by an international risk classification entity registered with the SVS;
- a fund registered with a regulatory agency or authority from a country with investment grade public debt, according to a classification performed by an international risk classification entity registered with the SVS, provided that its investments in Chile constitute less than 30% of the share value of the fund, including deeds issued abroad representing Chilean securities, such as ADRs of Chilean companies;
- a fund whose investments in Chile represent less than 30% of the share value of the fund, including deeds issued abroad representing Chilean securities, such as ADRs of Chilean companies, provided that not more than 10% of the share value of the fund is directly or indirectly owned by Chilean residents;
- a pension fund that is formed exclusively by natural persons that receive pensions out of an accumulated capital in the fund;

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- a Foreign Capital Investment Fund, as defined in Law No. 18,657, in which case all quota holders shall be Chilean residents or domestic institutional investors; or
- any other foreign institutional investor that complies with the requirements set forth in general regulations for each category of investor or prior information from the SVS and the Chilean IRS.

The foreign institutional investor must not directly or indirectly participate in the control of the corporations issuing the shares it invests in, nor possess or participate in 10% or more of the capital or the profits of such corporations.

Another requirement for the exemption is that the foreign institutional investor must execute a written contract with a bank or a stock broker incorporated in Chile. In this contract, the bank or stock broker must undertake to execute purchase and sale orders, verify the applicability of the tax exemption or tax withholding and inform the Chilean IRS of the investors it works with and the transactions it performs. Finally, the foreign institutional investor must register with the Chilean IRS by means of a sworn statement issued by such bank or stock broker.

The tax basis of common shares received in exchange for ADRs will be the acquisition value of the common shares on the date of exchange duly adjusted for local inflation. The valuation procedure set forth in the deposit agreement, which values common shares which are being exchanged at the highest price at which they trade on the SSE on the date of the exchange, will determine the acquisition value for this purpose. Consequently, the surrender of ADRs for common shares and the immediate sale of the common shares for the value established under the Deposit Agreement will not generate a capital gain subject to taxation in Chile, provided that the sale of the common shares is made on the same date on which the exchange of ADRs for common shares is recorded, or if the price of the common shares at the exchange date, as determined above, is higher than the price at which the common shares are sold.

The exercise of preemptive rights relating to the common shares will not be subject to Chilean taxation. Any gain on the sale of preemptive rights relating to the common shares will be subject to both the First Category Tax and the Withholding Tax (the former being creditable against the latter).

Other Chilean Taxes

There are no Chilean inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of ADSs by a Foreign Holder, but such taxes generally will apply to the transfer at death or by gift of the common shares by a Foreign Holder. There are no Chilean stamp, issue, registration or similar taxes or duties payable by Foreign Holders of ADSs or common shares.

Withholding Tax Certificates

Upon request, we will provide to Foreign Holders appropriate documentation evidencing the payment of the Withholding Tax (net of the applicable First Category Tax).

United States Federal Income Tax Considerations

This section describes the material United States federal income tax consequences to a U.S. holder (as defined below) of owning common shares or ADSs. It applies to you only if you hold your common shares or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,
- a tax-exempt organization,
- a life insurance company,
- a person liable for alternative minimum tax,
- a person that actually or constructively owns 10% or more of our voting stock,
- a person that holds common shares or ADSs as part of a straddle or a hedging or conversion transaction,
- a person that purchases or sells common shares or ADSs as part of a wash sale for tax purposes, or
- a U.S. holder (as defined below) whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. As described above in “—Taxation—Chilean Tax”, there is currently no comprehensive income tax treaty in effect between the United States and Chile. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

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If a partnership holds the common shares or ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the common shares or ADSs should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the common shares or ADSs.

You are a U.S. holder if you are a beneficial owner of common shares or ADSs and you are:

- a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

You should consult your own tax advisor regarding the United States federal, state and local and the Chilean and other tax consequences of owning and disposing of common shares and ADSs in your particular circumstances.

ADSs

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the common shares represented by those ADRs. Exchanges of common shares for ADRs, and ADRs for common shares, generally will not be subject to United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company ("PFIC") rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation.

If you are a noncorporate U.S. holder, dividends paid on the ADSs that constitute qualified dividend income will be taxable to you at the preferential rates applicable to long-term capital gains if you hold the ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends paid on the ADSs will be treated as qualified dividend income if:

- the ADSs are readily tradable on an established securities market in the United States; and
- we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a PFIC.

The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Accordingly, we expect that dividends we pay with respect to the ADSs will be qualified dividend income. Because our common shares are not expected to be listed on any United States securities market, it is unclear whether dividends we pay with respect to the common shares will also be qualified dividend income. If dividends we pay with respect to our common shares are not qualified dividend income, then the U.S. dollar amount of such dividends received by a U.S. holder (including dividends received by a noncorporate U.S. holder) will be subject to taxation at ordinary income tax rates.

You must include any Chilean tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of common shares, or the Depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Chilean pesos payments made, determined at the spot Chilean pesos/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the common shares or ADSs and thereafter as capital gain. However, we do not expect to calculate earnings and profits in accordance with United States federal income tax principles. Accordingly, you should expect to generally treat distributions we make as dividends.

Subject to generally applicable limitations and conditions under the Internal Revenue Code, Chilean Withholding Tax withheld and paid over to the Chilean tax authorities (after taking into account the credit for the First Category Tax, when it is available) will be creditable or deductible against your United States federal income tax liability. Special rules apply in determining the foreign tax

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credit limitation with respect to dividends that are subject to the preferential tax rates. To the extent a refund of the tax withheld is available to you under Chilean law, as is the case if the amount of Chilean Withholding Tax initially withheld from a dividend is determined to be excessive as described above under “—Chilean Tax—Cash Dividends and Other Distributions,” the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability.

Dividends will generally be income from sources outside the United States and will, depending on your circumstances, be either “passive” or “general” income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your common shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your common shares or ADSs. Capital gain of a noncorporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. Consequently, you may not be able to use the foreign tax credit arising from any Chilean tax imposed on the disposition of common shares unless such credit can be applied against tax due on other income treated as derived from foreign sources in the appropriate limitation category.

PFIC Rules

We believe that common shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, unless you elect to be taxed annually on a mark-to-market basis with respect to your common shares or ADSs, gain realized on the sale or other disposition of your common shares or ADSs would in general not be treated as capital gain. Instead, if you are a U.S. holder, you would be treated as if you had realized such gain and certain “excess distributions” ratably over your holding period for the common shares or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your common shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your common shares or ADSs. Dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are treated as a PFIC with respect to you either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the information requirements of the Exchange Act, as amended. In accordance with these requirements, we file reports, including annual reports on Form 20-F and other information with the SEC. These materials, including this annual report and the exhibits hereto, may be inspected and copied at the SEC’s public reference rooms in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. In addition, some of our SEC filings, including those filed on and after February 19, 2002, are also available to the public through the SEC’s website at www.sec.gov.

As a foreign private issuer, we are not subject to the same disclosure requirements as a domestic U.S. registrant under the Exchange Act. For example, we are not required to prepare and issue quarterly reports. However, we furnish our shareholders with annual reports containing financial statements audited by our independent auditors and make available to our shareholders quarterly reports containing unaudited financial data for the first three quarters of each fiscal year. We file such quarterly reports with the SEC within two months of each quarter of our fiscal year, and we file annual reports on Form 20-F within the time period required by the SEC, which is currently six months from December 31, the end of our fiscal year.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**General**

Given the nature of its business, LATAM is exposed mainly to three types of market risk:

- Jet fuel price fluctuations;
- Interest rate fluctuations; and
- Exchange rate fluctuations.

Management assesses the level of our exposure to these risks periodically to determine the extent to which we should hedge against them and the most effective mechanisms to implement the hedge. LATAM purchases derivative instruments in foreign markets to offset market risk exposure, typically utilizing a mixture of call options, collar structures and fixed price swaps agreements. LATAM does not enter into or hold derivative contracts for trading purposes.

Risk of Fluctuations in Jet Fuel Prices

Individually, LAN and TAM forecasted fuel consumption for 2013 of 608.9 million and 676.6 million gallons, respectively. Since the combination of their business operations, LATAM has been managing the fuel hedging program for both LAN and TAM, based on an approved policy. LATAM forecasted fuel consumption for 2014 was 1.266 million gallons. This policy aims to hedge approximately 20-60% of our aggregate fuel consumption, using swaps, calls and collars for the expected fuel consumption from 12-24 months.

Jet fuel price fluctuations are largely dependent on supply and demand for crude oil, OPEC decisions, refinery capacities, stock levels of crude oil and geopolitical factors. In order to minimize the risk of jet fuel price fluctuations, LATAM hedges against such risk using derivative instruments.

Because jet fuel is not traded in organized futures exchanges, there are limited options to hedge against jet fuel price fluctuations. However, LATAM considers financial derivative instruments in other commodities such as crude oil or heating oil, to be useful for decreasing its exposure to jet fuel price increases.

LATAM uses swaps, calls and collars to hedge against fuel prices fluctuations. Swap contracts allow us to eliminate the volatility risk by fixing the price. In a typical swap contract, LATAM is compensated if the market price is above the fixed price at certain predetermined dates, and must make disbursements if the market price is below the fixed price at those dates. Call options give us protection against rise in prices. Call option are only exercised when the market price is above the predetermined strike price thus providing LATAM with protection with no downside risk. Collars are a combination of call and put options that limit the range of possible positive or negative outcomes to a specific price range. Above the predetermined ceiling price, LATAM is compensated for the difference between the market price and the ceiling price. For any price below the predetermined floor price, LATAM has to disburse the difference between the market price and the floor price.

We may be exposed to fuel hedging transaction losses if our counterparties default. To manage this credit risk, we select counterparties based on their credit ratings and monitor our relative market position on a daily basis. For more information see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Operations and the Airline Industry—Our operations are subject to fluctuations in the supply and cost of jet fuel, which could negatively impact our business”.

During 2013, 2012 and 2011 we entered into a mix of swaps, calls, zero cost collars, three-way collars and collars option contracts on WTI, BRENT and JET FUEL 54 USGC prices with investment banks and other financial entities for notional fuel purchases. Details of the fuel hedging program are shown below:

	LATAM Fuel Hedging		
	Year ended December 31,		
	2013	2012	2011
	LATAM	LATAM⁽¹⁾	LAN
	(millions of US\$)		
Gallons Purchased	861.4	598.4	397.8
% Total Annual Fuel Consumption	48%	46.6%	69.8%
Combined Result of Hedges (in US\$)	+3.1	-1.8	+39.9

(1) Includes TAM's fuel hedging from June 23, 2012.

As of December 31, 2013, the fair value of our outstanding fuel related derivative contracts was estimated to be US\$15.9 million (asset).

Fair value by quarter of LATAM's fuel related hedges, as of December 31, 2013

<u>Q14</u>	<u>Q214</u> (millions of US\$)	<u>Total</u>
+ 10.5	+5.3	+15.9

Gains and losses on the hedging contracts outlined above are recognized as a cost of sales in the income statement when the fuel subject to the hedge is consumed. Premiums paid related to fuel derivative contracts are recorded as prepaid expenses (current assets) and recorded as an expense at the time the contract expires.

Under IFRS, the fair value of the hedging derivatives is booked as a non-current asset or liability if the remaining maturity of the item is hedged for more than 12 months, and as a current asset or liability if the remaining term of the item hedged for less than 12 months. The fair value of the derivative contracts is deferred within an equity reserve account. Please see Note 2.10 to our audited consolidated financial statements.

Sensitivity analysis

In order to protect the Company from increases in fuel prices, a portion of the fuel consumption is hedged using a mixture of protective instruments (call, collars) and fixing instruments (swaps). To keep the Company competitive, a portion of the fuel consumption is not hedged, as a drop in fuel prices positively affects the Company through a reduction in costs.

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

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The following table shows the sensitivity analysis of our hedging contracts to reasonable changes in fuel prices and their effect on equity. The term used for the projection was June 30, 2014, the last maturity date of our current fuel hedge contracts. The calculations were made considering a parallel movement of US\$5 per barrel in the curve of the WTI, BRENT and JET crude futures benchmark price at the end of December 2013, 2012 and 2011.

BRENT or JET benchmark price	LATAM fuel price sensitivity (effect on equity)		
	Position as of December 31,		
	2013	2012	2011
	LATAM	LATAM	LAN
	(millions of US\$ per barrel)		
+5	+24.6	+12.6	+16.5
-5	-19.1	-11.3	-13.8

During the periods presented, the Company has not recorded amounts for ineffectiveness in the consolidated income statement pursuant to IAS 39 (IFRS principles for recognizing and measuring financial instruments).

Given the fuel hedge structure as of December 31, 2013, which reflects only a partial hedge of our expected fuel consumption, a vertical fall by US\$5 in the BRENT and JET benchmark price (the monthly daily average) for each month would have meant savings of approximately US\$127.6 million in the cost of the Company's total fuel consumption. A vertical increase by US\$5 in the WTI and BRENT benchmark price (the monthly daily average) for each month would have meant an additional cost of approximately US\$118.5 million of the Company's total fuel consumption.

Risk of Fluctuations in Interest Rates

As of December 31, 2013, LATAM had US\$ 9,867 million in outstanding interest bearing loans. LATAM uses swaps and caps to reduce the impact of an increase of interest rates. Following the combination of LAN and TAM, LATAM is more exposed to fluctuations of interest rates (before giving effect to swaps), as more than half of TAM's outstanding debt bears interest at a floating rate. Individually as of December 31, 2013, 52.2% of TAM's outstanding debt is in the form of fixed rate loans, and 77.6% of LAN's outstanding debt was effectively at fixed rate, either as fixed rate loans or variable rate loans hedged using a floating to fixed rate derivative instrument. On a combined basis, 70% of LATAM outstanding debt as of December 31, 2013 was effectively at fixed rate, either as fixed rate loans or variable rate loans hedged using a floating to fix rate derivative instrument.

LATAM's interest bearing loans can be classified by: variable interest rate debt, fixed interest rate debt and interest rate hedged debt. LATAM's variable interest rate debt amounts to US\$2,938 million from which 73.9% is assigned to aircraft financing and 26.1% to non-aircraft financing. The fixed interest rate debt amounts to US\$ 6,373 million from which 68.3% is assigned to aircraft financing and 31.7% to non-aircraft financing. The interest rate hedged debt amounts to US\$ 556 million from which 93.6% is assigned to interest rate swaps and 6.4% to interest rate caps.

Under IFRS, the positive fair value of these interest rate swaps is reflected in the balance sheet as hedging assets and the negative fair value of these agreements is reflected as hedging liabilities. As of December 31, 2013, the fair value of all the interest rate swaps was estimated to be -US\$96.8 million.

The interest rate cap contracts qualify as cash flow hedges with no ineffectiveness associated to them due to the fact that all critical terms of the debt and the caps are matched. As of December 31, 2013, the fair value of these contracts was estimated to be US\$0.01 million.

The premiums paid on the cap contracts were allocated to individual caplets and recognized in the income statement throughout the term of each contract. Under IAS 39 these derivatives qualify as cash flow hedges even though some ineffectiveness exists as the notional amount over which some caps are calculated is different from the one used to determine the interest and lease payments on the aircraft. For IFRS purposes, there was no amount of ineffectiveness recorded in earnings because the change in fair value of the perfect hypothetical option was greater than the change in the fair value of the Company's option.

The utilization of the aforementioned hedging instruments, combined with fixed interest rate financing for our aircraft financing has enabled the Company to have a predictable interest rate costs, reducing the cash volatility. As of December 31 2013, the average interest rate of our entire outstanding interest-bearing long-term debt rate was 4.0%.

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The following table summarizes our principal payment obligations on all of our interest-bearing debt as of December 31, 2013 and the related average interest rate for such debt. The average interest rate has been calculated based on the prevailing interest rate on December 31, 2013 for each loan.

	LATAM's principal payment obligations by year of expected maturity ⁽¹⁾						
	Average interest rate ⁽²⁾	2014	2015	2016	2017	2018	2019 and thereafter
Interest-bearing liabilities	3.8%	1.877	914	1.243	1.177	794	3.862

(thousands of US\$)

(1) At cost.

(2) Average interest rate means the average prevailing interest rate on December 31, 2013 on our debt after giving effect to hedging arrangements.

The following table shows the sensitivity of changes in our long-term interest bearing liabilities and capital leases that are not hedged against interest-rate variations. These changes are considered reasonably possible based on current market conditions.

	LATAM's interest rate sensitivity (effect on pre-tax earnings) Position as of December 31		
	2013 LATAM	2012 LATAM	2011 LAN
Increase (decrease) in LIBOR			
+100 basis points	-29.70	-33.69	-3.06
-100 basis points	+29.70	+33.69	+3.06

(millions of US\$)

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

	LATAM's interest rate sensitivity (effect on equity) Position as of December 31		
	2013 LATAM	2012 LATAM	2011 LAN
Increase (decrease) in three month LIBOR			
<i>Future rates</i>			
+100 basis points	23.35	+33.61	+40.70
-100 basis points	-24.46	-35.48	-43.20

(millions of US\$)

During the periods presented, the company has not recorded amounts for ineffectiveness in the consolidated income statement pursuant to IAS 39.

There are market-related limitations in the method used for the sensitivity analysis. These limitations derive from the fact that the levels indicated by the futures curves may not be necessarily met and may change in each period.

Risk of Variation in Foreign Currency Exchange Rates

LATAM sells most of its services in U.S. dollars (or prices equivalent to the U.S. dollar) and, following the combination with TAM, in Brazilian real. A large part of its expenses are denominated in U.S. dollars (or its equivalents), particularly fuel costs, aeronautic charges, aircraft leases, insurance and aircraft components and accessories. Of LATAM's total expenses, the main item denominated in local currencies is employee remuneration.

Since 2012, the proportion of our operating revenues denominated in U.S. dollars has decreased due to the combination with TAM, increasing our exposure to Brazilian domestic market and Brazilian real as compared to 2011. However, because we conduct business in local currencies in several countries, we face the risk of variations in multiple foreign currency exchange rates. A depreciation of the Chilean peso, the Brazilian real, the Argentine peso, the Mexican peso, the Peruvian nuevo sol, the Venezuelan bolivar or the euro against the U.S. dollar could have an adverse effect on us as part of our revenues and receivables are denominated in those currencies. The Company may enter into derivative contracts to protect against the possible appreciation or depreciation of the currencies against the functional currency of the Company.

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Balance sheet exposure of LATAM to the Brazilian real is related to the functional currency of TAM and its balance sheet currency mismatch, as more of TAM's debt is denominated in U.S. dollars as compared to its assets denominated in U.S. dollars. When the balance sheet denominated in U.S. dollars is translated to Brazilian real, the financial results of TAM may fluctuate and therefore could impact LATAM's financial results.

The exposure to the Brazilian real in TAM's balance sheet has constantly been reduced from over US\$4.0 billion since the merger in June 2012 to US\$2.0 billion as of December 31, 2013. The Company continues working to largely mitigate this exposure to approximately US\$0.6 billion by the end of third quarter 2014. The plan includes the execution of the fleet transfer from TAM to LATAM and payment of TAM's short term debt denominated in USD.

The following table shows the sensitivity of LATAM's financial results to changes in the R\$/US\$ exchange rate:

	TAM exchange rate sensitivity		
	Position effect on pre-tax earnings as of December 31		
	2013	2012	2011
	LATAM	LATAM	TAM
	(millions of US\$)		
Appreciation (depreciation) of R\$/US\$			
-10%	+197.76	+404.19	+439.16
+10%	-197.76	-404.21	-439.16

The prices of frequent flyer points of TAM's subsidiary, Multiplus S.A., are denominated in U.S. dollars. As the functional currency is the Brazilian real, the sale of these frequent flyer points are subject to variations in the R\$/US\$ exchange rate. To reduce its exposure, Multiplus S.A. has entered into exchange rate collars.

The following table presents the notional amount and the market value of the derivative exchange rate collars for each maturity date. The expiration dates of the derivatives coincide with the probable date of redemption of the frequent flyer points. The redemption of the frequent flyer points are recognized as a highly probable event and will be recognized as income, on average, six months after redemption.

Foreign Currency Derivative	Multiplus exchange rate collars	
	Position as of December 31 (millions of US\$)	
	2014	Total
Notional Value (MUS)	18.0	18
Market Value (MUS)	-1.7	-1.7

If the Brazilian real appreciates or depreciates by 10% against the U.S. dollar and all other variables are held constant, the financial results of Multiplus S.A. would have varied approximately by US\$3.3 million (appreciation)/US\$4.2 million (depreciation) for the year ended December 31, 2013.

The profit or losses caused by changes in the fair value of the hedged item are segregated between intrinsic value and time value. The intrinsic value is the percentage of cash flow covered, initially shown in the equity and later transferred to income, while the hedge transaction is recorded as income. The time value corresponds to the ineffective portion of the cash flow hedge and is recognized in the financial results of the Company.

Additionally, one of the LATAM financing sources is the receipt of future flows related dividends and capital distributions that subsidiaries will distribute. These future cash flows vary depending on the evolution of the foreign currency exchange rate compared to US\$. The greatest exposure to future cash flows is presented by the subsidiary TAM S.A. and the R\$/US\$ volatility. In the case of TAM S.A., the earnings are expressed in large proportion in R\$, which a large portion of its costs are in US\$.

To hedge the investment in subsidiaries and reduce the cash flow volatility, the Company may enter into derivative contracts to protect the mitigate currency appreciation or depreciation against the LATAM functional currency.

In order to reduce the operational monthly cash flow exposures for 2014, caused by Brazilian real depreciation and ensure economic margin, LATAM hedges the foreign exchange risk using Foreign Exchange ("FX") Forwards.

At December 31, 2013, the market value of LATAM's FX positions was US\$ 32.1 million (positive). These derivative contracts were entered into by LATAM during 2013, so as of December 31, 2012, LATAM did not have these types of derivatives contracts.

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The following table shows both the notional amount of FX Forward positions and average of Forward prices:

Positions as December 31, 2013	Q114	Q214	Q314	Q414	Total
Volume (millions of US\$)	125	125	125	125	500
Forward Price (R\$/US\$)	2.24	2.28	2.33	2.39	2.31
Total (millions of R\$)	280	285	291	299	1.115

If the Brazilian real depreciates against the U.S. dollar, it could adversely affect the Company's results by increasing costs to LATAM denominated in US\$. However, a depreciation of the Brazilian real would positively affect the value of these derivative positions.

Because changes in the values of existing positions do not represent changes in cash flow, but a variation in the exposure of market value, the outstanding hedging positions do not impact results (they are registered as cash flow hedges under IFRS, therefore, a change in the exchange rate has an impact on the equity of the Company).

The following table shows the sensitivity of financial instruments according to reasonable changes in the exchange rate and its effect on equity is shown. The term projection is defined until the end of the last hedging contract in force, being the last business day of the fourth quarter of 2014:

Appreciation (depreciation) of R\$/US\$	LATAM foreign exchange sensitivity	
	Position as of December 31	
	2013	
	(Millions of US\$)	
-10%		-49.46
+10%		+49.46

Our foreign currency exchange exposure as of December 31, 2013 was as follows:

	LATAM foreign currency exchange exposure								
	US dollars MUS\$	% of total	Brazilian real MUS\$	% of total	Chilean pesos MUS\$	% of total	Other currencies MUS\$	% of total	Total MUS\$
Current assets	2,166,248	43.50%	1,818,088	36.51%	381,274	7.66%	613,939	12.33%	4,979,549
Other assets	8,703,165	49.31%	8,626,489	48.87%	20,638	0.12%	301,305	1.71%	17,651,597
Total assets	10,869,413	48.03%	10,444,577	46.15%	401,912	1.78%	915,244	4.04%	22,631,146
Current liabilities	3,976,248	61.09%	1,918,281	29.47%	183,262	2.82%	431,316	6.63%	6,509,107
Long-term liabilities	8,961,972	83.01%	1,596,476	14.79%	211,639	1.96%	26,404	0.324%	10,796,491
Total liabilities and shareholders' equity	18,262,474	80.70%	3,514,757	15.53%	394,901	1.75%	457,720	2.02%	22,629,852

For more information on Market Risk, see Note 3 "Financial Risk Management" to our audited consolidated financial statements.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

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B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

In the United States, our common shares trade in the form of ADS. Since August 2007, each ADS represents one common share, issued by The Bank of New York Mellon, as Depositary pursuant to a Deposit Agreement. ADSs commenced trading on the NYSE in 1997. In October 2011 our Depositary bank changed from The Bank of New York Mellon to JP Morgan Chase Bank, N.A. (“JP Morgan”).

Fees and Charges for ADR Holders

The Bank of New York Mellon, and since October 2011 JP Morgan, as depositary, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of the distributable property to pay the fees. The depositary may also collect its annual fee for depositary services by deductions from cash distributions, by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:

US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

US\$.02 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance of ADSs

US\$.02 (or less) per ADSs per calendar year

Registration or transfer fees

Expenses of the depositary

Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, such as stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities

For:

- Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
- Any cash distribution to ADS registered holders
- Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders
- Depositary services
- Transfer and registration of shares on the depositary’s share register to or from the name of the depositary or its agent when investors deposit or withdraw shares
- Cable, telex and facsimile transmissions
- Conversion of foreign currencies into U.S. dollars
- As necessary
- As necessary

Fees and Direct and Indirect Payments Made by the Depositary to the Foreign Issuer

Past Fees and Payments

During 2013, the Company received from the depositary US\$106,250 million for continuing annual stock exchange listing fees, standard out-of-pocket maintenance costs for the ADRs (consisting of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls), payments related to applicable performance indicators relating to the ADR facility, underwriting fees and legal fees.

Future Fees and Payments

JP Morgan, as the depository bank, has agreed to reimburse the Company for certain of our reasonable expenses related to our ADS program and incur by us in connection with the program. The reimbursements include direct payments (legal and accounting fees incurred in connection with preparation of Form 20-F and ongoing SEC compliance and listing requirements, listing fees, investor relations expenses, advertising and public relations expenses and fees payable to service providers for the distribution of hard copy materials to beneficial ADR holders in the Depository Trust Company, such as information related to shareholders' meetings and related voting instruction cards); and indirect payments (third-party expenses paid directly and fees waived).

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Controls and Procedures

Management carried out an evaluation with the participation of the chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2013. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon such evaluation, management, with the participation of the chief executive officer and chief financial officer concluded that the disclosure controls and procedures, as of December 31, 2013, were effective in providing reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act, as amended, is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management including our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

Management's annual report on internal control over financial reporting

The management of the Company, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, as amended.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate. LATAM Airlines Group S.A.'s management, including the Chief Executive Officer and the Chief Financial Officer, has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 based on the criteria established in "Internal Control—Integrated Framework (1992)" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and, based on such criteria, LATAM Airlines Group S.A.'s management has concluded that, as of December 31, 2013, the Company's internal control over financial reporting is effective. The company's internal control over financial reporting effectiveness as of December 31, 2013 has been audited by PricewaterhouseCoopers Consultores, Auditores y Compañía Limitada, an independent registered public accounting firm, as stated in their report included herein.

(c) *Attestation report of the registered public accounting firm.* See page F-218 of our audited consolidated financial statements.

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(d) *Changes in internal control over financial reporting. Except for certain internal control procedures that have been modified to address the incorporation of TAM S.A., there has been no significant change in our internal control over financial reporting during 2013. None of the changes has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.*

ITEM 16. RESERVED

A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has designated Georges de Bourguignon Arndt, as an “audit committee financial expert” within the meaning of this Item 16. See “Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management.”

B. CODE OF ETHICS

We have adopted a code of ethics and conduct, as defined in Item 16B of Form 20-F under the Exchange Act. Our code of ethics applies to our senior management, including our chief executive officer, our chief financial officer and our chief accounting officer, as well as to other employees. Our code is freely available online at our website, www.lan.com, under the heading “Corporate Governance” in the Investor Relations page. In addition, upon written request, by regular mail, to the following address: LAN Airlines S.A., Investor Relations Department, attention: Investor Relations, Av. Presidente Riesco 5711, Piso 20, Comuna Las Condes, Santiago, Chile, or by e-mail at investor.relations@lan.com we will provide any person with a copy of it without charge. If we amend the provisions of our code of ethics that apply to our senior management or to other persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website.

C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit and Non-Audit Fees

The following table sets forth the fees paid to our independent registered public accounting firm, PricewaterhouseCoopers, during the fiscal years ended December 31, 2011, 2012 and 2013:

	2013	2012	2011
	USD (in thousands)		
Audit fees	5,930	5,809	1,823
Audit-related fees	73	195	0
Tax fees	90	80	229
Other fees	42	421	590
Total fees	<u>6,135</u>	<u>6,505</u>	<u>2,642</u>

Audit-related fees in the above table are fees billed by PricewaterhouseCoopers for due diligence and other audit related services. These fees increased in 2012 as a result of due diligence performed on TAM. Fees in 2012 include payments to PricewaterhouseCoopers Brazil, since the business combination with TAM.

Other fees in the above table are fees billed by PricewaterhouseCoopers primarily for training services in IFRS. During 2011 these fees increased due to additional services related to the preparation of the Form F-4, relating to our exchange offer and business combination with TAM, the preparation of pro forma financial statements, and other services. Other fees in 2012 and 2013 also included the preparation of pro forma financial statements included in this Form 20-F.

Board of Directors’ Committee Pre-Approval Policies and Procedures

Since January 2004, LATAM has complied with the SEC regulation regarding the type of additional services PricewaterhouseCoopers is authorized to offer to us. In addition to this, our Board of Directors’ Committee (which serves as our Audit Committee) has decided to automatically authorize any of such accepted services for an amount of up to 10% of the fees charged by the auditing firm, and for an amount of up to 50% when adding all such services provided by PricewaterhouseCoopers in the aggregate. If the amount of any services is larger than these thresholds, the approval of the Board of Directors’ Committee will be required.

D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

G. CORPORATE GOVERNANCE

New York Stock Exchange Corporate Governance Comparison

Pursuant to Section 303A.11 of the Listed Company Manual of the NYSE, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. We are a Chilean corporation with shares listed on the SSE, the Chilean Electronic Exchange and the Valparaiso Stock Exchange, our ADSs listed on the NYSE and our BDRs listed on Bovespa. Our corporate governance practices are governed by our bylaws, the Chilean Corporation Law and the Securities Market Law.

The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

NYSE Standards

Director Independence. *Majority of board of directors must be independent.*
§303A.01

Our Corporate Governance Practice

Under Chilean law, we are not required to have a majority of independent directors on our board.

Our board of directors' committee (all of whom are members of our board of directors) is composed of three directors, two of whom must be independent if we have a sufficient number of independent directors on our board.

The definition of independence applicable to us pursuant to the Chilean Corporation Law differs in certain respects from the definition applicable to U.S. issuers under the NYSE rules.

Pursuant to Law No. 20,382 on Corporate Governance, which came into effect on January 1, 2010, we are also required to have at least one independent director.

Until January 1, 2010, under the Chilean Corporation Law, a director was deemed to be independent if such member would have been elected as a Director at the Shareholders Meeting after excluding the votes of any controlling shareholder or party related to it.

Starting on January 1, 2010, directors are deemed to be independent if they have not fallen within any of the following categories during the 18 months prior to their election: (i) had a relevant relationship, interest or dependence on us, our subsidiaries, controlling shareholders, main executives, or had served any of the foregoing in a senior position; (ii) had a close family relationship with any of the individuals indicated in (i); (iii) had served in a non-profit organization which received significant funds from the individuals indicated in (i); (iv) had been a partner or shareholder (with a direct or indirect participation in excess of 10%) in, or had a senior position at a company which has rendered significant services to, the individuals indicated in (i); (v) had been a partner or shareholder (with a direct or indirect participation in excess of 10%) in, or had a senior position at, our main competitors, suppliers or clients. In addition, the election of such an independent director is subject to a procedure set forth by the cited Corporation Law.

There is no similar requirement under our bylaws or under applicable Chilean law.

Executive Sessions. *Non-management directors must meet regularly in executive sessions without management. Independent directors should meet alone in an executive session at least once a year.* §303A.03

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NYSE Standards

Audit committee. *Audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act, as amended, and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07*

Nominating/corporate governance committee. *Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.04*

Compensation committee. *Compensation committee of independent directors is required, which must approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.05*

Equity compensation plans. *Equity compensation plans require shareholder approval, subject to limited exemptions.*

Code of Ethics. *Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. §303A.10*

Our Corporate Governance Practice

We are in compliance with Rule 10A-3. We are not required to satisfy the NYSE independence and other audit committee standards that are not prescribed by Rule 10A-3.

We are not required to have, and do not have, a nominating/corporate governance committee.

We are not required to have a compensation committee. Pursuant to the Chilean Corporation Law, our board of directors' committee must approve our senior management and employee's compensation.

Under the Chilean Corporation Law, equity compensation plans require shareholder approval.

We have adopted a code of ethics and conduct applicable to our senior management, including our chief executive officer, our chief financial officer and our chief accounting officer, as well as to other employees. Our code is freely available online at our website, www.latamairlinesgroup.net, under the heading "Corporate Governance" in the Investor Relations informational page. In addition, upon written request, by regular mail to LATAM Airlines Group S.A., Investor Relations Department, attention: Investor Relations, Av. Presidente Riesco 5711, 20th floor, Comuna Las Condes, Santiago, Chile or by e-mail at Investor.Relations@lan.com, we will provide any person with a copy of our code of ethics without charge. We are required by Item 16B of Form 20-F to disclose any waivers granted to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions.

The disclosure of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards is also posted on our website and can be accessed at www.latamairlinesgroup.net

H. Mine Safety Disclosure

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

See “Item 18. Financial Statements.”

ITEM 18. FINANCIAL STATEMENTS

See our consolidated Financial Statements beginning on page F-1. The following is an index of the financial statements.

Consolidated Financial Statements for LATAM Airlines Group and its Subsidiaries

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ITEM 19. EXHIBITS

Documents filed as exhibits to this annual report:

<u>Exhibit No.</u>	<u>Description</u>
1.1*	Amended By-laws of LATAM Airlines Group S.A.
2.1	Second Amended and Restated Deposit Agreement, dated as of October 28, 2011, between the Company and JPMorgan Chase Bank, N.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984) filed on November 15, 2011).
2.3	Indenture, dated as of April 25, 2007, among TAM Capital Inc., Tam S.A., TAM Linhas Aéreas S.A., The Bank of New York and The Bank of New York (Luxembourg) S.A., incorporated herein by reference from our second pre-effective amendment to our Registration Statement on Form F-4, File No. 333-131938.
2.4	Indenture, dated as of October 29, 2009, among TAM Capital 2 Inc., TAM S.A., TAM Linhas Aéreas S.A., The Bank of New York Mellon and The Bank of New York Mellon (Luxembourg) S.A., incorporated herein by reference from our Annual Report for the fiscal year ended December 31, 2009 on Form 20-F, filed June 30, 2010, File. No. 333-131938.
4.1	Second A320-Family Purchase Agreement, dated March 20, 1998, between the Company and Airbus Industry relating to Airbus A320-Family Aircraft (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on June 24, 2001 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.1	Amendment No. 1 dated as of November 14, 2003 and Amendment No. 2 dated as of October 4, 2005, to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (as successor to Airbus Industry) (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on June 30, 2006 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.2	Amendment No. 3 dated as of March 6, 2007, to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on June 30, 2006 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.3	Amendment No. 5 dated as of December 23, 2009, to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on June 29, 2010 and portions of which have been omitted pursuant to a request for confidential treatment).

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<u>Exhibit No.</u>	<u>Description</u>
4.1.4	Amendments No. 6, 7, 8 and 9 (dated as of May 10, 2010, May 19, 2010, September 23, 2010 and December 21, 2010, respectively), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.5	Amendments No. 10 and 11 (dated as of June 10, 2011 and November 8, 2011, respectively), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.6	Amendment No. 12 (dated as of November 19, 2012), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.7*	Amendment No. 13 (dated as of August 19, 2013), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. Portions of these documents have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
4.2	Purchase Agreement No. 2126 dated as of January 30, 1998, between the Company and The Boeing Company as amended and supplemented, relating to Model 767-316ER, Model 767-38EF, and Model 767-316F Aircraft (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on December 21, 2004 and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.1	Supplemental Agreements No. 16, 19, 20, 21 and 22 (dated as of November 11, 2004, January 21, March 10, April 1, April 28, and July 20, 2005, and March 31, 2006, respectively) to the Purchase Agreement No. 2126 dated January 30, 1998, between the Company and The Boeing Company, relating to Model 767-316ER, Model 767-38EF, and Model 767-316F Aircraft (incorporated by reference to our amended annual report filed on Form 20-F (File No. 001-14728) filed on May 7, 2007 and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.2	Supplemental Agreement No. 23 dated as of March 6, 2007, to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on April 23, 2007 and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.3	Supplemental Agreement No. 24 dated as of November 10, 2008, to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on June 25, 2009 and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.4	Supplemental Agreements No. 28 and 29 (dated as of March 22, 2010 and November 10, 2010, respectively), to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company. Portions of these documents have been omitted pursuant to a request for confidential treatment (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.5	Supplemental Agreements No. 30, 31 and 32 (dated as of February 15, 2011, May 10, 2011 and December 22, 2011, respectively), to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.3	Aircraft Lease Common Terms Agreement between GE Commercial Aviation Services Limited and LAN Cargo S.A., dated as of April 30, 2007, and Aircraft Lease Agreements between Wells Fargo Bank Northwest N.A., as owner trustee, and LAN Cargo S.A., dated as of April 30, 2007 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 7, 2007 and portions of which have been omitted pursuant to a request for confidential treatment).
4.4	Purchase Agreement No. 3194 between the Company and The Boeing Company relating to Boeing Model 777-Freighter aircraft dated as of July 3, 2007 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on June 25, 2008 and portions of which have been omitted pursuant to a request for confidential treatment).

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<u>Exhibit No.</u>	<u>Description</u>
4.4.1	Supplemental Agreement No. 2 dated as of November 2, 2010, to the Purchase Agreement No. 3194 between the Company and The Boeing Company, dated as of July 3, 2007 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.4.2	Supplemental Agreement No. 3 dated as of September 24, 2011, to the Purchase Agreement No. 3194 between the Company and The Boeing Company, dated as of July 3, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.4.3	Supplemental Agreement No. 4 dated as of August 9, 2012, to the Purchase Agreement No. 3194 between the Company and The Boeing Company, dated as of July 3, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.5	Purchase Agreement No. 3256 between the Company and The Boeing Company relating to Boeing Model 787-8 and 787-9 aircraft dated as of October 29, 2007 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on June 25, 2008 and portions of which have been omitted pursuant to a request for confidential treatment).
4.5.1	Supplemental Agreements No. 1 and 2 (dated March 22, 2010 and July 8, 2010, respectively) to the Purchase Agreement No. 3256 dated October 29, 2007, as amended, between the Company and The Boeing Company (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.5.2	Supplemental Agreement No. 3 dated as of August 24, 2012, to the Purchase Agreement No. 3256, as amended, between the Company and The Boeing Company, dated as of October 29, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.5.3*	Delay Settlement Agreement, dated as of September 16, 2013, to the Purchase Agreement No. 3256, as amended, between the Company and The Boeing Company, dated as of October 29, 2007. Portions of this document have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
4.6	General Terms Agreement No. CFM-1-2377460475 and Letter Agreement No. 1 to General Terms Agreement No. CFM-1-2377460475 between the Company and CFM International, Inc., both dated December 17, 2010 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.7	Rate Per Flight Hour Engine Shop Maintenance Services Agreement between the Company and CFM International, Inc., dated December 17, 2010 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.8	Digital Services Agreement, dated December 17, 2010 between the Company and GE Engine Services, LLC (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.9	Implementation Agreement, dated as of January 18, 2011, among the Company, Costa Verde Aeronáutica S.A., InversionesMineras del Cantábrico S.A., TAM S.A., TAM Empreendimentos e Participações S.A. and Maria Cláudia Oliveira Amaro, MaurícioRolimAmaro, Noemy Almeida Oliveira Amaro and João Francisco Amaro (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011).
4.9.1	Extension Letter to the Implementation Agreement and Exchange Offer Agreement dated January 12, 2012 among the Company, Costa Verde Aeronáutica S.A., InversionesMineras del Cantábrico S.A., TAM S.A., TAM Empreendimentos e Participações S.A. and Maria Cláudia Oliveira Amaro, MaurícioRolimAmaro, Noemy Almeida Oliveira Amaro and João Francisco Amaro (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984) filed on November 15, 2011).
4.10	Exchange Offer Agreement, dated as of January 18, 2011, among LAN Airlines S.A., Costa Verde Aeronáutica S.A., InversionesMineras del Cantábrico S.A., TAM S.A., TAM Empreendimentos e Participações S.A. and Maria Cláudia Oliveira Amaro, MaurícioRolimAmaro, Noemy Almeida Oliveira Amaro and João Francisco Amaro (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011).

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<u>Exhibit No.</u>	<u>Description</u>
4.11	Shareholders Agreement, dated as of January 25, 2012, among Costa Verde Aeronáutica S.A., InversionesMineras del Cantábrico S.A. and TEP Chile S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984) filed on November 15, 2011).
4.12	Shareholders Agreement, dated as of January 25, 2012, between the Company and TEP Chile S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984) filed on November 15, 2011).
4.13	Shareholders Agreement, dated as of January 25, 2012, among the Company, TEP Chile S.A. and Holdco I S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984) filed on November 15, 2011).
4.14	Shareholders Agreement, dated as of January 25, 2012, among the Company, TEP Chile S.A., Holdco I S.A. and TAM S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984) filed on November 15, 2011).
4.15	Letter Agreement No. 12 (GTA No. 6-9576), dated July 11, 2011, between the Company and the General Electric Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.16	Used PW6122A Five Engine Purchase Agreement, dated July 21, 2011, between the Company and Pratt & Whitney Engine Leasing, LLC (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.17	Promise to Sell dated as of January 25, 2011, among LAN Cargo S.A., InversionesLAN S.A. and Bethia S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012).
4.18	Assignment of Social Rights, dated as of April 6, 2011, between LAN Cargo S.A., InversionesLAN S.A., Servicios de TransportesLimitada and InversionesBetminSpA (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012).
4.19	Share Purchase Agreement, dated as of April 6, 2011, between LAN Cargo S.A. and InversionesBetminSpA (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012).
4.20	A320 NEO Purchase Agreement, dated as of June 22, 2011, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.21	Buyback Agreement No. 3001 relating to One (1) Airbus A318-100 Aircraft MSN 3001, dated as of April 14, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.22	Buyback Agreement No. 3030 relating to One (1) Airbus A318-100 Aircraft MSN 3003, dated as of August 10, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.23	Buyback Agreement No. 3062, to One (1) Airbus A318-100 Aircraft MSN 3062, dated as of May 13, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.24	Buyback Agreement No. 3214, to One (1) Airbus A318-100 Aircraft MSN 3214, dated as of June 9, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.25	Buyback Agreement No. 3216, to One (1) Airbus A318-100 Aircraft MSN 3216, dated as of July 13, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.26	Aircraft General Terms Agreement Number AGTA-LAN, dated May 9, 1997, between the Company and The Boeing Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.27	Buyback Agreement No. 3371 dated as of July 25, 2012, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).

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<u>Exhibit No.</u>	<u>Description</u>
4.28	Buyback Agreement No. 3390, dated as of October 26, 2012, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.29	Buyback Agreement No. 3438, dated as of December 5, 2012, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.30	Buyback Agreement No. 3469, dated as of January 4, 2013, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.31	Buyback Agreement No. 3509, dated as of February 20, 2013, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.32	A320 Family Purchase Agreement, dated March 19, 1998, between Airbus S.A.S. (formerly known as Airbus Industrie GIE) and TAM Linhas Aéreas S.A. (formerly known as TAM Transportes Aéreos Meridionais S.A. and as successor in interest in TAM-Transportes Aéreos Regionais S.A.), incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.
4.32.1	Amendments No. 12, 13 and 14 (dated as of January 27, 2012 and November 30, 2012 and December 14, 2012, respectively), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.33	A350 Family Purchase Agreement, dated December 20, 2005, between Airbus S.A.S. and TAM Linhas Aéreas S.A., incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.
4.34	V2500 Maintenance Agreement, dated September 14, 2000, between TAM Transportes Aéreos Regionais S.A. (incorporated by TAM Linhas Aéreas S.A.) and MTU Maintenance Hannover GmbH (MTU), incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.
4.35	PW4168A Maintenance Service Agreement, dated September 14, 2000, between TAM Linhas Aéreas S.A. and United Technologies International, Inc., Pratt & Whitney Division, incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.
4.36*	PW1100G-JM Engine Support and Maintenance Agreement, dated February 26, 2014, between LATAM Airlines Group S.A. and Pratt & Whitney Division. Portions of this document have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
4.37*	Framework Deed, dated May 28, 2013, between LATAM Airlines Group S.A. and AerCap Holdings N.V. Portions of this document have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
8.1*	List of subsidiaries of the Company.
12.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1*	Certifications of Chief Financial Officer and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

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[Consolidated Statement of Comprehensive Income](#)

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[Consolidated Statement of Cash Flows - Direct Method](#)

[Notes to the Consolidated Financial Statements](#)

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
VEF - STRONG BOLIVAR

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

ASSETS

	Note	As of December 31, 2013 ThUS\$	As of December 31, 2012 (*) ThUS\$
Current assets			
Cash and cash equivalents	6 - 7	1,984,903	650,263
Other financial assets	7 - 12	709,944	636,543
Other non-financial assets	13	335,617	284,404
Trade and other accounts receivable	7 - 8	1,633,094	1,417,531
Accounts receivable from related entities	7 - 9	628	15,187
Inventories	10	231,028	176,818
Tax assets	11	81,890	95,785
Total current assets other than non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners		<u>4,977,104</u>	<u>3,276,531</u>
Non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners	14	2,445	47,655
Total current assets		<u>4,979,549</u>	<u>3,324,186</u>
Non-current assets			
Other financial assets	7 - 12	65,289	74,095
Other non-financial assets	13	272,276	307,987
Accounts receivable	7 - 8	100,775	50,612
Equity accounted investments	16	6,596	3,757
Intangible assets other than goodwill	17	2,093,308	2,382,399
Goodwill	18	3,727,605	4,213,160
Property, plant and equipment	19	10,982,786	11,807,076
Deferred tax assets	20	402,962	163,067
Total non-current assets		<u>17,651,597</u>	<u>19,002,153</u>
Total assets		<u>22,631,146</u>	<u>22,326,339</u>

(*) See Note 18.2

The accompanying Notes 1 to 41 form an integral part of these consolidated financial statements.

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

LIABILITIES AND EQUITY

	Note	As of December 31, 2013 ThUS\$	As of December 31, 2012(*) ThUS\$
LIABILITIES			
Current liabilities			
Other financial liabilities	7 - 21	2,039,787	2,047,330
Trade and other accounts payables	7 - 22	1,557,736	1,689,990
Accounts payable to related entities	7 - 9	505	274
Other provisions	23	27,856	59,574
Tax liabilities	24	11,583	14,512
Other non-financial liabilities	25	<u>2,871,640</u>	<u>2,485,887</u>
Total current liabilities		<u>6,509,107</u>	<u>6,297,567</u>
Non-current liabilities			
Other financial liabilities	7 - 21	7,859,985	7,698,857
Accounts payable	7 - 27	922,887	1,085,601
Other provisions	23	1,122,247	1,306,872
Deferred tax liabilities	20	767,228	579,339
Employee benefits	26	45,666	38,095
Other non-financial liabilities	25	<u>77,567</u>	<u>99,323</u>
Total non-current liabilities		<u>10,795,580</u>	<u>10,808,087</u>
Total liabilities		<u>17,304,687</u>	<u>17,105,654</u>
EQUITY			
Share capital	28	2,389,384	1,501,018
Retained earnings	28	795,303	1,076,136
Treasury Shares	28	(178)	(203)
Other reserves	28	<u>2,054,312</u>	<u>2,535,100</u>
Parent's ownership interest		5,238,821	5,112,051
Non-controlling interest		87,638	108,634
Total equity		<u>5,326,459</u>	<u>5,220,685</u>
Total liabilities and equity		<u>22,631,146</u>	<u>22,326,339</u>

(*) See Note 18.2

The accompanying Notes 1 to 41 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

	Note	For the period ended		
		2013	2012(*)	2011
		ThUS\$	ThUS\$	ThUS\$
Revenue	29	12,924,537	9,710,372	5,585,440
Cost of sales		(10,054,164)	(7,634,453)	(4,078,598)
Gross margin		2,870,373	2,075,919	1,506,842
Other income	32	341,565	220,156	132,804
Distribution costs		(1,025,896)	(803,619)	(479,829)
Administrative expenses		(1,136,115)	(888,654)	(405,716)
Other expenses		(408,703)	(311,753)	(214,411)
Other gains/(losses)		(55,410)	(45,831)	(33,039)
Gains (losses) from operating activities		585,814	246,218	506,651
Financial income		72,828	77,489	14,453
Financial costs	30	(462,524)	(294,598)	(139,077)
Equity accounted earnings	16	1,954	972	458
Foreign exchange gains/(losses)	33	(482,174)	66,685	(256)
Result of indexation units		214	(22)	131
Income (loss) before taxes		(283,888)	96,744	382,360
Income (loss) tax expense	20	20,069	(102,386)	(61,789)
NET INCOME (LOSS) FOR THE PERIOD		(263,819)	(5,642)	320,571
Income (loss) attributable to owners of the parent		(281,114)	(19,076)	320,197
Income (loss) attributable to non-controlling interest		17,295	13,434	374
Net income (loss) for the period		(263,819)	(5,642)	320,571
EARNINGS PER SHARE				
Basic earnings (losses) per share (US\$)	34	(0.57613)	(0.04627)	0.94335
Diluted earnings (losses) per share (US\$)	34	(0.57613)	(0.04627)	0.94260

(*) The balances at December 31, 2012, include TAM S.A. and Subsidiaries from June 22, 2012, date of the business combination materialized. See Note 18.2

The accompanying Notes 1 to 41 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the period ended		
		2013	2012(*)	2011
		ThUS\$	ThUS\$	ThUS\$
NET INCOME (LOSS)		(263,819)	(5,642)	320,571
Components of other comprehensive income that will be reclassified to income before taxes				
Currency translation differences				
Gains (losses) on currency translation, before tax	33	(629,858)	19,170	(10,864)
Other comprehensive income, before taxes, currency translation differences		(629,858)	19,170	(10,864)
Cash flow hedges				
Gains (losses) on cash flow hedges before taxes	21	128,166	(2,510)	(40,368)
Other comprehensive income (losses), before taxes, cash flow hedges		128,166	(2,510)	(40,368)
Other components of other comprehensive income (loss), before taxes		(501,692)	16,660	(51,232)
Income tax relating to other comprehensive income that will be reclassified to income				
Income tax related to currency translation differences in other comprehensive income	20	—	(2,734)	1,846
Income tax related to cash flow hedges in other comprehensive income	20	(19,345)	(2,623)	6,862
Income taxes related to components of other comprehensive income that will be reclassified to income		(19,345)	(5,357)	8,708
Other comprehensive income (loss)		(521,037)	11,303	(42,524)
Total comprehensive income (loss)		(784,856)	5,661	278,047
Comprehensive income (loss) attributable to owners of the parent		(768,457)	(2,359)	277,631
Comprehensive income (loss) attributable to non-controlling interests		(16,399)	8,020	416
TOTAL COMPREHENSIVE INCOME (LOSS)		(784,856)	5,661	278,047

(*) The balances at December 31, 2012, include information of TAM S.A. and Subsidiaries from June 22, 2012, date of the business combination materialized.

The accompanying Notes 1 to 41 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES

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	Shares based payments reserve	Other sundry reserve	Total other sundry reserve	Retained earnings	Parent's ownership interest	Non-controlling interest	
ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$		
Equity as of January 1, 2013		1,501,018	(203)	3,574	(140,730)	5,574	2,666,682	2,535,100	1,076,136	5,112,051	108,634	5,220,685
Total increase (decrease) in equity												
Comprehensive income												
Gain (losses)	28	—	—	—	—	—	—	—	(281,114)	(281,114)	17,295	(263,819)
Other comprehensive income		—	—	(593,565)	106,222	—	—	(487,343)	—	(487,343)	(33,694)	(521,037)
Total comprehensive income		—	—	(593,565)	106,222	—	—	(487,343)	(281,114)	(768,457)	(16,399)	(784,856)
Transactions with shareholders												
Equity issuance	28-38	888,570	—	—	—	—	—	—	—	888,570	—	888,570
Increase (decrease) through transactions with treasury shares	28	(25)	25	—	—	—	—	—	—	—	—	—
Increase (decrease) through transfers and other changes, equity	28-38	(179)	—	—	—	15,437	(8,882)	6,555	281	6,657	(4,597)	2,060
Total transactions with shareholders		888,366	25	—	—	15,437	(8,882)	6,555	281	895,227	(4,597)	890,630
Closing balance as of December 31, 2013		2,389,384	(178)	(589,991)	(34,508)	21,011	2,657,800	2,054,312	795,303	5,238,821	87,638	5,326,459

The accompanying Notes 1 to 41 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to owners of the parent										Total equity
		Share capital	Treasury shares	Change in other reserves					Retained earnings	Parent's ownership interest	Non-controlling interest	
				Currency translation reserve	Cash flow hedging reserve	Shares based payments reserve	Other sundry reserve	Total other sundry reserve				
ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	
Equity as of January 1, 2012		473,907	—	(13,317)	(140,556)	7,130	1,362	(145,381)	1,116,798	1,445,324	12,048	1,457,372
Total increase (decrease) in equity												
Comprehensive income												
Gain (losses)	28	—	—	—	—	—	—	—	(19,076)	(19,076)	13,434	(5,642)
Other comprehensive income		—	—	16,891	(174)	—	—	16,717	—	16,717	(5,414)	11,303
Total comprehensive income		—	—	16,891	(174)	—	—	16,717	(19,076)	(2,359)	8,020	5,661
Transactions with shareholders												
Equity issuance	28-38	1,030,621	—	—	—	—	2,665,692	2,665,692	—	3,696,313	—	3,696,313
Dividends	28	—	—	—	—	—	—	—	(21,749)	(21,749)	—	(21,749)
Increase (decrease) through transactions with treasury shares	28	—	(203)	—	—	—	—	—	—	(203)	—	(203)
Increase (decrease) through transfers and other changes, equity	28-38	(3,510)	—	—	—	(1,556)	(372)	(1,928)	163	(5,275)	88,566	83,291
Total transactions with shareholders		1,027,111	(203)	—	—	(1,556)	2,665,320	2,663,764	(21,586)	3,669,086	88,566	3,757,652
Closing balance as of December 31, 2012		1,501,018	(203)	3,574	(140,730)	5,574	2,666,682	2,535,100	1,076,136	5,112,051	108,634	5,220,685

The accompanying Notes 1 to 41 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to owners of the parent										Total equity	
		Share capital	Treasury shares	Change in other reserves						Retained earnings	Parent's ownership interest		Non-controlling interest
				Currency translation reserve	Cash flow hedging reserve	Shares based payments reserve	Other sundry reserve	Total other sundry reserve					
ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$		
Equity as of January 1, 2011		453,444	—	(4,257)	(107,050)	5,401	62	(105,844)	949,214	1,296,814	3,246	1,300,060	
Total increase (decrease) in equity													
Comprehensive income													
Gain (losses)	28	—	—	—	—	—	—	—	320,197	320,197	374	320,571	
Other comprehensive income		—	—	(9,060)	(33,506)	—	—	(42,566)	—	(42,566)	42	(42,524)	
Total comprehensive income		—	—	(9,060)	(33,506)	—	—	(42,566)	320,197	277,631	416	278,047	
Transactions with shareholders													
Equity issuance	28-38	23,135	—	—	—	—	—	—	—	23,135	—	23,135	
Dividends	28	—	—	—	—	—	—	—	(151,981)	(151,981)	—	(151,981)	
Increase (decrease) through transactions with treasury shares	28	—	—	—	—	—	—	—	—	—	—	—	
Increase (decrease) through transfers and other changes, equity	28-38	(2,672)	—	—	—	1,729	1,300	3,029	(632)	(275)	8,386	8,111	
Total transactions with shareholders		20,463	—	—	—	1,729	1,300	3,029	(152,613)	(129,121)	8,386	(120,735)	
Closing balance as of December 31, 2011		473,907	—	(13,317)	(140,556)	7,130	1,362	(145,381)	1,116,798	1,445,324	12,048	1,457,372	

The accompanying Notes 1 to 41 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT – METHOD

	Note	For the periods ended		
		2013	2012	2011
		ThUS\$	ThUS\$	ThUS\$
Cash flows from operating activities				
Cash collection from operating activities				
Proceeds from sales of goods and services		13,406,275	10,258,473	5,966,464
Other cash receipts from operating activities		4,638	57,763	52,012
Payments for operating activities				
Payments to suppliers for goods and services		(9,570,723)	(7,153,865)	(4,286,394)
Payments to and on behalf of employees		(2,405,315)	(1,938,769)	(883,297)
Other payments for operating activities		(31,215)	(19,325)	(84,000)
Interest received		11,310	52,986	9,762
Income taxes refunded (paid)		(83,033)	(3,018)	626
Other cash inflows (outflows)	6	76,761	(50,433)	(7,499)
Net cash flows from operating activities		<u>1,408,698</u>	<u>1,203,812</u>	<u>767,674</u>
Cash flows used in investing activities				
Cash flows arising from the loss of control of subsidiaries or other entities				
Cash flows used for acquisition of subsidiaries		(5,517)	(3,223)	(3,541)
Cash flows used in the purchase of non-controlling interest		(497)	—	—
Other cash receipts from sales of equity or debt instruments of other entities		270,485	386,379	9,201
Other payments to acquire equity or debt instruments of other entities		(440,801)	—	(72)
Amounts raised from sale of property, plant and equipment		225,196	73,429	93,787
Purchases of property, plant and equipment		(1,381,786)	(2,389,364)	(1,367,025)
Amounts raised from sale of intangible assets		—	—	6,189
Purchases of intangible assets		(43,484)	(59,166)	(27,615)
Payment from other long-term assets		22,144	38,035	—
Dividends received		—	351	89
Other cash inflows (outflows)	6	75,448	27,143	545
Net cash flow used in investing activities		<u>(1,278,812)</u>	<u>(1,926,416)</u>	<u>(1,241,105)</u>
Cash flows from (used in) financing activities				
Amounts raised from issuance of shares				
Payments to acquire or redeem the shares of the entity		888,949	83,512	23,153
Amounts raised from long-term loans		—	(203)	—
Amounts raised from short-term loans		2,043,518	2,185,663	969,252
Loans repayments		1,101,159	152,000	334,500
Payments of finance lease liabilities		(1,952,013)	(539,332)	(883,402)
Dividends paid		(423,105)	(292,931)	(59,990)
Interest paid		(29,694)	(124,827)	(192,133)
Other cash inflows (outflows)	6	(361,006)	(227,607)	(121,338)
Net cash flows from (used in) financing activities		<u>(62,013)</u>	<u>(231,079)</u>	<u>146,849</u>
Net increase (decrease) in cash and cash equivalents before effect of exchanges rate change		<u>1,335,681</u>	<u>282,592</u>	<u>(256,540)</u>
Effects of variation in the exchange rate on cash and cash equivalents		(1,041)	(6,736)	(105)
Net increase (decrease) in cash and cash equivalents		<u>1,334,640</u>	<u>275,856</u>	<u>(256,645)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6	<u>650,263</u>	<u>374,407</u>	<u>631,052</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6	<u>1,984,903</u>	<u>650,263</u>	<u>374,407</u>

The accompanying Notes 1 to 41 form an integral part of these interim consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

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”) and in Brazil BM & FBOVESPA S.A. – Stock Exchange, Mercadorias e Futuros, in the form of Brazilian Depositary Receipts (“BDRs”).

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.

On August 13, 2010, the Company reported to the Superintendency of Securities and Insurance, as an Essential Matter, that at this date the Company Costa Verde Aeronáutica S.A. and Inversiones Mineras del Cantábrico S.A. (the latter two, “Cueto Subsidiaries”), TAM S.A. (“TAM”), and TAM Empreendimentos e Participações (“TEP”) signed a non-binding Memorandum of Understanding (“MOU”) in which the companies agreed to proceed with their intention of carrying out their operations jointly under one parent company, to be named LATAM Airlines Group S.A. (“LATAM”). The proposed affiliation would be within the world’s 10 largest airline groups, providing transport services for passengers and cargo to more than 115 destinations in 23 countries, operating with a fleet of over 300 aircraft, with over 50,000 employees. Both airlines would continue operating independently with their current operating licenses and brands. On October 20, 2010, the Company and TAM announced that the operating subsidiaries of TAM had presented the structure of the transaction to the Brazilian Civil Aviation Agency (“ANAC”), which was approved by this agency on March 1, 2011.

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

On September 21, 2011, the Court of Defense of Free Competition (“TDLC”) approved the merger between the Company and TAM, establishing 14 mitigation measures. On October 3, 2011, the Company and TAM filed an appeal to the Supreme Court objecting to certain mitigation measures. On April 5, 2012, the Supreme Court confirmed the TDLC resolution rejecting the appeal filed by both companies.

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On December 21, 2011, the Board of the Company cited a special meeting of shareholders, carried out on November 11, 2011, in which their shareholders approved, among others, the following matters:

- (a) The merger of the Company with Sister Holdco S.A. and Holdco II S.A. companies (the “Absorbed Companies”), two companies specially constituted for the purpose of the association between the Company and TAM;
- (b) The change of Company name and the rest of the transactions contemplated in the subscribed contracts.
- (c) The increase in capital by US\$ 1,465,372,970.09 by issuing 147,355,882 common shares without par value of which:
 - (i) US\$ 1,417,639,617.60 through the issuance of 142,555,882 shares, which would be intended to be exchanged for shares of the Absorbed Companies as a result of the proposed merger, at a rate of 0.9 new shares of the Company for each share that is fully subscribed and paid for each of the Absorbed Companies, and that belongs to shareholders other than the Company’s. The shares that the Company holds in the acquired companies at the time of the merger, shall have no effect; and
 - (ii) US\$ 47,733,352.49 through the issuance of 4,800,000 shares, which would go towards compensation plans for employees of the Company and its Subsidiaries, as provided in Article 24 of the Corporations Law (Note 38 (a.1)).

The effectiveness of these agreements was subject to compliance with the conditions established in the extraordinary shareholders’ meeting.

On May 10, 2012, the Company and Holdco II initiated the exchange offer of TAM shares. Having complied with the conditions for declaring the exchange offer successful and having received 95.9% of the total shares of TAM in circulation, on June 22, 2012, the Company and the Absorbed Companies granted the execution deed of Merger, through which the shares of the Absorbed Companies were exchanged for shares of the Company, as effected according to that described above. On that same date the change of the Company’s name to “LATAM Airlines Group S.A.” became effective. The execution deed was rectified by instrument dated July 10, 2012.

On September 4, 2012 the Board of the Company cited a special meeting of shareholders, carried out on August 3, 2012 in which their shareholders approved, among others, the following matters:

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- (a) Total revocation of the Board and election of the new Board of the Company.
- (b) Approval that the remaining 7,436,816 LATAM shares, out of the total 142,555,882 shares issued under the authorization of the Extraordinary Shareholders' Meeting held on December 21, 2011, and that were not to be exchanged for shares of the Sister Holdco S.A. and Holdco II S.A., would be defined to be offered preferably to LATAM shareholders under Article 25 of the Corporations Law and that the unsubscribed balance would be offered and placed on the market in general.
- (c) Authorization of the Board of the Company to agree and proceed with the broadest powers, the terms of the issue and placement of the referred remaining shares and delegation to the Board of the Company the authority to determine, fix and agree freely and with broadest powers the placement price of the shares in accordance with the second paragraph of Article 28 of the Corporate Regulations.
- (d) Delegation to the Board of the Company the authority to determine, fix and agree freely and with the broadest powers the placement price of 4,800,000 shares defined under the Extraordinary Shareholders meeting dated December 21, 2011 to the compensation in terms of Article 24 of the Corporations Law, in accordance with the second paragraph of Article 28 of the Corporations Regulations, and determine the terms and conditions applicable to the latter.

The placement of the shares referred to in paragraph (b) above was approved by the Superintendency of Securities and Insurance, on December 11, 2012. On December 20, 2012, the Board of Directors agreed to start, from December 21, 2012, at the period of preferred option of those shares and proceeded to fix the price of placement of them, all of which was reported to the Superintendency of Securities and Insurance by Essential Matter on the same date. At the end of the period of first refusal, that is, as of January 19, 2013, there were 6,857,190 shares remaining subscribed and paid, leaving a balance of 579,626 shares to be subscribed. This balance was auctioned on the Santiago Stock Exchange—Stock Exchange dated January 23, 2013 at a value of CLP\$ 11,921 per share.

On June 11, 2013, the Company held an extraordinary shareholders' meeting, which had been called by the board on April 30, 2013, at this meeting the shareholders adopted the following resolutions:

- 1) To increase the company's capital by the sum of ThUS\$ 1.000.000 through the issuance of 63,500,000 shares, that is, from the sum of US\$ 1,652,896,812.43, represented by 488,347,819 shares, all of one single series and with no par value, to the sum of US\$ 2,652,896,812.43, represented by 551,847,819 shares, all of one single series and with no par value.
- 2) To set aside 1,500,000 new shares from the aforementioned issuance, to be used for a compensation plan for executives at LATAM and its subsidiaries, as provided in Article 24 of the Corporations Law (Note 38 (a.2)).

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- 3) To empower the Board, acting freely and within the broadest faculties, to determine, fix, and agree the price, manner, time, procedure, and conditions for placing the aforementioned shares.
- 4) To empower the Board to proceed to issue the shares related with the capital increase; to enact all formal procedures necessary for said shares to be inscribed and floated; to act on behalf of the Company against all types of authorities, bodies, or persons related to the securities market; to determine all matters relating to the options that may form part of the compensation plans; to grant whatsoever powers may be necessary or desirable in order to implement all or part of the above; and, in general, to resolve all related matters approved at this Meeting.
- 5) To amend the articles of the Corporate Statutes that refer to equity in order to adjust them to the aforementioned modifications.
- 6) To delegate on the Board, for a five year period starting on December 21, 2011, the power to fix the new price of placement of the 4,800,000 shares destined for compensation plans, as provided in Article 24 of the Corporations Law, in conformity with the Extraordinary Shareholders' Meeting held on December 21, 2011, as modified at the Extraordinary Shareholders' Meeting held on September 4, 2012, and to amend and resolve the terms and conditions applicable thereto.
- 7) To empower the Board to adopt such further agreements as may be necessary in order to carry out the aforementioned matters.

On June 20, 2013, was presented to the Superintendency of Securities and Insurance a request for the inscription of 63,500,000 mentioned above. On July 22, 2013 the Superintendency of Securities and Insurance remitted the Company providing comments for said presentation by Deed No. 16141. The Company replied to these submissions on October 16, 2013. Finally, on November 11, 2013, the Superintendency of Securities and Insurance issued the certificate that approved the inscription of that issuance under the number 987. On November 20, 2013, began the preferential subscription period of the 62,000,000 shares not destined for the above compensation plans, settling the price that these shares would be offered to shareholders in US\$ 15,17. On December 19, 2013, ended the preferential subscription period, have been subscribed and paid the total of 51,685,128 shares and collected the equivalent of US\$ 784 million (Note 40(a)).

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, and the Federal Republic of Brazil and the Comissão de Valores Mobiliários ("CVM") of that country, as it pertains to the issuance of BDRs.

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

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The majority shareholder of the Company is the Cueto Group, which through Costa Verde Aeronáutica S.A., Inversiones Nueva Costa Verde Aeronáutica Limitada, Costa Verde Aeronáutica SpA, Inversiones Priesca Dos y Cía. Ltda., Inversiones Caravia Dos y Cía. Ltda., Inversiones El Fano Dos y Cía. Ltda., Inversiones La Espada Dos S.A., Inversiones Puerto Claro Dos Limitada e Inversiones Mineras del Cantábrico S.A. owns 25.50% 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 December 31, 2013, the Company had a total of 1,588 registered shareholders. At that date approximately 7.91% of the Company's share capital was in the form of ADRs and approximately 0.73% in the form of BDRs.

For the year ended December 31, 2013, the Company had an average of 52,919 employees, ending this period with a total of 52,997 employees, spread over 9,908 Administrative employees, 6,925 in Maintenance, 17,054 in Operations, 9,339 in Cabin Crew, 4,091 in Controls Crew, and 5,680 in Sales.

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

a) As of December 31, 2013

Tax No.	Company	Country of origin	Functional Currency	Participation rate As of December 31, 2013			Statement of financial position As of December 31, 2013			Net Income As of December 31, 2013
				Direct ownership interest	Indirect ownership interest	Total ownership interest	Assets	Liabilities	Equity	Gain (loss)
				%	%	%	ThUS\$	ThUS\$	ThUS\$	ThUS\$
96.518.860-6	Lantours Division Servicios									
	Terrestres S.A. and Subsidiaries	Chile	US\$	99.9900	0.0100	100.0000	2,722	2,210	512	787
96.763.900-1	Inmobiliaria Aeronáutica S.A.	Chile	US\$	99.0100	0.9900	100.0000	38,553	12,124	26,429	1,231
96.969.680-0	Lan Pax Group S.A. and Subsidiaries (1)	Chile	US\$	99.8361	0.1639	100.0000	641,589	901,851	(246,521)	(104,966)
Foreign	Lan Perú S.A.	Peru	US\$	49.0000	21.0000	70.0000	263,516	252,109	11,407	3,755
Foreign	Lan Chile Investments Limited and Subsidiaries (1)	Cayman Islands	US\$	99.9900	0.0100	100.0000	4,419	5,248	(829)	(1)
93.383.000-4	Lan Cargo S.A.	Chile	US\$	99.8939	0.0041	99.8980	772,640	413,527	359,113	3,685
Foreign	Connecta Corporation	U. S. A	US\$	0.0000	100.0000	100.0000	9	2,171	(2,162)	(356)
Foreign	Prime Airport Services Inc. and Subsidiary (1)	U. S. A	US\$	0.0000	100.0000	100.0000	13,528	18,412	(4,884)	(78)
96.951.280-7	Transporte Aéreo S.A.	Chile	US\$	0.0000	100.0000	100.0000	359,693	120,399	239,294	(4,129)
96.634.020-7	Ediciones Ladeco América S.A.	Chile	CLP	0.0000	100.0000	100.0000	—	560	(560)	—
Foreign	Aircraft International Leasing Limited	U. S. A	US\$	0.0000	100.0000	100.0000	—	2,805	(2,805)	(5)
96.631.520-2	Fast Air Almacenes de Carga S.A.	Chile	CLP	0.0000	100.0000	100.0000	10,675	3,684	6,991	1,802
96.631.410-9	Ladeco Cargo S.A.	Chile	CLP	0.0000	100.0000	100.0000	381	13	368	(2)
Foreign	Laser Cargo S.R.L.	Argentina	ARS	0.0000	100.0000	100.0000	52	201	(149)	(34)
Foreign	Lan Cargo Overseas Limited and Subsidiaries (1)	Bahamas	US\$	0.0000	100.0000	100.0000	354,250	256,109	96,817	111,043
96.969.690-8	Lan Cargo Inversiones S.A. and Subsidiary (1)	Chile	CLP	0.0000	100.0000	100.0000	39,419	48,630	(9,937)	(1,246)
96.575.810-0	Inversiones Lan S.A. and Subsidiaries (1)	Chile	CLP	99.7100	0.0000	99.7100	15,362	8,933	6,421	517
Foreign	TAM S.A. and Subsidiaries (1) (2)	Brazil	BRL	63.0901	36.9099	100.0000	8,695,458	7,983,671	617,035	(458,475)

- (1) The Equity reported corresponds to Equity attributable to owners of the parent, does not include Non-controlling interest.
- (2) The indirect participation percentage over TAM S.A. and Subsidiaries comes from Holdco I S.A., entity for which LATAM Airlines Group S.A. holds a 99.9983% participation.

LATAM Airlines Group S.A. owns 226 voting shares of Holdco I S.A., equivalent to 19.42% of total voting shares of that company.

During 2013 LATAM Airlines Group S.A. made increase of capital in TAM S.A. for a total of ThUS\$1,650,000.

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b) As of December 31, 2012

Tax No.	Company	Country of origin	Functional Currency	Participation rate As of December 31, 2012			Statement of financial position As of December 31, 2012			Net Income As of December 31, 2012
				Direct ownership interest	Indirect ownership interest	Total ownership interest	Assets	Liabilities	Equity	Gain (loss)
				%	%	%	ThUS\$	ThUS\$	ThUS\$	ThUS\$
96.518.860-6	Lantours Division Servicios									
	Terrestres S.A. And Subsidiaries	Chile	US\$	99.9900	0.0100	100.0000	2,678	2,153	525	1,300
96.763.900-1	Inmobiliaria Aeronáutica S.A.	Chile	US\$	99.0100	0.9900	100.0000	57,227	23,029	34,198	17,719
96.969.680-0	Lan Pax Group S.A. and Subsidiaries (1)	Chile	US\$	99.8361	0.1639	100.0000	522,408	637,851	(112,395)	(77,269)
Foreign	Lan Perú S.A.	Peru	US\$	49.0000	21.0000	70.0000	159,361	150,319	9,042	2,513
Foreign	Lan Chile Investments Limited and Subsidiaries (1)	Cayman Islands	US\$	99.9900	0.0100	100.0000	4,419	5,247	(828)	(10)
93.383.000-4	Lan Cargo S.A.	Chile	US\$	99.8939	0.0041	99.8980	727,091	371,663	355,428	(50,693)
Foreign	Connecta Corporation	U. S. A	US\$	0.0000	100.0000	100.0000	234	2,041	(1,807)	70
Foreign	Prime Airport Services Inc. and Subsidiary (1)	U. S. A	US\$	0.0000	100.0000	100.0000	24,678	29,484	(4,806)	1,174
96.951.280-7	Transporte Aéreo S.A.	Chile	US\$	0.0000	100.0000	100.0000	357,725	114,302	243,423	11,144
96.634.020-7	Ediciones Ladeco América S.A.	Chile	CLP	0.0000	100.0000	100.0000	—	612	(612)	—
Foreign	Aircraft International Leasing Limited	U. S. A	US\$	0.0000	100.0000	100.0000	—	2,799	(2,799)	(5)
96.631.520-2	Fast Air Almacenes de Carga S.A.	Chile	CLP	0.0000	100.0000	100.0000	9,708	1,553	8,155	2,067
96.631.410-9	Ladeco Cargo S.A.	Chile	CLP	0.0000	100.0000	100.0000	416	11	405	3
Foreign	Laser Cargo S.R.L.	Argentina	ARS	0.0000	100.0000	100.0000	70	228	(158)	(42)
Foreign	Lan Cargo Overseas Limited and Subsidiaries (1)	Bahamas	US\$	0.0000	100.0000	100.0000	364,482	397,611	(37,368)	(6,375)
96.969.690-8	Lan Cargo Inversiones S.A. and Subsidiary (1)	Chile	CLP	0.0000	100.0000	100.0000	57,154	64,905	(8,692)	(4,458)
96.575.810-0	Inversiones Lan S.A. and Subsidiaries (1)	Chile	CLP	99.7100	0.0000	99.7100	16,181	9,714	6,466	(112)
Foreign	TAM S.A. y Filiales (1) (2)	Brazil	BRL	63.0901	36.9099	100.0000	8,821,298	9,198,899	(480,632)	(75,195)

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

(2) The indirect participation percentage over TAM S.A. and Subsidiaries comes from Holdco I S.A., entity for which LATAM Airlines Group S.A. holds a 99.9983% participation.

LATAM Airlines Group S.A. owns 226 voting shares of Holdco I S.A., equivalent to 19.42% of total voting shares of that company.

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c) As of December 31, 2011

Tax No.	Company	Country of origin	Functional Currency	As of December 31, 2011			Statement of financial position As of December 31, 2011			Results for the period ended December 31, 2011
				Direct ownership interest	Indirect ownership interest	Total ownership interest	Assets	Liabilities	Equity	Gain (loss)
				%	%	%	ThUS\$	ThUS\$	ThUS\$	ThUS\$
96.518.860-6	Lantours Division de Servicios Terrestres S.A.	Chile	US\$	99.9900	0.0100	100.0000	2,534	1,749	785	860
96.763.900-1	Inmobiliaria Aeronáutica S.A.	Chile	US\$	99.0100	0.9900	100.0000	65,580	34,101	31,479	3,484
96.969.680-0	Lan Pax Group S.A. and Subsidiaries (1)	Chile	US\$	99.8361	0.1639	100.0000	464,789	502,284	(41,935)	(28,163)
Foreign	Lan Perú S.A.	Peru	US\$	49.0000	21.0000	70.0000	139,888	128,979	10,909	920
Foreign	Lan Chile Investments Limited and Subsidiaries (1)	Cayman Islands	US\$	99.9900	0.0100	100.0000	4,420	5,238	(818)	1,820
93.383.000-4	Lan Cargo S.A.	Chile	US\$	99.8939	0.0041	99.8980	765,829	343,799	422,030	57,140
Foreign	Connecta Corporation	U. S. A	US\$	0.0000	100.0000	100.0000	346	2,223	(1,877)	(109)
Foreign	Prime Airport Services Inc. and Subsidiary (1)	U. S. A	US\$	0.0000	100.0000	100.0000	9,965	15,945	(5,980)	(735)
96.951.280-7	Transporte Aéreo S.A.	Chile	US\$	0.0000	100.0000	100.0000	348,943	116,663	232,280	26,146
96.634.020-7	Ediciones Ladeco América S.A.	Chile	CLP	0.0000	100.0000	100.0000	—	566	(566)	—
Foreign	Aircraft International Leasing Limited	U. S. A	US\$	0.0000	100.0000	100.0000	—	2,794	(2,794)	(8)
96.631.520-2	Fast Air Almacenes de Carga S.A.	Chile	CLP	0.0000	100.0000	100.0000	24,692	11,372	13,320	1,998
96.631.410-9	Ladeco Cargo S.A.	Chile	CLP	0.0000	100.0000	100.0000	380	8	372	1
Foreign	Laser Cargo S.R.L.	Argentina	ARS	0.0000	100.0000	100.0000	82	216	(134)	(18)
Foreign	Lan Cargo Overseas Limited and Subsidiaries (1)	Bahamas	US\$	0.0000	100.0000	100.0000	162,002	189,614	(30,990)	9,037
96.969.690-8	Lan Cargo Inversiones S.A. and Subsidiary (1)	Chile	CLP	0.0000	100.0000	100.0000	67,194	69,671	(2,477)	3,070
96.575.810-0	Inversiones Lan S.A. and Subsidiaries (1)	Chile	CLP	99.7100	0.0000	99.7100	14,299	7,821	6,478	(347)

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

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Additionally, has proceeded to consolidate special purpose entities, denominated: JOL, destined to the aircraft financing and Chercán Leasing Limited, destined to the aircraft advance financing, as the Company has major risks and benefits associated to them according to standards issued by the Standing Interpretations Committee of the International Accounting Information: Consolidation—Special Purpose Entities (“SIC 12”) and private investment funds in which the parent company and subsidiaries are contributors.

All the entities controlled have been included in the consolidation.

Changes in the scope of consolidation between January 1, 2012 and December 31, 2013, are detailed below:

(1) Incorporation or acquisition of companies

- TAM S.A. and Subsidiaries became part of LATAM Airlines Group S.A. as of June 22, 2012 date on which merger was materialized with the companies Sister Holdco S.A. and Holdco II S.A. (see Note 18.2.(a)).
- Lantours Division II Land Services S.A. On November 22, 2012, by public deed in the Notary of Santiago of Mr. Patricio Raby Benavente, was incorporated LANTOURS Division II Land Services S.A., which is owned by 99.99% to LANTOURS Division Land Services S.A. and 0.01% Lan Investment S.A., motionless.
- On October 11, 2013, TAM S.A., under each contracts of sale of shares with Lan Cargo Overseas Limited, TADEF, Participação e Consultoria Empresarial Ltda. y Jochman Participações Ltda. acquired the 99.98% of the shares of Aerolinhas Brasileiras S.A. (ABSA).

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Preparation

The consolidated financial statements of LATAM Airlines Group S.A. are for the period ended December 31, 2013, and have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and IFRIC interpretations.

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

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

The comparative consolidated financial statements have been revised as a result of modifications made to the fair values calculated in the business combination with TAM S.A. and Subsidiaries, during the measurement period in accordance with IFRS 3, and correction of non-significant errors originated before the date of acquisition within TAM S.A. (Note 18.2.(c)). Additionally, in order to facilitate 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, 2013:

Standards and amendments	Mandatory application: Annual periods beginning on or after
Amendment to IAS 1: Presentation of financial statements Issued in June 2011. The main change in this amendment requires that items of Other Comprehensive Income are classified and grouped evaluating if they potentially will be reclassified to results in future periods.	07-01-2012
IAS 27: Separate financial statements Issued in May 2011, replaces IAS 27 (2008). The scope of this standard is restricted beginning with this change only for separate financial statements, as the aspects related to the definition of control and consolidation were removed and included in IFRS 10.	01/01/2013

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	Mandatory application: Annual periods beginning on or after
Standards and amendments	
Amendment IFRS 7: Financial instruments: Disclosures Issued in December 2011. Requires improvement of current disclosures over compensation of financial assets and liabilities, with the aim of increasing convergence between IFRS and USGAAP. These revelations are focused on quantitative information over the financial instruments recognized that offset in the Statement of Financial Position.	01/01/2013
IFRS 10: Consolidated financial statements Issued in May 2011, replaces SIC 12 “Consolidation of special purpose entities” and orientation on control and consolidation in IAS 27 “Consolidated Financial Statements”. Sets clarifications and new parameters for the definition of control, and the principles for the preparation of consolidated financial statements.	01/01/2013
IFRS 11: Joint arrangements Issued in May 2011, replaces IAS 31 “Interests in Joint Ventures” and SIC 13 “Jointly controlled entities”. Provides a more realistic reflection of joint arrangements by focusing on rights and obligations arising from the agreements rather than their legal form. Within its modifications include the elimination of the concept of jointly controlled assets and the possibility of proportional consolidation of entities under joint control.	01/01/2013
IFRS 12: Disclosures of interests in other entities Issued in May 2011, brings together in one standard all required disclosures in the financial statements related to investments in other entities, whether they are classified as subsidiaries, associates or joint ventures. Applicable for entities that hold investments in subsidiaries, joint ventures, and associates.	01/01/2013
IFRS 13: Fair value measurement Issued in May 2011, brings together in one standard the way to measure the fair value of assets and liabilities and disclosures required on it, and incorporates new concepts and explanations for measurement.	01/01/2013

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	Mandatory application: Annual periods beginning on or after
Standards and amendments	
IAS 19 Revised: Employee benefits Issued in June 2011, replaces IAS 19 (1998). This revised standard changes the recognition and measurement of costs for defined benefit plans and termination benefits. Essentially, this amendment eliminates the fluctuation band or “corridor” method, and stipulates that actuarial fluctuations over the period are recognized against Other Comprehensive Income. Additionally, it includes modifications to disclosures for all employee benefits.	01/01/2013
Improvements issued in May 2012	01/01/2013
IAS 1: Presentation of financial statements – Clarifies requirements for comparative information when an entity has a 3rd Statement of Financial Position column.	
IAS 16: Property plant and equipment—Clarifies that the parts and service equipment will be classified as Property, plant and equipment rather than inventory, as it meets the definition of Property, plant and equipment.	
IAS 32: Financial instrument: Presentation—Clarifies the treatment income tax distributions and related transaction costs.	
IAS 34 Interim financial reporting—Clarifies the disclosure requirements of segment assets and liabilities in interim periods, confirming the same requirements applicable to annual financial statements.	
Amendments to IFRS 10: Consolidated financial statements, IFRS 11: Joint Arrangements and IFRS 12: Disclosure of interests in other entities. Issued in June 2012. Clarifies the transitional provisions for IFRS 10, indicating that it is necessary to apply the first day of the annual period in adopting the rule.	01/01/2013

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

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(b) Accounting pronouncements effective implementation starting on January 1, 2014 and following:

	Mandatory application: Annual periods beginning on or after
Standards and amendments	
Amendment to IAS 32: Financial instruments: Presentation Issued in December 2011. Clarifies the requirements for off-setting financial assets and liabilities in the Statement of Financial Position. Specifically, that the right to compensation should be available at the reporting date and not depend on a future event. It also indicates that it must be legally binding upon both counterparties in the normal course of business, as well as in the case of default, insolvency or bankruptcy. Early adoption is permitted.	01/01/2014
IFRS 9: Financial instruments Issued in December 2009, this amendment modifies the classification and measurement of financial assets. It establishes two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity maintains it in order to obtain contractual cash flows and these cash flows represent capital and interest. This standard was subsequently modified in November 2010 to include the treatment and classification of financial liabilities. For liabilities, the standard carries forward the majority of the requirements established in IAS 39. These include accounting at amortized cost for most financial liabilities, with splitting of embedded derivatives. The principal change is that, where the fair value option is selected for financial liabilities, the part of the change in the fair value attributable to changes in own credit risk for the entity is recognized under other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. Early adoption is permitted.	Undetermined
Amendment to IAS 27: Separate financial statements and IFRS 10: Consolidated financial statements and IFRS 12: Disclosure of interests in other entities—Issued in October 2012. The modifications include the definition of an investment entity and introduce an exception to consolidate certain subsidiaries pertaining to investment entities. This amendment requires an entity to measure the investment of these subsidiaries at fair value through profit or loss according to IFRS 9 “Financial Instruments” in the consolidated and separate financial statements. The amendment also introduces new disclosure requirements on investment firms in IFRS 12 and IAS 27.	01/01/2014

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	Mandatory application: Annual periods beginning on or after
Standards and amendments	
Amendment to IAS 36: Impairment of assets Issued in May 2013 Modifies recoverable amount disclosures for non-financial assets in line with the requirements stipulated under IFRS 13. This amendment requires the disclosure of additional information on the recoverable amount of assets that show impairment if this amount is based on fair value minus costs of disposal. It also requests disclosure of items that include the discount rates used in measuring the recoverable amount determined using present value approaches. Early adoption is permitted.	01/01/2014 The Company has adopted early this amendment at December 31, 2013.
Amendment to IAS 39: Financial instruments: Recognition and measurement Issued in June 2013. This standard outlines requirements for the novation of derivatives, permitting continuation of hedge accounting, so as to prevent novations arising as a result of laws and regulations from affecting financial statements. For these purposes, it indicates that hedging instruments shall not be voided or terminated in the event of changes: (a) arising as a result of laws or regulations, if the parties to the hedging instrument agree that a central counterparty or an entity (or entities) act as a counterparty to provide central compensation replacing the original counterparty; (b) otherwise, as applicable, affecting the hedging instruments, limited to such changes as are necessary to conduct such a replacement of the counterparty. These changes include changes in contractual guarantee requirements, accounts receivable and accounts payable compensation rights, taxes, and encumbrances. Early adoption is permitted.	01/01/2014
IFRS 9 “Financial instruments” Issued in November 2013, the modifications include a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. Additionally, and unrelated to hedge accounting, this modification allows entities to opt for early adoption of the requirement to recognize changes in reasonable value attributable to changes in the credit risk of the entity itself in other comprehensive income (for financial liabilities designated under the fair value option). This modification may be applied without any requirement to adopt the rest of IFRS 9.	Undetermined
Amendment to IAS 19 “Employee Benefits” Issued in November 2013, this amendment applies to contributions by employees or third parties to defined benefits plans. The modifications seek to simplify accounting procedures for contributions that are independent of the number of years of service of the employees, such as employee contributions calculated as a fixed percentage of their salaries.	01/07/2014

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Standards and amendments

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Improvements to the International Financial Reporting Standards (2012)
Issued in December 2013.

01/07/2014

IFRS 2 “Share-based Payment” – The amendment clarifies the definitions of “vesting condition” and “market condition” and adds separate definitions of “performance condition” and “service condition”. This amendment must be applied prospectively for all transaction with share-based payments to vest on or after July 1, 2014. Early adoption is permitted.

IFRS 3 “Business Combinations”—The standard is amended to clarify that contingent consideration that is classified as financial instrument under the test described in IAS 32 “Financial instruments” shall be classed as a financial liability or equity. The standard is also amended to clarify that all non-equity contingent consideration, both financial and non-financial, shall be measured at fair value at each reporting date, with changes in value imputed to profit or loss.

Therefore, IFRS 9, IAS 37, and IAS 39 are also modified. The amendment is prospectively applicable for business combinations with an acquisition date on or after July 1, 2014. Early adoption is permitted so long as the amendments to IFRS 9 and IAS 37, also issued as part of the 2012 improvement plan, are also early adopted.

IFRS 8 “Operating Segments”—The standard is amended to include to disclose the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments that have been aggregated and the economic indicators that have been assessed in determining that the segments aggregated share similar economic characteristics.

The standard is also amended to require a reconciliation of the total of the reportable segments’ assets with the assets of the entity, when assets are reported by segment. Early adoption is permitted.

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Standards and amendments

Improvements to the International Financial Reporting Standards (2012)
Issued in December 2013.

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IFRS 13 “Fair Value Measurement”—When IFRS 13 was published, paragraphs B5.4.12 of IFRS 9 and GA79 of IAS 39 were consequently eliminated. This led to a doubt as to whether entities were no longer permitted to measure short term receivables and payables at invoice amounts if the effect of not discounting is immaterial. The IASB has modified the basis of conclusions of IFRS 13 to clarify that it had no intention of removing the capacity to measure short term receivables and payables at the invoice amount under such circumstances.

IAS 16, “Property, Plant and Equipment”, and IAS 38, “Intangible Assets”—Both of these standards are amended to clarify the treatment of the gross carrying amount and accumulated depreciation when for entities that apply the revaluation model. In these cases, the carrying amount of the asset is updated to the revalued amount, and this revaluation is split between carrying amount and accumulated depreciation in one of the following ways: 1) either the carrying amount is updated in a manner consistent with the revaluation of the carrying amount and accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after accounting for losses through accumulated impairment; 2) or accumulated depreciation is eliminated, against a charge to the gross carrying amount of the asset. Early adoption is permitted.

IAS 24, “Related Party Disclosures”—The standard is amended to include an entity providing key management personnel services to the reporting entity or the parent of the reporting entity as a related party of the reporting entity. The reporting entity is not obligated to disclose the compensation paid to the workers or administrators of the entity providing key management services, but is obligated to disclose the sums imputed to the reporting entity by the service provider entity for the key management personnel services provided. Early adoption is permitted.

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Standards and amendments

Mandatory
application:
Annual periods
beginning on or after

Improvements to the International Financial Reporting Standards (2012)
Issued in December 2013.

01/07/2014

IFRS 1 “First-time Adoption of International Financial Reporting Standards”—The amendment clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new IFRS permits early application for all applicable periods.

IFRS 3 “Business Combinations”—The standard is amended to clarify that IFRS 3 is not applicable to accounting procedures for the formation of a joint arrangement under IFRS 11. The amendment also clarifies that the exemption to inclusion only applies in the financial statements of the joint arrangement itself.

IFRS 13 “Fair Value Measurement”—The amendment clarifies that the scope of the portfolio exception defined in IFRS 13 includes all contracts accounted for within the scope of IAS 39 or IFRS 9, permitting the reporting entity to measure the fair value of a group of financial assets and liabilities at net value.

The amendment is mandatory for financial reporting periods starting on or after July 1, 2014. An entity must apply the amendments prospectively from the start of the first annual period in which IFRS 13 is applied.

IAS 40 “Investment Property”—The standard is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. IAS 40 provides guidelines to distinguish between investment properties and properties occupied by their owners. When financial information is prepared, the application guidelines for IFRS 3 must also be applied in order to determine whether or not an investment property is a business combination. The amendment is applicable for financial reporting periods starting on or after July 1, 2014, but may be applied to individual property acquisitions before that date, so long as the information necessary to apply the amendment is available.

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Interpretations

IFRIC 21: Levies

Issued in May 2013. A levy is defined as a disbursement of resources that include economic benefits imposed on an entity by a government in accordance with legislation in force. The interpretation indicates accounting procedures for the payment of a levy if it the liability falls within the scope of IAS 37. The issue relates to when a liability should be recognized for levies imposed by a public authority to operate in a specific market. The interpretation indicates that the liability should be recognized at the time of the event that generated the obligation, at which point payment was unavoidable. The obligating event may occur on a specific date or progressively over the course of time. Early adoption is permitted.

Mandatory
application:
Annual periods
beginning on or after

01/01/2014

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

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2.2. Consolidation

(a) Subsidiaries

Subsidiaries are all the entities (including special-purpose entities) over which the Company has the power to control the financial and operating policies, which are generally accompanied by a holding of more than half of the voting rights. In evaluating whether the Company controls another entity, the existence and effect of potential voting rights that are currently exercisable or convertible 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.

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 (or IFRS 3 for its acronym in Spanish —<http://www.normasinternacionalesdecontabilidad.es/nic/pdf/niif3.pdf>). According to IFRS 3, the cost of acquisition is the fair value of the assets acquired, the equity instruments issued and the liabilities incurred or assumed on the date of the business combination. The identifiable assets acquired and the liabilities and contingent liabilities assumed in a business combination are initially valued at their fair value on the date of acquisition, regardless of the extent of the non-controlling interests. The excess of the acquisition cost over the fair value of the Company's holding in the net identifiable assets acquired is shown as Goodwill. If the cost is less than the fair value of the net assets of the acquired subsidiary, the difference is recorded directly in the consolidated statement of income (Note 2.6). The transaction costs in a business combination are recognized in the consolidated income statement when they are incurred. Additionally, IFRS 3 allows adjustments to the initial accounting for a business combination within the period of twelve months from the acquisition date. In connection with the business combination process with TAM SA and Subsidiaries, this period of 12 months from the day June 22, 2012.

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

(b) Transactions with non-controlling interests

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

(c) 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).

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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 are 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.

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

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

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

2.3. Foreign currency transactions

(a) Presentation and functional currencies

The items included in the financial statements of each of the entities of 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.

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(c) Group entities

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

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

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

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

2.4. Property, plant and equipment

The land of 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.

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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

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.

The airport slots correspond to an administrative authorization to carry out an operation 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

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 explained in Note 18.2.(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.

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

The direct costs include the expenses of the personnel who develop the computer software and other costs directly associated.

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

2.6. Goodwill

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

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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 incurred.

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, loans and receivables and financial assets held to maturity. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at the time of initial recognition, which occurs on the date of transaction.

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

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

(b) Loans and 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).

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c) Financial assets held to maturity

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

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

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. Held to maturity investments are carried at amortized cost using the effective interest rate.

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

2.10. Derivative financial instruments and hedging activities

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

- (a) Hedge of the fair value of recognized assets (fair value hedge);
- (b) Hedge of an identified risk associated with a recognized liability or an expected highly-Probable transaction (cash-flow hedge), or

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(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)".

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(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.

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2.15. Trade and other accounts payables

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

2.16. Interest-bearing loans

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

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

2.17. Deferred taxes

Deferred taxes are calculated on the temporary differences arising between the tax bases of assets and liabilities and their book values. However, if the temporary differences arise from the initial recognition of a liability or an asset in a transaction different from a business combination that at the time of the transaction does not affect the accounting result or the tax gain or loss, they are not booked. The deferred tax is determined using the tax rates (and laws) that have been enacted or substantially enacted at the 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 recognised when it is probable that there will be sufficient future tax earnings with which to compensate the temporary differences.

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

2.18. Employee benefits

(a) Personnel vacations

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

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(b) Share-based compensation

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

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

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

(d) Incentives

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

2.19. Provisions

Provisions are recognised when:

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

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

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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 in heading Other financial liabilities in the Statement of Financial Position.

(ii) Frequent flyer program

The Company currently has a frequent flyer program, whose objective is customer loyalty through the delivery of kilometers or points fly whenever the program 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) Interest income

Interest income is booked using the effective interest rate method.

(c) Dividend income

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

2.21. Leases

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

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

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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 on balance sheet aircraft, these maintenance cost are capitalized as Property, plant and equipment, while in the case of off balance sheet aircraft maintenance cost are periodically provided for and recognized through profit and loss 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, is request the recovery to the lessor. At the end of the contract period, the balance between paid reservations and conditions agreed with levels of maintain in delivering, be offset the parties 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's activities are exposed to different financial risks: (a) market risk, (b) credit risk, and (c) liquidity risk. The Company's global risk management program is focused on uncertainty in the financial markets and tries to minimize the potential adverse effects on the net margin. The Company uses derivatives to hedge part of these risks.

(a) Market risk

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

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

(i) Fuel-price risk:

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

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

During the period of 2013, the Company recognized gains of US\$ 19.03 million on fuel hedging. During the same period 2012, the Company recognized losses of US\$ 1.80 million and during the same period 2011 the Company recognized gains of US\$ 39.9 million for the same reason.

At December 31, 2013, the market value of its fuel positions amounted to US\$ 15.9 million (positive). At December 31, 2012, this market value was US\$ 9.9 million (negative).

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The following tables show the notional value of the purchase positions together with the derivatives contracted for the different periods:

Positions as of December 31, 2013 (*)

	Q114	Q214	Total
Volume (thousands of barrels)	4,093	1,851	5,944
Contracted future price (US\$ per barrel)(**)	110	109	110
Total (ThUS\$)	450,230	201,759	653,840
Percentage of the hedge of expected consumption value	56%	26%	41%

(*) The volume shown in the table considers all the hedging instruments (swaps and options) in Brent, WTI and JET.

(**) Weighted average between collars and options when activated. Correspond to equivalent in Brent.

Positions as of December 31, 2012 (*)

	Maturities						Total
	Q113	Q213	Q313	Q413	Q114	Q214	
Volume (thousands of barrels)	4,824	600	525	525	525	75	7,074
Contracted future price (US\$ per barrel)(**)	122	132	132	131	111	104	123
Total (ThUS\$)	588,528	79,200	69,300	68,775	58,275	7,800	870,102
Percentage of the hedge of expected consumption value	61%	7%	6%	6%	6%	1%	19%

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

(**) Weighted average between collars and options, when activated. Correspond to equivalent in Brent.

Given that current derivatives portfolio comprises mainly contracts based on Brent, a decision has been made to change the equivalence applied to this underlying index in order to calculate the agreed future value for different periods.

Sensitivity analysis

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

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

The following table shows the sensitivity analysis of the financial instruments according to reasonable changes in the fuel price and their effect on equity. The term of the projection was defined until the end of the last current fuel hedge contract, being the last business day of the second quarter of 2014.

The calculations were made considering a parallel movement of US\$ 5 per barrel in the curve of the WTI, BRENT and JET crude futures benchmark price at the end of December, 2013 and the end of December, 2012.

Benchmark price (US\$ per barrel)	Positions as of December 31, 2013 effect on equity (millions of US\$)	Positions as of December 31, 2012 effect on equity (millions of US\$)
+ 5	+24.57	+12.60
-5	-19.13	-11.30

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

Beginning with the third quarter of 2012 the company meets the required criteria of IAS 39, presented to apply hedge accounting in respect of fuel hedging TAM society. Until June 30, 2012, the Company did not apply hedge accounting to fuel hedging instruments of TAM. During the periods presented the Company has not recorded ineffectiveness within the income statement.

Given the fuel hedge structure during 2013, which considers a hedge-free portion, a vertical fall by 5 dollars in the WTI, BRENT and JET benchmark price (the monthly daily average), would have meant an impact of approximately US\$ 127.6 million in the cost of total fuel consumption for the same period. For 2013, a vertical rise by 5 dollars in the WTI, BRENT and JET benchmark price (the monthly daily average) would have meant an impact of approximately US\$ 118.5 million of increased fuel costs.

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(ii) Cash flow interest-rate risk:

The fluctuation in interest rates depends heavily on the state of the global economy. An improvement in long-term economic prospects moves long-term rates upward while a drop causes a decline through market effects. However, if we consider government intervention in periods of economic recession, it is usual to reduce interest rates to stimulate aggregate demand by making credit more accessible and increasing production (in the same way interest rates are raised in periods of economic expansion).

The present uncertainty about how the market and governments will react, and thus how interest rates will change, creates a risk related to the Company's debt at floating interest rates and its investments.

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

In order to reduce the risk of an eventual rise in interest rates, the Company has signed interest-rate swap and call option contracts. Currently a 70% of the debt is fixed to fluctuations in interest rate. Therefore the Company is exposed in one portion to the variations of London Inter-Bank Offer Rate ("LIBOR") of 30 days, 90 days, 180 days and 360 days. Other interest rates of less relevance are Brazilian Interbank Deposit Certificate ("ILC"), and the Interest Rate Term of Brazil ("TJLP").

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

Increase (decrease) futures curve in libor 3 months	Positions as of December 31, 2013 effect on equity (millions of US\$)	Positions as of December 31, 2012 effect on equity (millions of US\$)
+100 basis points	-29.70	-33.69
-100 basis points	+29.70	+33.69

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

Increase (decrease) futures curve in libor 3 months	Positions as of December 31, 2013 effect on equity (millions of US\$)	Positions as of December 31, 2012 effect on equity (millions of US\$)
+100 basis points	+23.35	+33.60
-100 basis points	-24.46	-35.50

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

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

(iii) Foreign exchange rate risk:

The functional currency used by the Company is the US dollar in terms of setting prices for its services, the composition of its statement of financial position and effects on its operating income.

The risk arises when items listed on the balance sheet are exposed to exchange rate variations, due to their being listed in a currency other than the functional currency.

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

In order to reduce the impacts on the Company's profit and loss caused by rises and falls in the R\$/US\$ exchange rate, during the last quarter of 2013 the Company conducted transactions to reduce the net US\$ liabilities held by TAM S.A.

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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 December 31, 2013 Millions of US\$
-10%	+197.76
+10%	-197.76

The Company sells most of its services in US dollars, prices equivalent to the US dollar and Brazilian real. A large part of its expenses are denominated in US dollars or equivalents to the US dollar, particularly fuel costs, aeronautic charges, aircraft leases, insurance and aircraft components and accessories. Remuneration expenses are denominated in local currencies.

The Company maintains its cargo and passenger international business tariffs in US dollars. There is a mix in the domestic markets as sales in Peru are in local currency but the prices are indexed to the US dollar. In domestic markets of Brazil, Chile, Argentina and Colombia the tariffs are in local currency without any kind of indexation. In the case of the domestic business in Ecuador, both tariffs and sales are in US dollar. The Company is therefore exposed to fluctuations in the different currencies, among which are: Brazilian real, Chilean peso, Argentine peso, Paraguayan guaraní, Mexican peso, Euro, Pound Sterling, Peruvian sol, Colombian peso, Australian dollar and New Zealand dollar. Of these currencies, the largest exposure is presented by Brazilian real and Chilean peso.

On the other hand, one of the sources of financing of the Company is the receipt of future flows relating to dividends and distributions of capital that the subsidiaries project distribute. These futures flows vary depending on the evolution of currency in compared to the US\$. Most exposure to future flows is presented in subsidiary TAM S.A. and the volatility in the exchange rate R\$/US\$. In the case of the subsidiary TAM S.A. the incomes are expressed a large proportion in R\$ and a large proportion of their costs are expressed in US\$.

For cover the inversion in the subsidiaries and reduce the volatility in the cash flow , the Company may acquire derivatives contracts to hedge variations in other currencies against the Company's functional currency, hedging exchange rate risk through currency forwards.

With the object of reduce the exposition to the futures monthly operating flows of all 2014, caused by eventual depreciation of the BRL and assure an economic margins, LATAM done the hedge by derivatives FX Forwards.

At December 31, 2013, the market value of its FX positions amounted to US\$ 32.06 million (positive), these derivatives were contracted during 2013 so at December 31, 2012, there was no this type of derivatives.

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The following table presents the notional amount of the contracted positions with the average prices agreed:

Positions at December 31, 2013					
	Q114	Q214	Q314	Q414	Total
Volume (million of US\$)	125	125	125	125	500
Forward average price agreed (US\$/R\$)	2.24	2.28	2.33	2.39	2.31
Total (million of R\$)	280	285	291	299	1,155

Sensitivity exchange rate LATAM

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

Because the changes in the value of current positions not represented changes in cash flows, but a variation in the exposure of market value, the current hedge positions have not impact on result (are registered as cash flow hedges according to IFRS, therefore, a variation in the exposure has an impact on the Company's net equity).

The following table presents the sensitivity of financial 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 fourth quarter of 2014:

Appreciation (depreciation) of R\$/US\$	Effect at December 31, 2014 Millions of US\$
-10%	-49.46
+10%	+49.46

Operations hedging of exchange rate Multiplus

The prices of frequent flyer points in the subsidiary Multiplus S.A. are denominated in US dollars. As functional currency is the Brazilian real, the sale of these points are assigned to variations in the exchange rate R\$/US\$. To decrease exposure, Multiplus S.A. contract rate collars.

The following table presents the notional amount and market value of derivatives exchange rate for each maturity date. The expiration date of the derivatives coincide with the probable date of collection points. The highly probable sale of the points are expected to be recognized in income after being exchanged, on average, six months later.

Foreign currency derivative Multiplus	Position at December 31, 2013 Maturity	
	2014	Total
Notional Value (Millions of US\$)	+18.00	+18.00
Market Value (Millions of US\$)	-1.65	-1.65

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The derivatives hedges of Multiplus expire in March 2014. Have not yet been executed new hedge contracts by the subsidiary Multiplus, because exposure to exchange rate R\$/US\$ has been managed by a change in the indexation of Multiplus costs, increase the cost base in US\$, which creates a natural hedge to reduce the exposure of cash flows to exchange rate R\$/US\$.

Sensitivity exchange rate Multiplus S.A.

If the Brazilian real appreciates or depreciates by 10% against the US dollar and all other variables are held constant, the financial results would have varied approximately US\$3.3 million/ US\$ 4.2 million, mainly as the effect of gains or losses from exchange rate in the time value of derivatives, which are recognized immediately through profit and loss.

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 time value. The intrinsic value is the percentage of cash flow cash covered, initially shown in equity and later transferred to income, while the hedge transaction is recorded in income. The time value corresponds to the ineffective portion of cash flow hedge and is recognized in the financial results of the Company (Note 21).

Due to the functional currency of TAM S.A. and Subsidiaries is the Brazilian real, the Company presents effects by 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, being these last currency 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 to appreciate or depreciate 10% exchange rate R\$/US\$:

Appreciation (depreciation) of R\$/US\$	Effect at December 31, 2013 Millions of US\$	Effect at December 31, 2012 Millions of US\$
-10%	+466.45	+407.00
+10%	-381.63	-332.98

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(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.

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

Credit quality of financial assets

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

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

(c) Liquidity risk

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

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

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

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

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Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2013

Class of Liability	Debtor Tax No.	Debtor	Debtor country	Creditor Tax No.	Creditor	Creditor country	Currency	Up to
								90 days
								ThUS\$
Loans to exporters	89.862.200-2	LATAM Airlines Group S.A.	Chile	97.032.000-8	BBVA	Chile	US\$	—
		LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US\$	231,533
		LATAM Airlines Group S.A.	Chile	97.030.000-7	ESTADO	Chile	US\$	—
		LATAM Airlines Group S.A.	Chile	76.100.458-1	BLADEX	Chile	US\$	100,934
Bank loans	89.862.200-2	LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US\$	877
		LATAM Airlines Group S.A.	Chile	97.023.000-9	CORPBANCA	Chile	UF	19,001
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK	Argentina	ARS\$	785
		LATAM Airlines Group S.A.	Chile	0-E	BBVA	Argentina	ARS\$	1,668
Guaranteed obligations	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	ING	U.S.A.	US\$	4,031
		LATAM Airlines Group S.A.	Chile	0-E	CREDIT AGRICOLE	France	US\$	11,862
		LATAM Airlines Group S.A.	Chile	0-E	PEFCO	U.S.A.	US\$	2,280
		LATAM Airlines Group S.A.	Chile	0-E	BNP PARIBAS	U.S.A.	US\$	11,325
		LATAM Airlines Group S.A.	Chile	0-E	WELLS FARGO	U.S.A.	US\$	55,235
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK	U.S.A.	US\$	11,540
		LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US\$	5,420
		LATAM Airlines Group S.A.	Chile	0-E	BTMU	U.S.A.	US\$	2,891
		LATAM Airlines Group S.A.	Chile	0-E	APPLE BANK	U.S.A.	US\$	1,418
		LATAM Airlines Group S.A.	Chile	0-E	US BANK	U.S.A.	US\$	18,699
		LATAM Airlines Group S.A.	Chile	0-E	DEUTSCHE BANK	U.S.A.	US\$	5,760
Other guaranteed obligations	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	DVB Bank SE	U.S.A.	US\$	8,178
Financial leases	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	ING	U.S.A.	US\$	5,028
		LATAM Airlines Group S.A.	Chile	0-E	CREDIT AGRICOLE	France	US\$	5,086
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK	U.S.A.	US\$	2,009
		LATAM Airlines Group S.A.	Chile	0-E	PEFCO	U.S.A.	US\$	17,566
Other loans	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	BNP PARIBAS	U.S.A.	US\$	7,984
		LATAM Airlines Group S.A.	Chile	0-E	BANC OF AMERICA	U.S.A.	US\$	703
		LATAM Airlines Group S.A.	Chile	0-E	BOEING	U.S.A.	US\$	—
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK (*)	U.S.A.	US\$	9,750
Hedging derivatives	89.862.200-2	LATAM Airlines Group S.A.	Chile	—	OTHERS	—	US\$	11,005
Non-hedging derivatives	89.862.200-2	LATAM Airlines Group S.A.	Chile	—	OTHERS	—	US\$	1,120
Total								553,688

Class of Liability	More than	More than	More than	More than	Total	Amortization	Effective rate	Nominal value	Nominal rate								
	90 days	one to	three to	five													
	to one year	three years	five years	years													
										ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	%	ThUS\$	%
Loans to exporters	30,100	—	—	—	30,100	At expiration	1.00%	30,000	1.00%								
	—	—	—	—	231,533	At expiration	1.63%	230,000	1.63%								
	40,188	—	—	—	40,188	At expiration	1.06%	40,000	1.06%								
	—	—	—	—	100,934	At expiration	1.87%	100,000	1.87%								
Bank loans	789	115,051	—	—	116,717	At expiration	3.19%	115,051	3.19%								
	55,465	139,603	84,505	—	298,574	Quarterly	4.85%	268,460	4.85%								
	15,861	—	—	—	16,646	Monthly	20.75%	15,335	20.75%								
	30,029	—	—	—	31,697	Monthly	23.78%	27,603	23.78%								
Guaranteed obligations	12,065	32,213	32,203	28,234	108,746	Quarterly	5.69%	91,543	5.01%								
	35,886	83,920	10,139	—	141,807	Quarterly	1.99%	140,312	1.99%								
	6,839	—	—	—	9,119	Quarterly	3.06%	8,964	2.73%								
	34,296	93,368	96,444	237,865	473,298	Quarterly	2.45%	418,254	2.31%								
	165,469	439,680	437,387	1,205,577	2,303,348	Quarterly	2.47%	2,099,776	1.76%								
	34,748	93,687	95,226	168,917	404,118	Quarterly	2.64%	372,191	2.04%								
	16,374	44,359	45,459	96,694	208,306	Quarterly	1.32%	200,599	0.78%								
	8,741	23,742	24,417	65,005	124,796	Quarterly	1.64%	118,070	1.04%								
	4,292	11,671	12,017	32,461	61,859	Quarterly	1.63%	58,502	1.04%								
	56,022	148,643	147,528	449,705	820,597	Quarterly	2.81%	703,992	2.81%								
	17,500	47,175	39,021	93,773	203,229	Quarterly	3.27%	173,036	3.27%								
Other guaranteed obligations	24,564	65,726	—	—	98,468	Quarterly	1.99%	95,292	1.99%								
Financial leases	15,205	39,703	9,324	—	69,260	Quarterly	3.23%	65,076	3.03%								
	14,599	31,434	24,647	17,415	93,181	Quarterly	1.21%	89,514	1.21%								
	6,028	16,075	16,075	8,038	48,225	Quarterly	6.38%	40,564	5.65%								
	52,678	140,462	115,934	23,211	349,851	Quarterly	5.35%	308,774	4.23%								
	24,056	64,890	59,475	7,139	163,544	Quarterly	4.65%	147,334	4.15%								
Other loans	2,099	5,628	—	—	8,430	Monthly	1.43%	7,899	1.43%								
	2,804	172,128	—	—	174,932	At expiration	1.75%	170,838	1.75%								
	20,100	131,865	209,810	209,684	581,209	Quarterly	6.00%	450,000	6.00%								
	30,495	59,829	16,561	614	118,504	—	—	112,819	—								
Non-hedging derivatives	3,203	1,618	—	—	5,941	—	—	5,562	—								
										760,495	2,002,470	1,476,172	2,644,332	7,437,157		6,705,360	

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

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Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2013

Class of Liability	Debtor Tax No.	Debtor	Debtor country	Creditor Tax No.	Creditor	Creditor country	Currency	Up to 90 days ThUS\$
Bank loans	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	CITIBANK	Brazil	US\$	2,410
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO DO BRAZIL S.A.	Brazil	US\$	9,803
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO ITAUBBA	Brazil	US\$	29,142
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO SAFRA	Brazil	US\$	43,211
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO SAFRA	Brazil	BRL	200
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO BRADESCO	Brazil	US\$	79,995
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO BRADESCO	Brazil	BRL	—
		TAM S.A. and Subsidiaries	Brazil	0-E	NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ	Holland	US\$	186
Obligation with the public	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	THE BANK OF NEW YORK	U.S.A.	US\$	34,010
Financial leases	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	AFS INVESTMENT IXLLC	U.S.A.	US\$	2,850
		TAM S.A. and Subsidiaries	Brazil	0-E	AIR CANADA	U.S.A.	US\$	1,325
		TAM S.A. and Subsidiaries	Brazil	0-E	AIRBUS FINANCIAL SERVICES	U.S.A.	US\$	3,546
		TAM S.A. and Subsidiaries	Brazil	0-E	AWAS	U.S.A.	US\$	5,651
		TAM S.A. and Subsidiaries	Brazil	0-E	BNP PARIBAS	U.S.A.	US\$	722
		TAM S.A. and Subsidiaries	Brazil	0-E	BNP PARIBAS	France	US\$	872
		TAM S.A. and Subsidiaries	Brazil	0-E	CITIBANK	England	US\$	7,059
		TAM S.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE-CIB	U.S.A.	US\$	4,971
		TAM S.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE-CIB	France	US\$	8,834
		TAM S.A. and Subsidiaries	Brazil	0-E	DVB BANK SE	Germany	US\$	3,386
		TAM S.A. and Subsidiaries	Brazil	0-E	DVB BANK SE	U.S.A.	US\$	214
		TAM S.A. and Subsidiaries	Brazil	0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A.	US\$	3,709
		TAM S.A. and Subsidiaries	Brazil	0-E	HSBC	France	US\$	1,611
		TAM S.A. and Subsidiaries	Brazil	0-E	KFWIPEX-BANK	Germany	US\$	4,463
		TAM S.A. and Subsidiaries	Brazil	0-E	NATIXIS	France	US\$	9,619
		TAM S.A. and Subsidiaries	Brazil	0-E	PKAIRFINANCE US, INC.	U.S.A.	US\$	3,491
		TAM S.A. and Subsidiaries	Brazil	0-E	WACAPOU LEASING S.A.	Luxembourg	US\$	632
		TAM S.A. and Subsidiaries	Brazil	0-E	WELLS FARGO BANK NORTHWEST N.A.	U.S.A.	US\$	1,781
		TAM S.A. and Subsidiaries	Brazil	0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	14,113
		TAM S.A. and Subsidiaries	Brazil	0-E	THE TORONTO-DOMINION BANK	U.S.A.	US\$	580
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO DE LAGE LANDEN Brazil S.A	Brazil	BRL	224
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO IBM S.A	Brazil	BRL	184
		TAM S.A. and Subsidiaries	Brazil	0-E	HP FINANCIAL SERVICE	Brazil	BRL	376
		TAM S.A. and Subsidiaries	Brazil	0-E	SOCIETE AIR FRANCE	France	EUR	847
Other loans	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	COMPANHIA BRASILEIRA DE MEIOS DE PAGAMENTO	Brazil	BRL	27,244
		TAM S.A. and Subsidiaries	Brazil	0-E	RECEITA FEDERAL DO BRASIL	Brazil	BRL	5,203
		TAM S.A. and Subsidiaries	Brazil	0-E	PROCURADORIA GERAL DA FAZENDA NACIONAL	Brazil	BRL	17
		TAM S.A. and Subsidiaries	Brazil	0-E	OTHERS	Brazil	US\$	496
					Total			<u>312,977</u>

Class of Liability	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Amortization	Effective rate %	Total Nominal rate ThUS\$	Nominal rate
Bank loans	44,071	—	—	—	46,481	At Expiration	3.76%	43,885	3.20%
	135,450	—	—	—	145,253	At Expiration	5.20%	137,849	4.66%
	50,737	—	—	—	79,879	At Expiration	6.31%	73,830	4.73%
	22,986	—	—	—	66,197	At Expiration	3.73%	62,357	2.94%
	447	52	—	—	699	Monthly	7.42%	684	7.42%
50,686	—	—	—	130,681	At Expiration	3.87%	122,341	3.29%	
44,986	—	—	—	44,986	At Expiration	10.63%	42,688	10.15%	
495	1,320	1,320	2,035	5,356	Monthly	6.01%	4,215	6.01%	
Obligation with the public	80,251	190,343	457,367	953,212	1,715,183	At Expiration	8.60%	1,100,000	8.41%
Financial leases	7,728	20,609	20,609	18,892	70,688	Monthly	1.25%	58,321	1.25%
	1,645	—	—	—	2,970	Monthly	0.00%	2,970	0.00%
	10,405	28,944	21,867	15,758	80,520	Monthly	1.42%	75,352	1.42%
	4,432	—	—	—	10,083	Monthly	0.00%	5,651	0.00%

	2,008	5,705	6,283	8,648	23,366	Quarterly	1.00%	22,082	1.00%
	2,397	6,387	6,394	10,385	26,435	Quarterly	0.86%	22,359	0.75%
	20,021	48,442	50,209	109,870	235,601	Quarterly	1.03%	222,590	0.90%
	14,177	57,595	12,297	14,308	103,348	Quarterly	1.40%	97,945	1.40%
	26,771	61,037	51,629	53,270	201,541	Semiannual/ Quarterly	0.75%	195,396	0.65%
	9,812	12,717	—	—	25,915	Quarterly	2.50%	25,000	2.50%
	621	1,243	284	—	2,362	Monthly	1.75%	2,279	1.75%
	48,803	—	—	—	52,512	Monthly	1.25%	51,978	1.25%
	4,480	12,148	12,461	37,705	68,405	Quarterly	1.45%	64,296	1.25%
	13,067	30,880	21,672	18,232	88,314	Monthly/ Quarterly	1.74%	82,718	1.74%
	20,117	58,917	62,444	124,621	275,718	Quarterly/ Semiannual	2.81%	246,128	2.78%
	10,137	43,583	19,001	38,965	115,177	Monthly	1.71%	106,403	1.71%
	1,679	3,943	3,209	14,585	24,048	Quarterly	2.00%	21,737	2.00%
	1,427	—	—	—	3,208	Monthly	1.25%	3,194	1.25%
	39,557	96,309	102,366	105,460	357,805	Quarterly	3.86%	334,095	3.78%
	1,673	4,534	4,645	6,619	18,051	Quarterly	0.57%	17,394	0.57%
	676	—	—	—	900	Monthly	10.38%	963	10.38%
	205	630	306	—	1,325	Monthly	10.58%	1,050	10.58%
	960	2,507	313	—	4,156	Monthly	9.90%	3,559	9.90%
	1,258	—	—	—	2,105	Monthly	6.82%	1,379	6.82%
Other loans	537	—	—	—	27,781	Monthly	2.38%	27,781	2.38%
	14,824	42,581	54,715	198,408	315,731	Monthly	8.99%	138,516	8.99%
	54	162	192	792	1,217	Monthly	8.99%	534	8.99%
	1,156	—	—	—	1,652	—	—	1,652	—
	<u>690,736</u>	<u>730,588</u>	<u>909,583</u>	<u>1,731,765</u>	<u>4,375,649</u>			<u>3,421,171</u>	

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Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2013

Class of Liability	Debtor Tax No.	Debtor	Debtor country	Creditor Tax No.	Creditor	Creditor country	Currency	Up to 90 days ThUS\$
Trade and other accounts payable		LATAM Airlines Group S.A. y Filiales	Others	—	Others	—	US\$	814,354
							US\$	1,104
							CLP	16,364
							BRL	207,758
							Others currencies	213,904
Accounts payable, non-current		LATAM Airlines Group S.A. y Filiales	Others	—	Others	—	US\$	—
Accounts payable to related parties currents		LATAM Airlines Group S.A. y Filiales	Others	96.847.880-K	Lufthansa Lan Technical Training S.A.	Chile	US\$	187
			Others	78.591.370-1	Bethia S.A. y Filiales	Chile	CLP	14
			Others	0-E	Inversora Aeronáutica Argentina	Argentina	US\$	304
					Total			1,253,989
					Total Consolidated			2,120,654

Class of Liability	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Amortization	Effective rate %	Nominal value ThUS\$	Nominal rate %
Trade and other accounts payable	7,245	—	—	—	821,599	—	—	821,599	—
	3,318	—	—	—	4,422	Quarterly	2.01%	4,141	2.01%
	6	—	—	—	16,370	—	—	16,370	—
	8	—	—	—	207,766	—	—	207,766	—
	615	—	—	—	214,519	—	—	214,519	—
Accounts payable, non-current	—	11,557	—	—	11,557	Quarterly	2.01%	11,400	2.01%
Accounts payable to related parties currents	—	—	—	—	187	—	—	187	—
	—	—	—	—	14	—	—	14	—
	—	—	—	—	304	—	—	304	—
	11,192	11,557	—	—	1,276,738			1,276,300	
	1,462,423	2,744,615	2,385,755	4,376,097	13,089,544			11,402,831	

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Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2012

Class of Liability	Debtor Tax No.	Debtor	Debtor country	Creditor Tax No.	Creditor	Creditor country	Currency	Up to 90 days ThUS\$
Loans to exporters	89.862.200-2	LATAM Airlines Group S.A.	Chile	97.004.000-5	BANCO DECHILE	Chile	US \$	30,331
		LATAM Airlines Group S.A.	Chile	97.006.000-6	BCI	Chile	US \$	35,102
		LATAM Airlines Group S.A.	Chile	76.645.030-K	ITAU	Chile	US \$	75,205
		LATAM Airlines Group S.A.	Chile	97.032.000-8	BBVA	Chile	US \$	102,770
Bank loans	89.862.200-2	LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US \$	181
		LATAM Airlines Group S.A.	Chile	97.030.000-7	ESTADO	Chile	US \$	—
Guaranteed obligations	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	ING	U.S.A.	US \$	4,025
		LATAM Airlines Group S.A.	Chile	0-E	CREDIT AGRICOLE	France	US \$	12,945
		LATAM Airlines Group S.A.	Chile	0-E	PEFCO	U.S.A.	US \$	4,209
		LATAM Airlines Group S.A.	Chile	0-E	BNP PARIBAS	U.S.A.	US \$	17,740
		LATAM Airlines Group S.A.	Chile	0-E	WELLS FARGO	U.S.A.	US \$	48,067
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK	U.S.A.	US \$	11,508
		LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US \$	5,405
		LATAM Airlines Group S.A.	Chile	0-E	BTMU	U.S.A.	US \$	2,876
		LATAM Airlines Group S.A.	Chile	0-E	APPLE BANK	U.S.A.	US \$	1,410
		LATAM Airlines Group S.A.	Chile	0-E	BANK OF AMERICA MERRILL LYNCH	U.S.A.	US \$	3,714
		LATAM Airlines Group S.A.	Chile	0-E	DEVELOPMENT BANK OF JAPAN	U.S.A.	US \$	2,309
		LATAM Airlines Group S.A.	Chile	0-E	DEUTSCHE BANK	U.S.A.	US \$	5,777
Financial leases	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	ING	U.S.A.	US \$	7,260
		LATAM Airlines Group S.A.	Chile	0-E	CREDIT AGRICOLE	France	US \$	4,992
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK	U.S.A.	US \$	2,009
		LATAM Airlines Group S.A.	Chile	0-E	S. CHARTERED	U.S.A.	US \$	1,849
Other loans	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	PEFCO	U.S.A.	US \$	15,604
		LATAM Airlines Group S.A.	Chile	0-E	BOEING	U.S.A.	US \$	596
Hedging derivatives	89.862.200-2	LATAM Airlines Group S.A.	Chile	—	OTHERS	—	US \$	3,539
Non-hedging derivatives	89.862.200-2	LATAM Airlines Group S.A.	Chile	—	OTHERS	—	US \$	10,393
Total								411,051

Class of Liability	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Amortization	Effective rate %	Nominal value ThUS\$	Nominal rate %
Loans to exporters	—	—	—	—	30,331	Semiannual	2.17%	30,000	2.17%
	—	—	—	—	35,102	Semiannual	1.70%	35,000	1.70%
	—	—	—	—	75,205	Quarterly	1.32%	75,000	1.32%
	—	—	—	—	102,770	Annual	1.83%	102,000	1.79%
Bank loans	195	214,373	—	—	214,749	—	2.57%	214,373	2.57%
	45,430	—	—	—	45,430	Semiannual	1.76%	44,848	1.74%
Guaranteed obligations	12,070	32,208	32,203	44,336	124,842	Quarterly	5.69%	102,649	5.01%
	34,730	36,019	6,757	—	90,451	Quarterly	3.42%	87,448	3.37%
	12,695	24,726	15,597	19,493	76,720	Quarterly	4.96%	66,148	4.41%
	53,435	144,037	146,463	152,574	514,249	Quarterly	4.15%	451,090	3.67%
	144,221	383,034	380,772	1,207,825	2,163,919	Quarterly	2.57%	1,959,463	1.76%
	34,628	93,287	94,699	217,034	451,156	Quarterly	2.71%	409,908	2.10%
	16,281	44,085	45,085	119,771	230,627	Quarterly	1.39%	220,449	0.85%
	8,680	23,567	24,190	77,456	136,769	Quarterly	1.73%	128,222	1.13%
	4,262	11,576	11,898	38,593	67,739	Quarterly	1.71%	63,480	1.11%
	11,194	30,188	30,703	111,059	186,858	Quarterly	1.97%	172,789	1.26%
Financial leases	6,958	18,759	19,079	68,662	115,767	Quarterly	1.98%	107,072	1.27%
	17,413	46,958	47,790	109,099	227,037	Quarterly	3.35%	190,000	3.35%
	17,848	38,443	26,596	1,865	92,012	Quarterly	3.71%	85,491	3.42%
	15,145	31,093	31,375	26,226	108,831	Quarterly	1.32%	103,684	1.29%
	6,028	16,075	16,075	16,075	56,262	Quarterly	6.38%	46,086	5.65%
	5,676	—	—	—	7,525	Quarterly	1.31%	7,462	1.31%
Other loans	46,825	124,870	122,783	51,501	361,583	Quarterly	5.29%	314,261	4.70%
	2,248	146,189	—	—	149,033	—	1.86%	146,189	1.86%
Hedging derivatives	10,733	29,473	15,214	—	58,959	Quarterly	2.08%	58,960	2.08%
	31,344	68,360	30,509	5,678	146,284	—	—	141,624	—
Non-hedging derivatives	3,557	5,926	—	—	10,718	—	—	10,300	—
<u>541,596</u> <u>1,563,246</u> <u>1,097,788</u> <u>2,267,247</u> <u>5,880,928</u> <u>5,373,996</u>									

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Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2012

Class of Liability	Debtor Tax No.	Debtor	Debtor country	Creditor Tax No.	Creditor	Creditor country	Currency	Up to 90 days ThUS\$
Bank loans	02.012.862/0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE	France	US\$	1,093
		TAM S.A. and Subsidiaries	Brazil	0-E	CITIBANK	Brazil	US\$	26,520
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO DO BRASIL S.A	Brazil	US\$	45,946
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO IBM S.A	Brazil	BRL	356
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO ITAU BBA	Brazil	US\$	52,628
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO SAFRA	Brazil	BRL/US\$	18,893
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO UNIBANCO	Brazil	BRL	72
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO BRADESCO	Brazil	BRL	—
		TAM S.A. and Subsidiaries	Brazil	0-E	NCM - NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ	Holland	US\$	231
Obligation with the public	02.012.862/0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	THE BANK OF NEW YORK	U.S.A.	US\$	27,009
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO DO BRASIL S.A	Brazil	BRL	42,222
Financial leases	02.012.862/0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	AFS INVESTMENT IX LLC	U.S.A.	US\$	3,482
		TAM S.A. and Subsidiaries	Brazil	0-E	AIR CANADA	U.S.A.	US\$	3,521
		TAM S.A. and Subsidiaries	Brazil	0-E	AIRBUS FINANCIAL SERVICES	U.S.A.	US\$	3,689
		TAM S.A. and Subsidiaries	Brazil	0-E	AWAS	U.S.A.	US\$	5,957
		TAM S.A. and Subsidiaries	Brazil	0-E	BNP PARIBAS	U.S.A.	US\$	775
		TAM S.A. and Subsidiaries	Brazil	0-E	BNP PARIBAS	France	US\$	2,938
		TAM S.A. and Subsidiaries	Brazil	0-E	CITIBANK N.A	England	US\$	13,119
		TAM S.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE - CIB	U.S.A.	US\$	5,392
		TAM S.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE - CIB	France	US\$	20,355
		TAM S.A. and Subsidiaries	Brazil	0-E	DVB BANK SE	Germany	US\$	3,482
		TAM S.A. and Subsidiaries	Brazil	0-E	DVB BANK SE	U.S.A.	US\$	509
		TAM S.A. and Subsidiaries	Brazil	0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A.	US\$	10,898
		TAM S.A. and Subsidiaries	Brazil	0-E	HSBC	France	US\$	1,601
		TAM S.A. and Subsidiaries	Brazil	0-E	KFW IPEX-BANK	Germany	US\$	4,568
		TAM S.A. and Subsidiaries	Brazil	0-E	NATIXIS	France	US\$	12,126
		TAM S.A. and Subsidiaries	Brazil	0-E	PK AIRFINANCE US, INC.	U.S.A.	US\$	3,618
		TAM S.A. and Subsidiaries	Brazil	0-E	WACAPOU LEASING S.A.	Luxembourg	US\$	1,340
		TAM S.A. and Subsidiaries	Brazil	0-E	WELLS FARGO BANK NORTHWEST N.A.	U.S.A.	US\$	1,836
		TAM S.A. and Subsidiaries	Brazil	0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	14,786
		TAM S.A. and Subsidiaries	Brazil	0-E	THE TORONTO-DOMINION BANK	U.S.A.	US\$	661
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO DE LAGE LANDEN BRASIL S.A	Brazil	BRL	493
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO IBM S.A	Brazil	BRL	604
		TAM S.A. and Subsidiaries	Brazil	0-E	CISLATINA ARRENDAMENTO MERCANTIL S.A	Brazil	BRL	41
		TAM S.A. and Subsidiaries	Brazil	0-E	HP FINANCIAL SERVICE	Brazil	BRL	177
		TAM S.A. and Subsidiaries	Brazil	0-E	SOCIETE AIR FRANCE	France	EUR	629
		TAM S.A. and Subsidiaries	Brazil	0-E	SOCIETE GENERALE LEASING S.A	Brazil	BRL	2,766
Other loans	02.012.862/0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	COMPANHIA BRASILEIRA DE MEIOS DE PAGAMENTO	Brazil	BRL	31,882
Hedging derivatives	02.012.862/0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	OTHERS	Brazil	US\$	4,008
Non-hedging derivatives	02.012.862/0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	OTHERS	Brazil	US\$	3,603
					Total			<u>373,826</u>

Class of Liability	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total ThUS\$	Amortization	Effective rate %	Nominal rate ThUS\$	Nominal rate %
Bank loans	64,533	—	—	—	65,626	Quarterly	2.81%	50,322	2.81%
	5,945	—	—	—	32,465	At Expiration	4.03%	29,986	4.03%
	118,821	—	—	—	164,767	At Expiration	5.35%	151,980	5.35%
	—	—	—	—	356	Semiannual	10.72%	92	10.72%
	129,638	—	—	—	182,266	At Expiration	5.65%	163,391	5.65%
	15,391	861	—	—	35,145	Monthly/At Expiration	7.69% / 4.01%	32,446	7.69% / 4.01%
	29	—	—	—	101	Monthly	8.94%	88	8.94%
	28,563	—	—	—	28,563	At Expiration	3.34%	27,484	3.34%
	495	1,320	1,320	2,695	6,061	Monthly	0.96%	4,608	0.95%

Obligation with the public	87,902	191,720	480,708	1,028,161	1,815,500	At Expiration	8.60%	1,100,000	8.41%
	271,490	—	—	—	313,712	Semiannual	8.96%	244,678	8.56%
Financial leases	7,728	20,609	20,609	29,196	81,624	Monthly	N/A	65,127	N/A
	9,350	—	—	—	12,871	Monthly	N/A	12,750	N/A
	10,105	28,056	28,642	23,687	94,179	Monthly	2.25%	87,033	2.25%
	14,958	9,418	—	—	30,333	Monthly	N/A	17,617	N/A
	1,919	5,445	5,983	11,867	25,989	Quarterly	1.50%	24,326	1.50%
	8,487	19,824	19,476	45,939	96,664	Quarterly	3.84%	87,986	3.84%
	44,695	90,296	87,083	241,694	476,887	Quarterly	3.69%	451,284	3.69%
	14,164	70,758	11,728	20,603	122,645	Quarterly	2.29%	114,810	2.29%
	50,931	132,830	124,825	184,734	513,675	Quarterly/Semiannual	2,01% / 0,82%	494,721	2,01% / 0,37%
	10,103	25,845	—	—	39,430	Quarterly	2.89%	37,500	2.89%
	1,456	2,918	768	—	5,651	Monthly	2.25%	5,402	2.25%
	20,745	51,339	—	—	82,982	Monthly	2.59%	81,086	2.59%
	4,427	12,000	12,302	43,975	74,305	Quarterly	1.70%	69,458	0.85%
	12,801	35,134	25,246	27,784	105,533	Monthly/Quarterly	2,11% / 2,21%	97,770	2,11% / 2,21%
	26,169	73,710	78,388	178,957	369,350	Quarterly/Semiannual	2,62% / 3,32%	316,425	2,62% / 3,32%
	9,773	27,406	38,907	48,681	128,385	Monthly	1.96%	117,092	1.96%
	1,835	4,332	3,569	15,599	26,675	Quarterly	2.42%	23,647	2.42%
	5,379	3,205	—	—	10,420	Monthly	1.98%	10,271	1.98%
	39,102	100,197	99,264	157,422	410,771	Quarterly	1.95%	380,025	1.95%
	1,654	4,481	4,589	8,956	20,341	Quarterly	0.88%	19,431	0.88%
	1,458	1,891	—	—	3,842	Monthly	7.51%	2,025	7.51%
	1,882	136	—	—	2,622	Monthly	10.58%	2,255	10.58%
	13	—	—	—	54	Monthly	5.31%	53	5.31%
	529	93	—	—	799	Monthly	9.08%	747	9.08%
	108	1,203	—	—	1,940	Monthly	6.82%	1,572	6.82%
	—	—	—	—	2,766	Monthly	0.00%	2,520	0.00%
Other loans	9,143	—	—	—	41,025	Monthly	2.20%	41,025	2.20%
Hedging derivatives	9,353	1,963	—	—	15,324	—	0.00%	15,324	0.00%
Non-hedging derivatives	6,903	4,529	—	—	15,035	—	0.00%	15,035	0.00%
	<u>1,047,977</u>	<u>921,519</u>	<u>1,043,407</u>	<u>2,069,950</u>	<u>5,456,679</u>			<u>4,399,392</u>	

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Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2012

Class of Liability	Debtor Tax No.	Debtor	Debtor country	Creditor Tax No.	Creditor	Creditor country	Currency	Up to 90 days ThUS\$		
Trade and other accounts payable	—	LATAM Airlines Group S.A. and Subsidiaries	Others	—	Others	—	US\$	606,885		
							CLP	5,761		
							BRL	420,407		
							BRL	29,758		
							BRL	5,389		
						Others currencies	198,968			
Accounts payable, non-current	—	LATAM Airlines Group S.A. and Subsidiaries	Others	—	Others	—	US\$	—		
							US\$	—		
							BRL	—		
							BRL	—		
Accounts payable to related parties currents	—	LATAM Airlines Group S.A. and Subsidiaries	Others	78.591.370-1	Bethia S.A. y Filiales Lufthansa Lan Technical Training S.A.	Chile	CLP	14		
								Others	96.847.880-K	Made in Everywhere Rep. Com.Distr.Ltda
			0-E	23						
									Total consolidated	2,052,319

Class of Liability	More than 90 days to one year	More than one to three years	More than three to five years	More than five years	Total	Amortization	Effective rate	Nominal value	Nominal rate
	ThUS\$	ThUS\$	ThUS\$	ThUS\$				ThUS\$	%
Trade and other accounts payable	82,049	—	—	—	688,934	—	—	688,934	—
	—	—	—	—	5,761	—	—	5,761	—
	31,190	—	—	—	451,597	—	—	451,597	—
	8,860	—	—	—	38,618	—	—	38,618	—
	14,480	—	—	—	19,869	Monthly	6.60%	19,668	6.60%
	—	—	—	—	198,968	—	—	198,968	—
Accounts payable, non-current	—	18,000	—	—	18,000	—	—	18,000	—
	—	15,994	—	—	15,994	Quarterly	2.06%	15,541	2.06%
	—	3,594	—	—	3,594	—	—	3,594	—
	—	39,251	44,872	142,914	227,037	Monthly	6.60%	207,089	6.60%
Accounts payable to related parties currents	—	—	—	—	14	—	—	—	—
	—	—	—	—	237	—	—	—	—
	—	—	—	—	23	—	—	—	—
	136,579	76,839	44,872	142,914	1,668,646	—	—	1,647,770	—
	1,726,152	2,561,604	2,186,067	4,480,111	13,006,253	—	—	11,421,158	—

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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 2012, the Company provided US\$ 189.9 million in derivative margin guarantees, for cash and stand-by letters of credit. At December 31, 2013, the Company had provided US\$ 94.3 million in guarantees for Cash and cash equivalent and stand-by letters of credit. The fall was due at i) maturity of hedge contracts, ii) acquire of new fuel purchase contracts and exchange rate R\$/US\$, and iii) changes in fuel prices, exchange rate R\$/US\$ and interest rates.

3.2. Capital risk management

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

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

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

The Company's strategy, which has not changed since 2007, has consisted of maintaining a leverage ratio of between 70% and 80% and an international credit rating of higher than BBB-(the minimum required for being considered investment grade). As a result of consolidation with TAM S.A. and Subsidiaries, the rating agency Fitch has issued on May 3, 2013 a new long-term rating for the Company of BB + with stable perspective (which is not an investment grade rating). Additionally, on June 10, 2013, S&P issued a long term rating of BB, with a positive outlook.

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The leverage ratios as of December 31, 2013, and December 31, 2012, were as follows:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Total financial loans	9,830,866	9,759,507
Last twelve months Operating lease payment x 8	3,528,616	3,390,664
Less:		
Cash and marketable securities	<u>(2,561,574)</u>	<u>(1,120,335)</u>
Total net adjusted debt	<u>10,797,908</u>	<u>12,029,836</u>
Net Equity	5,238,821	5,112,051
Cash flow hedging reserve	34,508	140,730
Adjusted equity	<u>5,273,329</u>	<u>5,252,781</u>
Total adjusted debt and equity	<u>16,071,237</u>	<u>17,282,617</u>
Adjusted leverage	67.2%	69.6%

See information related to financial covenants in Note 36 (a).

3.3. Estimates of fair value.

At December 31, 2013, 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),
- Bank certificate of deposit – CBD,
- Private investment funds and
- Financial letters

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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.

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

As of December 31, 2013

	Fair value	Fair value measurements using values considered as		
		Level I	Level II	Level III
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Assets				
Cash and cash equivalents	579,349	579,349	—	—
Short-term mutual funds	579,349	579,349	—	—
Other financial assets, current	625,086	546,116	78,970	—
Fair value of interest rate derivatives	6	—	6	—
Fair value of fuel derivatives	15,868	—	15,868	—
Fair value of foreign currency derivatives	32,058	—	32,058	—
Interest accrued since the last payment date of Currency Swap	483	—	483	—
Private investment funds	544,182	544,182	—	—
Certificate of deposit CDB	2,374	—	2,374	—
Financial letter	351	351	—	—
Domestic and foreign bonds	28,181	—	28,181	—
Other investments	1,583	1,583	—	—
Liabilities				
Other financial liabilities, current	70,506	—	70,506	—
Fair value of interest rate derivatives	32,070	—	32,070	—
Fair value of foreign currency derivatives	28,621	—	28,621	—
Interest accrued since the last payment date of Currency Swap	5,775	—	5,775	—
Interest rate derivatives not recognized as a hedge	4,040	—	4,040	—
Other financial liabilities, non current	56,397	—	56,397	—
Fair value of interest rate derivatives	54,906	—	54,906	—
Interest rate derivatives not recognized as a hedge	1,491	—	1,491	—

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As of December 31, 2012

	Fair value measurements using values considered as			
	Fair value ThUS\$	Level I ThUS\$	Level II ThUS\$	Level III ThUS\$
Assets				
Cash and cash equivalents	311,675	311,675	—	—
Short-term mutual funds	311,675	311,675	—	—
Other financial assets, current	474,176	319,145	155,031	—
Fair value of interest rate derivatives	6	—	6	—
Fair value of fuel derivatives	4,098	—	4,098	—
Private investment funds	317,598	317,598	—	—
Certificate of deposit CDB	77,316	—	77,316	—
Financial letter	73,611	—	73,611	—
Domestic and foreign bonds	748	748	—	—
Other investments	799	799	—	—
Other financial assets, non current	1,118	—	1,118	—
Fair value of fuel derivatives	1,023	—	1,023	—
Fair value of foreign currency derivatives	95	—	95	—
Liabilities				
Other financial liabilities, current	70,075	—	70,075	—
Interest accrued since the last payment date of Currency Swap	4,660	—	4,660	—
Fair value of interest rate derivatives	37,076	—	37,076	—
Fair value of fuel derivatives	10,502	—	10,502	—
Fair value of foreign currency derivatives	13,360	—	13,360	—
Interest rate derivatives not recognized as a hedge	4,477	—	4,477	—
Other financial liabilities, non current	116,555	—	116,555	—
Fair value of interest rate derivatives	104,547	—	104,547	—
Fair value of fuel derivatives	4,530	—	4,530	—
Fair value of foreign currency derivatives	1,963	—	1,963	—
Interest rate derivatives not recognized as a hedge	5,515	—	5,515	—

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Additionally, at December 31, 2013, 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 December 31, 2013		As of December 31, 2012	
	Book value	Fair value	Book value	Fair value
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalents	1,405,554	1,405,554	338,588	338,588
Cash on hand	6,017	6,017	6,835	6,835
Bank balance	229,935	229,935	147,373	147,373
Overnight	508,781	508,781	119,713	119,713
Time deposits	660,821	660,821	64,667	64,667
Other financial assets	84,858	84,858	162,367	162,367
Other financial assets	84,858	84,858	162,367	162,367
Trade and other accounts receivable current	1,633,094	1,633,094	1,417,531	1,417,531
Accounts receivable from related entities	628	628	15,187	15,187
Other financial assets, non current	65,289	65,289	72,977	72,977
Accounts receivable	100,775	100,775	50,612	50,612
Other financial liabilities, current	1,969,281	2,128,096	1,977,255	2,090,726
Trade and other accounts payables	1,557,736	1,557,736	1,689,990	1,689,990
Accounts payable to related entities	505	505	274	274
Other financial liabilities, non current	7,803,588	7,910,446	7,582,302	7,806,643
Accounts payable, non-current	922,887	922,887	1,085,601	1,085,601

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

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

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NOTE 4 - ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

Additionally, the management has applied judgment in determining that LATAM Airlines Group S.A. has control over TAM S.A. and Subsidiaries for accounting purposes and therefore has consolidated their financial statements. The above on the basis that LATAM issued their ordinary shares in exchange for all of the outstanding common and preferred shares of TAM (except those shareholders of TAM who did not accept exchange and which were subject of the squeeze-out described in Note 18.2.a), entitling LATAM to substantially all of the economic benefits that will be generated by the LATAM Group and also, consequently, exposing it to substantially all the risks incidental to the operations of TAM. This exchange aligns the economic interests of LATAM and all of its shareholders, including the TAM controlling shareholders, ensuring that the shareholders and directors of TAM will have no incentive to exercise their rights in a manner that is beneficial to TAM but detrimental to LATAM. Further, all significant actions required for the operation of the airlines require the affirmative vote of both LATAM and the TAM controlling shareholders.

In addition, LATAM is in process of integrating operations with TAM, and both entities will be operated as a single company. Within this, most critical airline activities will be managed in Brazil under the TAM CEO and globally by the LATAM CEO, who will be in charge of the overall operation of the LATAM Group and who will report to the LATAM board. Further, the LATAM CEO will evaluate performance of the LATAM Group executives and, together with the LATAM board, determine compensation. Although there are restrictions on voting interests that currently may be held by foreign investors under Brazilian law, LATAM believes that the economic substance of these arrangements satisfies the requirements established by the applicable accounting standards and that consolidation by LATAM of TAM's operations is appropriate.

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NOTE 5 - SEGMENTAL INFORMATION

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

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

The Company has determined that it has 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 Lan Pass and TAM 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 eleven millions of members, along with being a government entity with a separately business and not directly related to air transport.

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(a) For the period ended

	Air transportation At December 31,			Coalition and loyalty program Multiplus At December 31,		Eliminations At December 31,		Consolidated At December 31,		
	2013 ThUS\$	2012 ThUS\$	2011 ThUS\$	2013 ThUS\$	2012 ThUS\$	2013 ThUS\$	2012 ThUS\$	2013 ThUS\$	2012 ThUS\$	2011 ThUS\$
Income from ordinary activities from external customers	12,328,634	9,380,181	5,585,440	595,903	330,191	—	—	12,924,537	9,710,372	5,585,440
LAN passenger	4,731,296	4,529,099	4,008,910	—	—	—	—	4,731,296	4,529,099	4,008,910
TAM passenger	5,734,359	3,107,555	—	—	—	—	—	5,734,359	3,107,555	—
Freight	1,862,979	1,743,527	1,576,530	—	—	—	—	1,862,979	1,743,527	1,576,530
Income from ordinary activities from transactions with other operating segments	595,903	330,191	—	94,457	52,175	(690,360)	(382,366)	—	—	—
Income from ordinary activities from interest	—	—	—	—	—	—	—	—	—	—
Other operating income	272,640	207,273	132,804	68,925	26,696	—	(13,813)	341,565	220,156	132,804
Interest income	49,737	51,004	14,453	34,280	26,485	(11,189)	—	72,828	77,489	14,453
Interest expense	(472,171)	(294,448)	(139,077)	(1,542)	(150)	11,189	—	(462,524)	(294,598)	(139,077)
Total net interest expense	(422,434)	(243,444)	(124,624)	32,738	26,335	—	—	(389,696)	(217,109)	(124,624)

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(b) For the period ended

	Air transportation At December 31,			Coalition and loyalty program Multiplus At December 31,		Eliminations At December 31,		Consolidated At December 31,		
	2013 ThUS\$	2012 ThUS\$	2011 ThUS\$	2013 ThUS\$	2012 ThUS\$	2013 ThUS\$	2012 ThUS\$	2013 ThUS\$	2012 ThUS\$	2011 ThUS\$
Depreciation and amortization	(1,037,734)	(770,264)	(396,475)	(3,999)	(849)	—	—	(1,041,733)	(771,113)	(396,475)
Material non-cash items other than depreciation and amortization	(523,666)	33,497	1,583	59	(1,559)	—	—	(523,607)	31,938	1,583
Disposal of fixed assets and inventory losses	(33,987)	(21,990)	(6,008)	(123)	(1,597)	—	—	(34,110)	(23,587)	(6,008)
Doubtful accounts	(7,754)	(11,233)	7,716	217	95	—	—	(7,537)	(11,138)	7,716
Exchange differences	(482,139)	66,742	(256)	(35)	(57)	—	—	(482,174)	66,685	(256)
Result of indexation units	214	(22)	131	—	—	—	—	214	(22)	131
Segment profit	(389,040)	(81,222)	320,197	107,926	62,146	—	—	(281,114)	(19,076)	320,197
Participation of the entity in the income of associates	1,954	972	458	—	—	—	—	1,954	972	458
Expenses for income tax	72,155	(72,324)	(61,789)	(52,086)	(30,062)	—	—	20,069	(102,386)	(61,789)
Assets of segment	21,520,500	21,170,727	7,648,659	1,118,686	1,163,316	(8,040)	(7,704)	22,631,146	22,326,339	7,648,659
Investments in associates	3,572	1,619	991	3,024	2,138	—	—	6,596	3,757	991
Amount of non-current asset additions (*)	1,746,913	12,778,773	1,133,501	—	846,285	—	—	1,746,913	13,625,058	1,133,501
Property, plant and equipment	1,685,011	7,275,165	1,104,311	—	—	—	—	1,685,011	7,275,165	1,104,311
Intangibles other than goodwill	61,902	2,333,906	29,190	—	—	—	—	61,902	2,333,906	29,190
Goodwill	—	3,169,702	—	—	846,285	—	—	—	4,015,987	—
Segment liabilities	16,604,451	16,477,979	6,191,287	775,975	746,854	(75,739)	(119,179)	17,304,687	17,105,654	6,191,287
Purchase of non-monetary assets of segment	1,425,270	2,448,530	1,394,640	—	—	—	—	1,425,270	2,448,530	1,394,640

(*) Includes additions by business combination with TAM S.A. and Subsidiaries at December 31, 2012.

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

	For the period ended		
	At December 31,		
	2013	2012	2011
	ThUS\$	ThUS\$	ThUS\$
Peru	646,217	620,263	557,549
Argentina	950,595	890,167	616,625
U.S.A.	1,290,493	1,268,573	1,135,904
Europe	937,539	738,803	523,749
Colombia	387,999	366,664	367,642
Brazil	5,572,884	3,322,431	258,300
Ecuador	273,712	266,271	228,871
Chile	1,698,476	1,525,009	1,312,376
Asia Pacific and rest of Latin America	1,166,622	712,191	584,424
Income from ordinary activities	12,924,537	9,710,372	5,585,440
Other operating income	341,565	220,156	132,804

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.

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NOTE 6 - CASH AND CASH EQUIVALENTS

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Cash on hand	6,017	6,835
Bank balances	229,935	147,373
Overnight	<u>508,781</u>	<u>119,713</u>
Total Cash	<u>744,733</u>	<u>273,921</u>
Cash equivalents		
Time deposits	660,821	64,667
Mutual funds	<u>579,349</u>	<u>311,675</u>
Total cash equivalents	<u>1,240,170</u>	<u>376,342</u>
Total cash and cash equivalents	<u>1,984,903</u>	<u>650,263</u>

Cash and cash equivalents are denominated in the following currencies at December 31, 2013, and December 31, 2012:

<u>Currency</u>	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Argentine peso	59,018	70,381
Brazilian real	253,392	149,723
Chilean peso (*)	229,918	40,212
Colombian peso	28,132	28,758
Euro	16,571	15,502
US Dollar	1,200,828	230,776
Strong bolivar (**)	162,809	51,346
Other currencies	34,235	63,565
Total	<u>1,984,903</u>	<u>650,263</u>

(*) The Company entered into currency derivative contracts (forward) ThUS\$174,020 at December 31, 2013 (as of December 31, 2012, there were no forward currency derivatives), for conversion into dollars of investments in pesos.

(**) In Venezuela, effective 2003, the authorities decreed that all remittances abroad should be approved by the Currency Management Commission (CADIVI). Despite having free availability of bolivars in Venezuela, the Company has certain restrictions for freely remitting these funds outside Venezuela. At December 31, 2013, the restricted amount, expressed in dollars at the exchange rate of 6.30 VEF/US\$ is ThUS\$ 162,809 (ThUS\$ 51,346 at December 31, 2012).

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The Company has no significant non-cash transactions that must be disclosed.

Other inflows (outflows) of cash at December 31, 2013, December 31, 2012 and December 31, 2011 are detailed as follow:

	For the periods ended		
	December 31,		
	2013	2012	2011
	ThUS\$	ThUS\$	ThUS\$
Fuel hedge	11,413	14,237	51,611
Hedging margin guarantees	88,925	12,057	(40,519)
Guarantees	(5,001)	(13,974)	(1,609)
Commodities fuel derivatives	(4,041)	(20,479)	(7,987)
Bank commissions, taxes paid and other	(14,535)	(42,274)	(8,995)
Total Other inflows (outflows) Operation flow	<u>76,761</u>	<u>(50,433)</u>	<u>(7,499)</u>
Opening balance Cash and cash equivalents acquired companies	—	263,986	1,122
Amount paid by Squeeze Out TAM S.A. (*)	—	(167,589)	—
Certificate of bank deposits	75,448	(69,254)	—
Other	—	—	(577)
Total Other inflows (outflows) Investment flow	<u>75,448</u>	<u>27,143</u>	<u>545</u>
Aircraft Financing advances	24,650	(242,804)	163,754
Credit card loan manager	(8,965)	76,280	—
Settlement of derivative contracts	(61,897)	(50,827)	(9,219)
Breakage	(16,280)	(7,405)	—
Other	479	(6,323)	(7,686)
Total Other inflows (outflows) Financing flow	<u>(62,013)</u>	<u>(231,079)</u>	<u>146,849</u>

(*) See note 18.2 Business combination

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NOTE 7 - FINANCIAL INSTRUMENTS

7.1. Financial instruments by category

As of December 31, 2013

Assets

	Loans and receivables	Hedge derivatives	Held for trading	Initial designation as fair value through profit and loss	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Cash and cash equivalents	1,405,554	—	—	579,349	1,984,903
Other financial assets, current (*)	83,136	48,415	2,073	576,320	709,944
Trade and others accounts receivable, current	1,633,094	—	—	—	1,633,094
Accounts receivable from related entities, current	628	—	—	—	628
Other financial assets, non current (*)	64,783	—	506	—	65,289
Accounts receivable, non current	100,775	—	—	—	100,775
Total	3,287,970	48,415	2,579	1,155,669	4,494,633

Liabilities

	Other financial liabilities	Hedge derivatives	Held for trading	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other liabilities, current	1,969,281	66,466	4,040	2,039,787
Trade and others accounts payable, current	1,557,736	—	—	1,557,736
Accounts payable to related entities, current	505	—	—	505
Other financial liabilities, non current	7,803,588	54,906	1,491	7,859,985
Accounts payable, non current	922,887	—	—	922,887
Total	12,253,997	121,372	5,531	12,380,900

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

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At December 31, 2012

Assets

	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	338,588	—	—	311,675	650,263
Other financial assets, current (*)	162,367	4,104	74,359	395,713	636,543
Trade and others accounts receivable, current	1,417,531	—	—	—	1,417,531
Accounts receivable from related entities, current	15,187	—	—	—	15,187
Other financial assets, non current (*)	72,470	1,118	507	—	74,095
Accounts receivable, non current	50,612	—	—	—	50,612
Total	2,056,755	5,222	74,866	707,388	2,844,231

Liabilities

	Other financial liabilities	Hedge derivatives	Held for trading	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other liabilities, current	1,977,255	65,598	4,477	2,047,330
Trade and others accounts payable, current	1,689,990	—	—	1,689,990
Accounts payable to related entities, current	274	—	—	274
Other financial liabilities, non current	7,582,302	111,040	5,515	7,698,857
Accounts payable, non current	1,085,601	—	—	1,085,601
Total	12,335,422	176,638	9,992	12,522,052

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

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7.2. Financial instruments by currency

a) Assets

	As of December 31, 2013	As of December 31, 2012
	ThUS\$	ThUS\$
Cash and cash equivalents	1,984,903	650,263
Argentine peso	59,018	70,381
Brazilian real	253,392	149,723
Chilean peso	229,918	40,212
Colombian peso	28,132	28,758
Euro	16,571	15,502
US Dollar	1,200,828	230,776
Strong bolivar	162,809	51,346
Other currencies	34,235	63,565
Other financial assets (current and non current)	775,233	710,638
Argentine peso	1,007	131
Brazilian real	610,242	545,426
Chilean peso	27,555	648
Colombian peso	2,550	2,828
Euro	5,494	7,825
US Dollar	127,294	142,254
Strong bolivar	14	601
Other currencies	1,077	10,925
Trade and other accounts receivable, current	1,633,094	1,417,531
Argentine peso	27,343	33,049
Brazilian real	802,789	552,947
Chilean peso	82,880	132,869
Colombian peso	9,762	8,086
Euro	21,479	67,287
US Dollar	520,991	530,380
Strong bolivar	2,353	2,759
Other currencies (*)	165,497	90,154
Accounts receivable, non-current	100,775	50,612
Brazilian real	1,194	6,677
Chilean peso	8,624	9,564
US Dollar	90,755	34,123
Other currencies	202	248
Accounts receivable from related entities, current	628	15,187
Brazilian real	162	611
Chilean peso	466	14,565
US Dollar	—	11
Total assets	4,494,633	2,844,231
Argentine peso	87,368	103,561
Brazilian real	1,667,779	1,255,384
Chilean peso	349,443	197,858
Colombian peso	40,444	39,672
Euro	43,544	90,614
US Dollar	1,939,868	937,544
Strong bolivar	165,176	54,706
Other currencies	201,011	164,892

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	As of December 31, 2013	As of December 31, 2012
	<u>ThUS\$</u>	<u>ThUS\$</u>
(*) Other currencies	165,497	90,154
Australian Dollar	26,198	15,944
Chinese Yuan	22,887	4,173
Danish krone	6,899	10,477
Pound Sterling	15,256	10,159
Indian rupee	5,343	3,296
Japanese Yen	10,332	5,271
Norwegian kroner	14,970	666
Swiss Franc	6,645	1,394
Korean Won	16,929	3,362
New Taiwanese Dollar	9,670	478
Other currencies	30,368	34,934

b) Liabilities

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

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

	As of December 31, 2013	As of December 31, 2012
	ThUS\$	ThUS\$
Trade accounts receivable	1,552,489	1,360,666
Other accounts receivable	251,982	182,980
Total trade and other accounts receivable	1,804,471	1,543,646
Less: Allowance for impairment loss	(70,602)	(75,503)
Total net trade and accounts receivable	1,733,869	1,468,143
Less: non-current portion – accounts receivable	(100,775)	(50,612)
Trade and other accounts receivable, current	1,633,094	1,417,531

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 December 31, 2013	As of December 31, 2012
	ThUS\$	ThUS\$
Day	1,378,226	1,231,937
Expired from 1 to 90 days	72,417	33,160
Expired from 91 to 180 days	11,547	10,705
More than 180 days overdue (*)	19,697	9,361
Judicial, pre-judicial collection and protested documents	19,630	29,556
Debtor under pre-judicial collection process and portfolio sensitization	50,972	45,947
Total	1,552,489	1,360,666

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

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The receivable past due but not impaired at the end of each period is as follows:

	As of December 31, 2013	As of December 31, 2012
	<u>ThUS\$</u>	<u>ThUS\$</u>
Expired from 1 to 90 days	72,417	33,160
Expired from 91 to 180 days	11,547	10,705
More than 180 days overdue	<u>19,697</u>	<u>9,361</u>
Total	<u>103,661</u>	<u>53,226</u>

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

	As of December 31, 2013	As of December 31, 2012
	<u>ThUS\$</u>	<u>ThUS\$</u>
Judicial, pre-judicial collection and protested documents	19,630	29,556
Debtors under pre-judicial collection process and portfolio sensitization	<u>50,972</u>	<u>45,947</u>
Total	<u>70,602</u>	<u>75,503</u>

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Currency balances that make up the Trade and other accounts receivable and Accounts receivable, at December 31, 2013 and December 31, 2012, are as follows:

Currency	As of	As of
	December 31, 2013	December 31, 2012
	ThUS\$	ThUS\$
Argentine Peso	27,343	33,049
Brazilian Real	803,983	559,624
Chilean Peso	91,504	142,433
Colombian peso	9,762	8,086
Euro	21,479	67,287
US Dollar	611,746	564,503
Strong bolivar	2,353	2,759
Other currency (*)	165,699	90,402
Total	1,733,869	1,468,143
(*) Other currencies		
Australian Dollar	26,198	15,944
Chinese Yuan	22,887	4,173
Danish krone	6,899	10,477
Pound Sterling	15,256	10,159
Indian rupee	5,343	3,296
Japanese Yen	10,332	5,271
Norwegian kroner	14,970	666
Swiss Franc	6,645	1,394
Korean Won	16,929	3,362
New Taiwanese Dollar	9,670	478
Other currencies	30,570	35,182
Total	165,699	90,402

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.

Maturity	Impairment
Judicial and pre-judicial collection assets	100%
Over 1 year	100%
Between 6 and 12 months	50%

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The movement in the allowance for impairment loss of Trade and other accounts receivables between January 1, 2011 and December 31, 2013 is as follows:

	ThUS\$
As of January 1, 2011	(22,077)
Write-offs	4,060
(Increase) decrease in allowance	(2,508)
Closing balance as of December 31, 2011	<u>(20,525)</u>
As of January 1, 2012	(20,525)
Write-offs	3,312
(Increase) decrease in allowance	(2,857)
Addition for business combination	(54,511)
Conversion difference affiliates	(922)
Closing balance as of December 31, 2012	<u>(75,503)</u>
As of January 1, 2013	(75,503)
Write-offs	9,928
(Increase) decrease in allowance	(5,027)
Closing balance as of December 31, 2013	<u>(70,602)</u>

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

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

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

	As of December 31, 2013			As of December 31, 2012		
	Gross exposure according to balance	Gross impaired exposure	Exposure net of risk concentrations	Gross exposure according to balance	Gross Impaired exposure	Exposure net of risk concentrations
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Trade accounts receivable	1,552,489	(70,602)	1,481,887	1,360,666	(75,503)	1,285,163
Other accounts receivable	251,982	—	251,982	182,980	—	182,980

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.

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NOTE 9 - ACCOUNTS RECEIVABLE FROM/PAYABLE TO RELATED ENTITIES

The Accounts receivable from and payable to related entities as of December 31, 2013 and December 31, 2012, respectively, are as follows:

(a) Accounts Receivable

Tax No.	Related party	Relationship	Country of origin	As of	As of	Currency	Transaction deadlines	Nature of transaction
				December 31, 2013	December 31, 2012			
				ThUS\$	ThUS\$			
96.810.370-9	Inversiones Costa Verde Ltda. y CPA.	Controlling shareholder	Chile	—	1	CLP	30 to 45 days	Monetary
78.591.370-1	Bethia S.A. y Filiales	Others related parties	Chile	441	14,534	CLP	30 to 45 days	Monetary
79.773.440-1	Transportes San Felipe S.A.	Others related parties	Chile	1	—	CLP	30 to 45 days	Monetary
87.752.000-5	Granja Marina Tornagaleones S.A.	Others related parties	Chile	24	30	CLP	30 to 45 days	Monetary
Foreign	Made In Everywhere Repr. Com. Distr. Ltda.	Others related parties	Brazil	2	—	BRL	30 to 45 days	Monetary
Foreign	TAM Aviação Executiva e Taxi Aéreo S.A.	Others related parties	Brazil	14	14	BRL	30 to 45 days	Monetary
Foreign	Prisma Fidelidade S.A.	Others related parties	Brazil	146	597	BRL	30 to 45 days	Monetary
Foreign	Inversora Aeronáutica Argentina	Others related parties	Argentina	—	11	US\$	30 to 45 days	Monetary
Total current assets				628	15,187			

On December 28, 2012, Inmobiliaria Aeronáutica S.A. as seller and Sotraser S.A. (Subsidiary of Bethia S.A.) as purchaser, entered into an agreement to purchase the land called “Lot No. 12 of parcellation project Lo Echevers”. The value of the sale amounts to ThUS\$ 14,217. On December 31, 2013, this balance is paid.

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(b) Accounts payable

<u>Tax No.</u>	<u>Related party</u>	<u>Relationship</u>	<u>Country of origin</u>	<u>As of December 31, 2013</u> ThUS\$	<u>As of December 31, 2012</u> ThUS\$	<u>Currency</u>	<u>Transaction deadlines</u>	<u>Nature of transaction</u>
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	187	237	US\$	30 to 45 days	Monetary
78.591.370-1	Bethia S.A. y Filiales	Other related parties	Chile	14	14	CLP	30 to 45 days	Monetary
Foreign	Made In Everywhere Repr. Com. Distr. Ltda.	Other related parties	Brazil	—	23	BRL	30 to 45 days	Monetary
Foreign	Inversora Aeronáutica Argentina	Other related parties	Argentina	304	—	US\$	30 to 45 days	Monetary
	Total current liabilities			505	274			

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

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NOTE 10 - INVENTORIES

The Inventories December 31, 2013 and December 31, 2012 respectively, are detailed below:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Technical stock	190,202	145,665
Non-technical stock	40,826	31,153
Total production suppliers	<u>231,028</u>	<u>176,818</u>

The items included in this heading are spare parts and materials that will be used mainly in consumption in in-flight and maintenance services provided to the Company and third parties, which are valued at average cost, net of provision for obsolescence that as of December 31, 2013 amounts to ThUS\$ 1,757 (ThUS\$ 1,174 as of December 31, 2012). The resulting amounts do not exceed the respective net realizable values.

As of December 31, 2013, the Company recorded ThUS\$ 160,068 (ThUS\$ 127,989 as of December 31, 2012, ThUS\$ 41,213 as of December 31, 2011) within the income statement, mainly due to in-flight consumption and maintenance, which forms part of Cost of sales.

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NOTE 11 - TAX ASSETS

The composition of Tax assets is as follows:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Current		
Provisional monthly payments (advance)	61,570	76,173
Other credits recovery	<u>20,320</u>	<u>19,612</u>
Total current	<u>81,890</u>	<u>95,785</u>

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NOTE 12 - OTHER FINANCIAL ASSETS

The composition of Other financial assets is as follows:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Current		
(a) Other financial assets	661,529	632,439
(b) Hedging asset	48,415	4,104
Total current	<u>709,944</u>	<u>636,543</u>
Non-current		
(a) Other financial assets	65,289	72,977
(b) Hedging asset	—	1,118
Total non-current	<u>65,289</u>	<u>74,095</u>

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(a) Other financial assets

Other financial assets as of December 31, 2013 and December 31, 2012, respectively, are as follows:

	As of December 31, 2013 ThUS\$	As of December 31, 2012 ThUS\$
Current		
Private investment funds	544,182	317,598
Deposits in guarantee (aircraft)	51,879	33,012
Time deposits	28,181	—
Guarantees for margins of derivatives	28,157	121,889
Certificate of deposit (CBD)	2,374	77,316
Other investments	1,583	799
Domestic and foreign bonds	351	748
Financial letters	—	73,611
Other guarantees given	4,822	7,466
Total current	<u>661,529</u>	<u>632,439</u>
Non-current		
Deposits in guarantee (aircraft)	49,893	37,247
Deposits in guarantee (loan)	11,753	29,344
Other investments	506	507
Other guarantees given	3,137	5,879
Total non-current	<u>65,289</u>	<u>72,977</u>
Total other financial assets	<u>726,818</u>	<u>705,416</u>

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(b) Hedging assets

Hedging assets as of December 31, 2013 and December 31, 2012, are as follows:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Current		
Interest accrued since the last payment date of currency Swap	483	—
Fair value of interest rate derivatives	6	6
Fair value of foreign currency derivatives	32,058	—
Fair value of fuel price derivatives	15,868	4,098
Total current	<u>48,415</u>	<u>4,104</u>
Non-current		
Fair value of foreign currency derivatives	—	95
Fair value of fuel price derivatives	—	1,023
Total non-current	<u>—</u>	<u>1,118</u>
Total hedging asset	<u>48,415</u>	<u>5,222</u>

The foreign currency derivatives exchange is collars and cross currency swap.

The types of derivative hedging contracts maintained by the Company at the end of each period are presented in Note 21.

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NOTE 13 - OTHER NON-FINANCIAL ASSETS

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

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Current		
(a) Advance payments	56,392	45,826
(b) Other assets	<u>279,225</u>	<u>238,578</u>
Total current	<u>335,617</u>	<u>284,404</u>
Non-Current		
(a) Advance payments	55,889	39,707
(b) Other assets	<u>216,387</u>	<u>268,280</u>
Total non-current	<u>272,276</u>	<u>307,987</u>

(a) Advance payments

Advance payments as of December 31, 2013 as of December 31, 2012 are as follows:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Current		
Aircraft leases	28,555	18,703
Aircraft insurance and other	13,180	12,643
Handling and ground handling services	286	158
Others	<u>14,371</u>	<u>14,322</u>
Total current	<u>56,392</u>	<u>45,826</u>
Non-Current		
Aircraft leases	17,332	20,732
Others	<u>38,557</u>	<u>18,975</u>
Total non-current	<u>55,889</u>	<u>39,707</u>
Total advance payments	<u>112,281</u>	<u>85,533</u>

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(b) Other assets

Other assets as of December 31, 2013, and December 31, 2012 are as follows:

	As of December 31, 2013 ThUS\$	As of December 31, 2012 ThUS\$
Current		
Aircraft maintenance reserve (*)	152,797	123,299
Sales tax	120,215	106,736
Others taxes	5,556	7,847
Contributions to Société Internationale de Télécommunications Aéronautiques (“SITA”)	657	696
Total current	<u>279,225</u>	<u>238,578</u>
Non-current		
Aircraft maintenance reserve (*)	79,012	140,116
Judicial deposits	70,380	54,336
Sales tax	65,936	73,050
Contributions to Société Internationale de Télécommunications Aéronautiques (“SITA”)	515	474
Others	544	304
Total non-current	<u>216,387</u>	<u>268,280</u>
Total other assets	<u>495,612</u>	<u>506,858</u>

(*) 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 payable 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 (10 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 December 31, 2013, LATAM had ThUS\$231,809 in maintenance reserves (ThUS\$ 263,416 at December 31, 2012), corresponding to 21 aircraft out of a total fleet of 339 (24 aircraft out of a total fleet of 327 at December 31, 2012). All of the Company’s aircraft leases containing provisions for maintenance reserves will expire fully by 2017.

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).

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NOTE 14 - NON-CURRENT ASSETS (OR DISPOSAL GROUPS) CLASSIFIED AS HELD FOR SALE

Non-current assets and disposal groups held for sale as of December 31, 2013, and December 31, 2012 are as follows:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Aircraft	438	44,878
Rotables	1,362	1,184
Inventories on consignment	8	686
Engines	272	542
Scrapped aircraft	<u>365</u>	<u>365</u>
Total	<u>2,445</u>	<u>47,655</u>

During 2012, two A318-100 aircraft were transferred from the heading of Property, plant, and equipment to Non-current assets or groups of assets for disposal classed as held for sale. These two aircraft were sold during the first quarter of 2013.

Moreover, during the fourth quarter of 2013, a Boeing B737-200 and four ATR42-300 aircraft were sold.

The figures shown in this item are presented at book value or fair value minus sales cost, whichever is lower.

The Company has no discontinued operations as of December 31, 2013.

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NOTE 15 - 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 and private investment funds.

The detail of significant subsidiaries and summarized financial information at December 31, 2013, December 31, 2012 and December 31, 2011 is presented below:

Significant subsidiaries detailed as of December 31, 2013

Name of significant subsidiary	Country of incorporation	Functional currency	% Ownership	Nature and scope of significant restrictions on transferring funds to controller
Lan Perú S.A.	Peru	US\$	69.97858	Without significant restrictions
Lan Cargo S.A.	Chile	US\$	99.89803	Without significant restrictions
Lan Argentina S.A.	Argentina	ARS	94.99055	Without significant restrictions
Transporte Aéreo S.A.	Chile	US\$	99.89804	Without significant restrictions
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	Ecuador	US\$	71.94990	Without significant restrictions
Aerovías de Integración Regional, AIRES S.A.	Colombia	COP	99.01646	Without significant restrictions
TAM S.A.	Brazil	BRL	99.99938	Without significant restrictions

Significant subsidiaries detailed as of December 31, 2012

Name of significant subsidiary	Country of incorporation	Functional currency	% Ownership	Nature and scope of significant restrictions on transferring funds to controller
Lan Perú S.A.	Peru	US\$	69.97858	Without significant restrictions
Lan Cargo S.A.	Chile	US\$	99.89803	Without significant restrictions
Lan Argentina S.A.	Argentina	ARS	94.99055	Without significant restrictions
Transporte Aéreo S.A.	Chile	US\$	99.89804	Without significant restrictions
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	Ecuador	US\$	71.94990	Without significant restrictions
Aerovías de Integración Regional, AIRES S.A.	Colombia	COP	98.21089	Without significant restrictions
TAM S.A.	Brazil	BRL	99.99938	Without significant restrictions

Significant subsidiaries detailed as of December 31, 2011

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

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Summary financial information of significant subsidiaries

Name of significant subsidiary	Statement of financial position as of December 31, 2013						Results for the period ended December 31, 2013	
	Total	Current	Non-current	Total	Current	Non-current	Revenue	Net
	Assets	Assets	Assets	Liabilities	Liabilities	Liabilities		Income
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Lan Perú S.A.	263,516	237,577	25,939	252,109	250,699	1,410	1,173,391	3,755
Lan Cargo S.A.	772,640	360,733	411,907	413,527	233,363	180,164	304,060	3,685
Lan Argentina S.A.	214,426	192,590	21,836	205,672	203,567	2,105	500,128	(13,311)
Transporte Aéreo S.A.	359,693	69,459	290,234	120,399	37,049	83,350	400,518	(4,129)
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	94,160	58,867	35,293	93,535	89,802	3,733	299,138	(40,295)
Aerovías de Integración Regional, AIRES S.A.	188,518	69,591	118,927	36,009	24,936	11,073	335,854	(63,359)
TAM S.A. (*)	8,695,458	2,372,047	6,323,411	7,983,671	3,249,581	4,734,090	6,791,104	(458,475)

Summary financial information of significant subsidiaries

Name of significant subsidiary	Statement of financial position as of December 31, 2012						Results for the period ended December 31, 2012	
	Total	Current	Non-current	Total	Current	Non-current	Revenue	Net
	Assets	Assets	Assets	Liabilities	Liabilities	Liabilities		Income
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Lan Perú S.A.	159,361	133,448	25,913	150,319	149,263	1,056	1,047,106	2,513
Lan Cargo S.A.	727,091	172,856	554,235	371,663	169,501	202,162	292,066	(50,693)
Lan Argentina S.A.	165,961	144,463	21,498	141,454	139,653	1,801	538,328	9,152
Transporte Aéreo S.A.	357,725	249,174	108,551	114,302	26,731	87,571	373,157	11,144
Aerolane Líneas Aéreas Nacionales del Ecuador S.A.	74,204	40,531	33,673	71,284	68,068	3,216	305,177	(14,077)
Aerovías de Integración Regional, AIRES S.A.	165,032	58,457	106,575	58,398	46,434	11,964	283,870	(75,522)
TAM S.A. (*)	8,821,298	2,003,122	6,818,176	9,198,899	3,556,778	5,642,121	3,633,592	(75,195)

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

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Summary financial information of significant subsidiaries

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

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NOTE 16 - EQUITY ACCOUNTED INVESTMENTS

The composition of investments accounted for using the equity method is as follows:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
(a) Related companies	3,572	1,619
(b) Joint Ventures	3,024	2,138
Equity accounted investments	<u>6,596</u>	<u>3,757</u>

(a) Related Companies

The following summarized financial information is the sum of the financial statements of the investees, corresponding to the statements of financial position as of December 31, 2013 and December 31, 2012, and the statements of income, for the periods ended at December 31, 2013, December 31, 2012 and December, 2011.

As of December 31, 2013

	<u>Assets</u> <u>ThUS\$</u>	<u>Liabilities</u> <u>ThUS\$</u>
Current	2,147	670
Non-current	331	109
Total	<u>2,478</u>	<u>779</u>

As of December 31, 2012

	<u>Assets</u> <u>ThUS\$</u>	<u>Liabilities</u> <u>ThUS\$</u>
Current	3,193	1,421
Non-current	419	109
Total	<u>3,612</u>	<u>1,530</u>

	For the periods ended December 31,		
	<u>2013</u> <u>ThUS\$</u>	<u>2012</u> <u>ThUS\$</u>	<u>2011</u> <u>ThUS\$</u>
Total operating revenues	3,212	3,704	2,896
Total expenses	(2,533)	(2,759)	(1,902)
Sum of net income	<u>679</u>	<u>945</u>	<u>994</u>

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As an investment in associates, the Company has shown its holdings in the following companies: Austral Sociedad Concesionaria S.A. and Lufthansa Lan Technical Training S.A. The Company made no investments in associates during 2013.

Company	Country of incorporation	Functional currency	Percentage of ownership		Cost of investment	
			As of December 31, 2013	As of December 31, 2012	As of December 31, 2013	As of December 31, 2012
			%	%	ThUS\$	ThUS\$
Austral Sociedad Concesionaria S.A.	Chile	CLP	20.00	20.00	661	661
Lufthansa Lan Technical Training S.A.	Chile	CLP	50.00	50.00	702	702

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

The movement of investments in associates between January 1, 2011 and December 31, 2013 is as follows:

	ThUS\$
Opening balance as of January 1, 2011	593
Participation in profits	502
Dividends received	(25)
Other increases, investments in associated entities	(79)
Total changes in investments in associated entities	398
Closing balance as of December 31, 2011	991
Opening balance as of January 1, 2012	991
Participation in profits	295
Adjustment to participation in previous years profits	(178)
Dividends received	(352)
Other increases, investments in associated entities	863
Total changes in investments in associated entities	628
Closing balance as of December 31, 2012	1,619
Opening balance as of January 1, 2013	1,619
Equity accounted earnings	
Participation in profits	341
Other increases, investments in associated entities	1,612
Total changes in investments in associated entities	1,953
Closing balance as of December 31, 2013	3,572

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

(b) Joint Venture

Multiplus S.A., a subsidiary of TAM S.A. and AIMIA Newco UK LLP (“Aimia”) jointly control the Companhia Brasileira de Serviços de Fidelização S.A. (“CBSF”). The company was incorporated on April 2, 2012, whose corporate name was changed to Prismah Fidelidade S.A. (“Prismah”).

The purpose of Prismah Fidelidade S.A. is the provision of various services, the development of programs related to loyalty programs/customer relationships and sales incentive programs for companies. Their activities include but are not limited to: the customer relationship management, technical and technological consulting, and through points programs or other ways of possible changes, the conversion of loyalty program points.

The shareholding participation in Prismah Fidelidade S.A., does not allow unilateral decisions that affect investment returns. Multiplus S.A. owns 50% of company shares and participation is accounted by the equity method proportional investment, initially recognized at cost. The participation in earnings of the company are recognized in income and the participation in changes in reserves are recognized in reserves of Multiplus S.A.

Movement investment at December 31, 2013

	Amount of shares	ThUS\$
Capital aware - AAG Constituent (*)	500	1
Capital increase - AGE (**) 09/18/2012	6,571,500	3,215
Equity accounted earnings	—	(1,078)
Closing balance at December 31, 2012	<u>6,572,000</u>	<u>2,138</u>
Future advance capital increase	—	4,977
Equity accounted earnings	—	(3,833)
Conversion difference affiliates	—	(258)
Closing balance at December 31, 2013	<u>6,572,000</u>	<u>3,024</u>

(*) General Assembly Act

(**) Extraordinary General Assembly

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The company Prismah Fidelidade S.A. as of December 31, 2013, has the following items:

	As of December 31, 2013	As of December 31, 2012
Social capital ThUS\$	16,323	6,432
Number of ordinary shares	35,200,194	13,144,000
Ordinary shares owned by Multiplus S.A.	17,600,097	6,572,000
Participation %	50	50
	ThUS\$	ThUS\$
Equity accounted investments	3,024	2,138
Current assets	6,985	4,356
Non-current assets	1,481	2,275
Current liabilities	2,418	2,356
	For the periods ended December 31,	
	2013	2012
	ThUS\$	ThUS\$
Result of the period	(7,665)	(1,065)
Equity accounted earnings	(3,833)	(533)
Revenues in the period	1,091	9
Expense in the period	(8,756)	(1,075)

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NOTE 17 - INTANGIBLE ASSETS OTHER THAN GOODWILL

The details of intangible assets are as follows:

<u>Classes of intangible assets (net)</u>	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Computer software	143,124	144,244
Developing software	46,075	54,635
Airport slots	1,361,807	1,561,130
Loyalty program	453,907	520,344
Trademarks	88,314	101,240
Other assets	81	806
Total	<u>2,093,308</u>	<u>2,382,399</u>

<u>Classes of intangible assets (gross)</u>	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Computer software	278,721	223,586
Developing software	46,075	54,635
Airport slots	1,361,807	1,561,130
Loyalty program	453,907	520,344
Trademarks	88,314	101,240
Other assets	808	1,372
Total	<u>2,229,632</u>	<u>2,462,307</u>

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The movement in Intangible assets other than goodwill between January 1, 2011 and December 31, 2013 is as follows:

	Computer software Net	Developing software	Airport slots (*)	Trademarks and loyalty program (*)	Other assets Net	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2011	26,074	19,109	—	—	566	45,749
Additions	8,904	20,286	—	—	—	29,190
Withdrawals	(184)	—	—	—	—	(184)
Amortization	(9,670)	—	—	—	(162)	(9,832)
Closing balance as of December 31, 2011	<u>25,124</u>	<u>39,395</u>	<u>—</u>	<u>—</u>	<u>404</u>	<u>64,923</u>
Opening balance as of January 1, 2012	25,124	39,395	—	—	404	64,923
Additions	18,769	43,632	—	24	—	62,425
Withdrawals	(1,636)	—	—	(2)	—	(1,638)
Transfer software	55,618	(51,391)	—	—	—	4,227
Acquisitions through business combinations	78,106	22,864	1,552,016	617,934	561	2,271,481
Difference by subsidiaries conversion	(757)	135	9,114	3,628	3	12,123
Amortization	(30,980)	—	—	—	(162)	(31,142)
Closing balance as of December 31, 2012	<u>144,244</u>	<u>54,635</u>	<u>1,561,130</u>	<u>621,584</u>	<u>806</u>	<u>2,382,399</u>
Opening balance as of January 1, 2013	144,244	54,635	1,561,130	621,584	806	2,382,399
Additions	14,703	47,199	—	—	—	61,902
Withdrawals	(467)	(1,975)	—	—	—	(2,442)
Transfer software	46,444	(48,890)	—	—	(492)	(2,938)
Subsidiaries conversion difference	(5,542)	(4,894)	(199,323)	(79,363)	(72)	(289,194)
Amortization	(56,258)	—	—	—	(161)	(56,419)
Closing balance as of December 31, 2013	<u>143,124</u>	<u>46,075</u>	<u>1,361,807</u>	<u>542,221</u>	<u>81</u>	<u>2,093,308</u>

The airport slots correspond to an administrative authorization for the arrival and departure of aircraft, in a specific airport, within a period of time.

The coalition and loyalty program corresponds to the system of accumulation and redemption of points that has developed Multiplus.

Intangible assets with defined useful lives consist primarily of licensing and computer software, for which the Company has established useful lives of between 3 and 7 years.

Intangible assets with undefined useful lives are tested annually for impairment 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 18.1.)

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The amortization of the period is shown in the consolidated statement of income in administrative expenses. The accumulated amortization of computer programs as of December 31, 2013 amounts to ThUS\$ 135,597 (ThUS\$ 79,342 as of December 31, 2012, ThUS\$ 48,362 as of December 31, 2011). The accumulated amortization of other identifiable intangible assets as of December 31, 2013 amounts to ThUS\$ 727 (ThUS\$ 566 as of December 31, 2012, ThUS\$ 404 as of December 31, 2011).

(*) See Note 2.5

NOTE 18 – GOODWILL AND BUSINESS COMBINATION

18.1. Goodwill

The goodwill represents the excess of cost of acquisition over the fair value of the participation of the Company in the identifiable net assets of the subsidiaries at the acquisition date. Goodwill at December 31, 2013 amounted to ThUS\$ 3,727,605 (ThUS\$ 4,213,160 as revised at December 31, 2012).

The Company has two cash-generating units (CGU), confirming the existence of two cash-generating units: “Air transportation” and, “Coalition and loyalty program Multiplus”; consistent with this, performed impairment tests based on value in use and no impairment was identified. These tests are done at least once per year.

The recoverable amounts of cash generating units have been determined from estimated cash flows by the Administration. The main assumptions used are disclosed as follows:

Air transportation CGU

- Long-term growth rate: We used a growth rate between 2.0% and 4.0% per year.
- Exchange rate R\$ / US\$: we used a rate between 2.40 and 3.50 R\$ / US \$, in line with the expectations of the central bank of Brazil.
- Discount rate: based on the weighted average cost of capital (WACC) we used a rate between 10.0% and 12.0%.
- Fuel Price: prices are used in a range of 124.50 and 130.50 US\$ / barrel, from futures price curves commodities markets.

Coalition and loyalty program Multiplus CGU (*)

- Long-term growth rate: We used a growth rate between 4.0% and 7.0% per year.
- Exchange rate R\$ / US\$: we used a rate between 2.40 and 3.50 R\$ / US \$, in line with the expectations of the central bank of Brazil.
- Discount rate: based on cost of equity (CoE) we used a rate between 20.0% and 25.0%.

(*) For the Coalition and loyalty program Multiplus CGU the flows, as in the growth rate and discount, are denominated in real.

Given the expectation of growth and the long investment cycles characteristic of the industry, are used projections of ten years.

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.

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The sensitivity analysis included individual impact of variations in the key assumptions with impact on the determination of the recoverable amounts, namely:

Air transportation CGU

- Using a discount rate up to 12.0%
- Using a minimum growth rate of 2.0%

Coalition and loyalty program Multiplus CGU

- Using a discount rate up to 24.5%
- Using a minimum growth rate of 4.5%

In none of the previous cases was presented an impairment.

The movement of Goodwill from January 1, 2012 to December 31, 2013, is as follows:

	Air transportation (**) ThUS\$	Coalition and loyalty program Multiplus (**) ThUS\$	Total ThUS\$
Opening balance as of January 1, 2012	163,777	—	163,777
Additions by business combinations	2,118,057	—	2,118,057
Amendment initial recognition (*)	1,051,645	846,285	1,897,930
Increase (decrease) due to exchange rate differences	28,427	4,969	33,396
Closing balance as of December 31, 2012	<u>3,361,906</u>	<u>851,254</u>	<u>4,213,160</u>
Opening balance as of January 1, 2013	3,361,906	851,254	4,213,160
Others	44,860	—	44,860
Increase (decrease) due to exchange rate differences	(421,729)	(108,686)	(530,415)
Closing balance as of December 31, 2013	<u>2,985,037</u>	<u>742,568</u>	<u>3,727,605</u>

(*) The amendments to initial recognition includes: changes in fair values determined in accordance with IFRS 3 during the measurement period, including Goodwill allocation to loyalty coalition program of Multiplus and correction of non-significant errors originated before the date of acquisition.

(**) The amounts presented in December 2012 have been revised in accordance with IFRS 3 during the measurement period.

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18.2. Business combination

The following information summarizes the business combination process with TAM S.A. and subsidiaries:

- (a) Description of the business combination process with TAM S.A. and Subsidiaries
- (b) Business combination in accordance with IFRS 3
- (c) Revision of the consolidated financial statements for the 2012 accounting period
- (d) Other information

(a) Description of the Business Combination process with TAM S.A and Subsidiaries

Dated June 22, 2012 the merger was successfully completed between LAN Airlines S.A. (today LATAM Airlines Group S.A.), with Sister Holdco S.A. and Holdco II S.A., two companies specially constituted for the purpose of the association between the Company and TAM S.A. which was reflected in the deed of execution of merger issued by such companies at the same time, and it was rectified by deed dated July 10, 2012. These scriptures recorded the share exchange of Sister Holdco S.A. and Holdco II S.A. for LAN's shares in one related of 0.9 of LAN's shares for each Sister Holdco S.A. and Holdco II S.A. That exchange occurred with the delivery of the respective LAN shares to shareholders of Sister Holdco S.A. and the respective BDRs ("Brazilian Depositary Receipts") and ADRs ("American Depositary Receipts") from LAN to the shareholders of Holdco II S.A. abroad on June 27, 2012, that is, TAM shareholders who accepted the exchange offer.

The share exchange offer materialized with the exchange previously referenced was 99.9% of the TAM shares that accepted that TAM would stop being a public company in Brazil, which fulfilled the condition for the cancellation of registration, requirement for the success of the exchange offer.

The capital increase in LATAM Airline S.A originated in the merger is determined by the social capital amount of Sister Holdco S.A. and Holdco II S.A., equivalent to ThUS\$ 951,409. The difference between this value and the purchase price (Note 18.2.b), amounting to ThUS\$ 2,665,692 was included in "Other reserves" during 2012.

On July 27, 2012, TAM made use of the Squeeze-Out granted by the Brazilian legislation, under which a compulsory could rescue all TAM shares that were not exchanged in the exchange offer or contributed by controlling shareholders of TAM. Since TAM shares received in the exchange offer, plus the shares committed by the controlling shareholders of TAM, represented 95.9% of the total outstanding shares of TAM, the aforementioned condition was met on the remaining 4.1% through the disbursement by TAM of ThUS\$ 165,143.

As a consequence of the end of that process: (i) concluded the process of Business Combination of LAN and TAM, and (ii) the renaming of LAN Airlines S.A. to LATAM Airlines Group S.A. became effective.

The costs incurred by LATAM Airline Group S.A. to make the Business Combination amounts to ThUS\$ 50,647 for the year ended December 31, 2012, and were recorded in the Income statement when they were incurred.

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The ownership structure of TAM, after the business combination, is as follows:

TAM S.A.

Class of shares	Holdco I S.A.		LATAM Airlines Group S.A.		Total Shares
	Shares	%	Shares	%	
ON (voting rights)	55,413,784	100.00	—	—	55,413,784
PN (non-votings rights)	—	—	94,718,931	100.00	94,718,931
Total	55,413,784	—	94,718,931	—	150,132,715

Holdco I S.A.

Class of shares	TEP Chile S.A. (owned by the controlling shareholders of TAM)		LATAM Airlines Group S.A.		Total shares
	Shares	%	Shares	%	
Serie A (voting rights)	938	80.58	226	19.42	1,164
Serie B (economic right)	—	—	55,413,621	100.00	55,413,621
Total	938	—	55,413,847	—	55,414,785

TAM is a leading airline in Brazil, with more than 35 years in operation, and as of the date of the business combination it boasted: over 30,000 employees, a fleet of more than 160 aircraft, annual sales surpassing US\$7.3 billion, and a 2011 Brazilian market share of 41.2% domestically, and 88.1% of international flights operated by Brazilian-flagged airlines. It is appropriate to point out that Multiplus S.A., a company controlled by TAM S.A., is engaged in the development and administration of client loyalty programs. Multiplus S.A. has been registered in the “Novo Mercado” section on the BMF&Bovespa exchange since February 3, 2010.

Under IFRS 3 this operation has been registered as a business combination consigning to the Company as purchaser of TAM. Besides the fact that LATAM is the one who issuing the shares in the combination, this is based on the economic rights and relative vote relating of the former shareholders of LAN and TAM over the combined entity.

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(b) Business combination in accordance with IFRS 3 (*)

IFRS 3 establishes principles and requirements for how the acquirer:

- i. Recognizes and measure the consideration paid;
- ii. Recognizes and measure fair value of identifiable net assets acquired; and
- iii. Recognizes and measure the goodwill acquired.

IFRS 3 provides the acquirer with a reasonable time (measurement period) to obtain the information necessary to identify and measure the three points mentioned above as of the acquisition date. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. The measurement period shall not exceed one year from the acquisition date (June 22, 2012). Therefore, some amounts reported in previous financial statements as provisional amounts because the accounting was incomplete have been retrospectively adjusted.

(i) Consideration paid

The following summarizes the consideration paid for TAM S.A. and subsidiaries:

Number of shares LAN Exchange (a)	Share price at fair value at June 22 exchange rate at June 22 US\$ (b)	Total exchange of shares ThUS\$ (a) times (b)	Squeeze Out At July 27 at t/c June 22 ThUS\$	Total purchase price ThUS\$
135,119,066	26.76973	3,617,101	165,143	3,782,244

Value of the share at June 22, 2012 CLP\$ 13,489

Exchange rate as of June 22, 2012 503.89 CLP\$/US\$

Consideration paid was calculated, in accordance with IFRS 3, as the sum of the fair value of the LAN shares provided and the Squeeze-Out cash payment explained in Note 18.2.(a).

(*) See note 2.2

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(ii) Fair value of identifiable assets acquired and liabilities assumed.

The following table summarizes the fair value of recognized amounts of identifiable assets acquired and liabilities assumed at the acquisition date.

	Fair value
	ThUS\$
Cash and cash equivalents	263,986
Other financial assets	810,079
Other non-financial assets	324,170
Trade and other accounts receivable	1,004,331
Inventories	66,287
Tax assets	145,626
Assets held for sale	8,865
Airport Slots	1,472,625
Loyalty program	517,304
Other intangible assets	281,552
Fleet	3,178,065
Other property, plant and equipment	1,063,036
Other financial liabilities	(4,802,902)
Other non-financial liabilities	(1,445,463)
Trade and other accounts payables	(1,473,579)
Other provisions	(1,429,012)
Employee benefits	(18,580)
Tax liabilities	(65,185)
Deferred tax	(31,940)
Accounts payable to related entities	(82)
Net assets at fair value	<u>(130,817)</u>

- The airport slots (landing and take-offs) have been measured at fair value at the date of the combination, using the net present value of projected Earning Before Interest and Taxes (EBIT) of those routes going through those airports where slots were acquired as part of the business combination (Congonhas, JFK and Heathrow); and its useful lives are classified as indefinite, which shall be subject to impairment test annually.
- Customer loyalty program “Multiplus” fair value has been measured using estimated discounted cash flows related to the mentioned intangible as of the acquisition date and its useful lives are classified as indefinite, which shall be subject to impairment test annually.
- Fair value of fleet was measured using market values and considering model, age and actual maintenance conditions of each airplane. Additionally, in relation with those airplanes under operative lease, maintenance cost and devolution cost have been provided for.
- Fair value of Other provisions is related with the recognition of contingent liabilities assumed in a business combination even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, according to IFRS 3.
- As part of the purchase price allocation required under IFRS 3 carried out during the first half of 2013, errors were identified and corrected that were not material to the LATAM consolidated financial statement. These errors originated from TAM S.A. and Subsidiaries.

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iii. Goodwill acquired

The financial statements of LATAM Airlines Group S.A. include goodwill recorded to the value of ThUS\$ 4,015,987 calculated and assigned to corresponding segments. The following table summarizes the consideration paid, the fair value of assets acquired, liabilities assumed, non-controlling interest and goodwill acquired at the acquisition date.

	ThUS\$	ThUS\$
Purchase price		<u>3,782,244</u>
<u>Less:</u>		
Historic net assets	578,559	
Fair value adjustment:		
Airport Slots	(1,472,625)	
Loyalty program	(517,304)	
Fleet (included maintenance)	723,364	
Other provisions	1,157,419	
Error correction	584,126	
Deferred tax	104,342	
Other	130,054	
Total adjustment	<u>709,376</u>	
Total net assets at fair value	(130,817)	(130,817)
Non-controlling interest		<u>102,926</u>
Goodwill restated at June 22, 2012		<u>4,015,987</u>

The following table summarizes Goodwill acquired by segments.

	Goodwill restated at June 22, 2012 ThUS\$
Goodwill assigned Air transportation CGU	<u>3,169,702</u>
Goodwill assigned Coalition and loyalty program Multiplus CGU	<u>846,285</u>
Total Goodwill	<u>4,015,987</u>

Non-controlling interest have been measured and recognized at fair value.

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(c) Retrospective revision to LATAM 2012 consolidated financial statements.

As required by IFRS, during the first half of 2013, based on new information obtained about facts and circumstances that existed as of the acquisition date, Latam Airlines Group S.A. has retrospectively adjusted the amounts presented in the December 31, 2012 consolidated financial statements. Adjustments are related to the fair value of: fleet, customer loyalty programs and provisions, and to non-material errors identified related to Deferred income and Tax liabilities that existed before the acquisition date relating to TAM S.A. and Subsidiaries.

- The impact of the fair value adjustments mentioned above at December 31, 2012 increased total assets by US\$ 485 million, increased total liabilities by US\$ 1,039 million and decreased net results by US\$ 19 million for the period then ended.
- The errors correction mentioned above at December 31, 2012 had an impact of US\$ 416 million in relation with Revenue and deferred revenue, US\$ 183 million in relation with Taxes and Income taxes, and US\$ 11 million (loss) for the period then ended.

The revised amounts of the statement of financial position at June 22, 2012, date of the business combination of TAM S.A. and its subsidiaries are as follows:

	Fair value at June 22, 2012		Variation	Fair value modification	Errors on Revenue and deferred revenue cycle	Errors on Tax and deferred taxes cycle
	published at June 30, 2013	published at december 31, 2012				
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
	Unaudited					
Cash and cash equivalents	263,986	263,986	—	—	—	—
Other financial assets	810,079	810,079	—	—	—	—
Other non-financial assets	324,170	333,086	(8,916)	(8,916)	—	—
Trade and other accounts receivable	1,004,331	1,035,692	(31,361)	(15,686)	(15,675)	—
Inventories	66,287	69,823	(3,536)	(3,434)	(102)	—
Tax assets	145,626	156,215	(10,589)	(28,897)	(22)	18,330
Assets held for sale	8,865	8,865	—	—	—	—
Airport slots	1,472,625	1,472,625	—	—	—	—
Loyalty programs	517,304	—	517,304	517,304 (a)	—	—
Other intangible assets	281,552	268,190	13,362	13,385	(23)	—
Fleet	3,178,065	3,176,372	1,693	1,693	—	—
Other property, plant and equipment	1,063,036	1,057,220	5,816	5,816	—	—
Other financial liabilities	(4,802,902)	(4,802,902)	—	—	—	—
Other non-financial liabilities	(1,445,463)	(1,064,782)	(380,681)	16,847	(397,528)	—
Trade and other accounts payables	(1,473,579)	(1,077,784)	(395,795)	(406,153) (b)	10,358	—
Other provisions	(1,429,012)	(634,076)	(794,936)	(742,180) (c)	—	(52,756)
Employee benefits	(18,580)	—	(18,580)	(18,580)	—	—
Tax liabilities	(65,185)	(65,185)	—	—	—	—
Deferred taxes	(31,940)	(22,109)	(9,831)	136,877	—	(146,708)
Accounts payable to related entities	(82)	(82)	—	—	—	—
Net assets at fair value	<u>(130,817)</u>	<u>985,233</u>	<u>(1,116,050)</u>	<u>(531,924)</u>	<u>(402,992)</u>	<u>(181,134)</u>

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The main changes made to the fair value correspond to:

(a) Loyalty program

Complementing the mentioned in Note 18.2 (b) ii, the company has recognized as an intangible asset the loyalty program and coalition of Multiplus. The program provides a system of coalition flexible and interrelated among its partners and members, which allows a considerable increase in consumer loyalty. This program has been valued at fair value using the income approach, through cash flows from the margins attributed to intangible. His life has been regarded as indefinite, based on the ability to maintain and renew the relationship between strategic partners among others aspects.

(b) Trade and other accounts payables

The main fair values reflected in this category are:

- Maintenance liability: It has been adjusted the initial valuation of major maintenance of the leased fleet, taking into consideration the detailed review of all lease contracts and updates the initial calculation (ThUS\$ 303,377).
- Aircraft return provision: There was registered a provision to cover the additional cost related with the return of aircraft. This is for the portion accrued at the date of the business combination (ThUS\$ 38,818).
- Aircraft operating leasing adjustment: There was registered a provision for the difference between the fair value and the real value of future rents under operating leasing (ThUS\$ 53,600).

(c) Other provision

The fair value of other provision, correspond to those contingencies with a probability of loss under 50%, which are not provided for the normal application of IFRS enforcement and that only must be registered in the context of a business combination in accordance with IFRS 3.

The detailed fair values for other provision are as follows:

	ThUS\$	ThUS\$
Civil cases		3,398
Labor disputes		(5,524)
Litigation and tax criteria		744,306
Direct taxes	516,292	
Indirect taxes	228,014	
Total		<u>742,180</u>

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Civil cases correspond to approximately 7,000 cases involving different demands of civil order, filed against of TAM S.A. and Subsidiaries and whose loss probability is less than 50%.

The labor disputes are approximately 2,200 cases involving different demands of labor order, filed against of TAM S.A. and Subsidiaries and whose loss probability is less than 50%.

The litigation and tax criteria correspond to approximately 500 cases involving to the tax treatment applicable to direct and indirect taxes, which are found in both administrative and judicial stage, and whose probability of loss is less than 50%.

In the process of determining the fair values of the net assets of TAM S.A. and its Subsidiaries, at the date of the business combination, non-significant errors were detected within the LATAM's consolidated financial statement, in Deferred income and Tax liabilities. These errors originated from TAM S.A. and Subsidiaries and the nature of these errors correspond to:

- Revenue and deferred revenue cycle

Differences between the general ledger and the sub-ledger, corresponding to deferred revenue not recognized related with unused tickets.

The correction of this difference resulted in decreases in the following items of the Statement of financial position of TAM S.A. and its Subsidiaries at June 22, 2012: Trade and other accounts receivable for ThUS\$ 15,675, other items of assets for ThUS\$ 147 and Trade payables and other accounts payable ThUS\$ 10,358, and increases in Other financial liabilities non-current of ThUS\$ 397,528.

- Tax and deferred taxes cycle

Errors in the determination of annual taxable income used to calculate of deferred tax and the re-calculation and correction of statements, product of changes in the method of determination of tax credits.

The corrections of this errors resulted in the increase of the following items of the Statement of financial position of TAM S.A. and its Subsidiaries at June 22, 2012: Tax assets for ThUS\$ 18,330, Other long term provision for ThUS\$ 52,756 and Deferred tax liabilities for ThUS\$ 146,708.

The adjustments to LATAM Airlines Group SA and subsidiaries, for each type of error between the acquisition date and December 31, 2012 were:

- Revenue and deferred revenue cycle

During this period the adjustments are complementary to the error correction made at the acquisition date, and the main modified items are: Trade and other accounts receivables (increase of ThUS\$ 40,856) and Other financial liabilities non-current (increase of ThUS\$ 50,393) with effect Revenue (loss of ThUS\$ 10,236).

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- Tax and deferred taxes cycle

During this period the adjustments are complementary to the error correction made at the acquisition date, and the main modified items are: Other provisions non-current (increase of ThUS\$ 1,581) and Deferred tax liabilities (decrease of ThUS\$ 1,139) with effect on Revenue (loss of ThUS\$ 1,581) and loss tax expense (less expense of ThUS\$ 1,139).

The effects resulting from the fair value adjustments and errors correction at December 31, 2012 were the following:

	Revised amount for the year ended at december 31, 2012 ThUS\$ Unaudited	Historical amounts for the year ended at december 31, 2012 ThUS\$	Variation ThUS\$	Fair value modification ThUS\$	Errors on Revenue and deferred revenue cycle ThUS\$	Errors on Tax and deferred taxes cycle ThUS\$
Revenue	9,710,372	9,722,189	(11,817)	—	(10,236)	(1,581)
Cost of sale	(7,634,453)	(7,642,643)	8,190	8,190 (*)	—	—
Gross margin	2,075,919	2,079,546	(3,627)	8,190	(10,236)	(1,581)
Other income	220,156	220,156	—	—	—	—
Distribution cost	(803,619)	(803,619)	—	—	—	—
Administrative expenses	(888,654)	(869,504)	(19,150)	(19,150 (**))	—	—
Other expenses	(311,753)	(311,753)	—	—	—	—
Other gains / (losses)	(45,831)	(38,750)	(7,081)	(7,081) (*)	—	—
Gains (losses) from operating activities	246,218	276,076	(29,858)	(18,041)	(10,236)	(1,581)
Financial income	77,489	77,489	—	—	—	—
Financial cost	(294,598)	(294,598)	—	—	—	—
Equity accounted earning	972	972	—	—	—	—
Foreing exchange goins / (losses)	66,685	66,685	—	—	—	—
Result of indexation units	(22)	(22)	—	—	—	—
Income (loss) before taxes	96,744	126,602	(29,858)	(18,041)	(10,236)	(1,581)
Income (loss) tax expenses	(102,386)	(102,212)	(174)	(1,313)	—	1,139
NET INCOME (LOSS) FOR THE PERIOD	(5,642)	24,390	(30,032)	(19,354)	(10,236)	(442)
Income (loss) attributable to owners of the parent	(19,076)	10,956	(30,032)	(19,354)	(10,236)	(442)
Income (loss) attributable to non-controlling interest	13,434	13,434	—	—	—	—
Net income (loss) for the period	(5,642)	24,390	(30,032)	(19,354)	(10,236)	(442)

(*) Correspond mainly to the impact on the results of operating leases' fair value adjustments.

(**) Correspond mainly to the impact on the results of fair value credit card chargeback adjustments.

(d) Other information

The income contribution of TAM S.A. and Subsidiaries during the period of 2012 was ThUS\$ 3,633,592, the net result considered in the consolidated financial statements of the group at December 31, 2012, was a loss of ThUS\$ 75,195.

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NOTE 19 - 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	As of	As of	As of	As of	As of
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Construction in progress	858,650	1,153,003	—	—	858,650	1,153,003
Land	59,352	65,307	—	—	59,352	65,307
Buildings	247,263	245,939	(75,478)	(70,869)	171,785	175,070
Plant and equipment	8,461,456	7,942,957	(1,708,668)	(1,635,532)	6,752,788	6,307,425
Own aircraft	7,409,394	6,979,985	(1,347,671)	(1,278,739)	6,061,723	5,701,246
Other	1,052,062	962,972	(360,997)	(356,793)	691,065	606,179
Machinery	73,561	76,956	(41,509)	(41,799)	32,052	35,157
Information technology equipment	182,108	171,568	(135,889)	(131,105)	46,219	40,463
Fixed installations and accessories	97,212	81,252	(46,620)	(38,909)	50,592	42,343
Motor vehicles	75,150	70,706	(51,128)	(48,451)	24,022	22,255
Leasehold improvements	88,641	87,004	(71,872)	(65,276)	16,769	21,728
Other property, plants and equipment	4,791,236	5,814,689	(1,820,679)	(1,870,364)	2,970,557	3,944,325
Financial leasing aircraft	4,618,127	5,659,575	(1,777,980)	(1,830,273)	2,840,147	3,829,302
Other	173,109	155,114	(42,699)	(40,091)	130,410	115,023
Total	14,934,629	15,709,381	(3,951,843)	(3,902,305)	10,982,786	11,807,076

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The movement in the different categories of Property, plant and equipment from January 1, 2011 to December 31, 2013 is shown below:

(a) As of December 31, 2011

	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, 2011	715,603	35,538	80,121	3,663,136	18,599	27,003	1,290	44,120	363,020	4,948,430
Additions	29,898	—	1,111	1,028,568	11,885	6,663	543	6,555	19,072	1,104,295
Acquisitions through business combination	—	—	—	—	—	—	—	—	16	16
Disposals	—	—	(2,681)	(109,936)	(8)	—	(6)	—	(537)	(113,168)
Transfers (to) from non-current assets and disposal groups	(127)	—	—	(112)	(1,195)	(588)	(1)	—	(115)	(2,138)
Retirements	(150)	—	(4)	(4,817)	(85)	(23)	(17)	—	(332)	(5,428)
Depreciation expense	—	—	(3,302)	(265,062)	(6,354)	(3,602)	(215)	(19,938)	(30,608)	(329,081)
Conversion difference subsidiaries	(852)	—	(95)	(771)	(63)	(54)	18	—	(95)	(1,912)
Other increases (decreases)	343,191	135	2,788	(169,021)	(188)	5,699	25	762	143,577	326,968
Changes, total	371,960	135	(2,183)	478,849	3,992	8,095	347	(12,621)	130,978	979,552
Closing balance as of December 31, 2011	1,087,563	35,673	77,938	4,141,985	22,591	35,098	1,637	31,499	493,998	5,927,982

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(b) As of December 31, 2012

	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, 2012	1,087,563	35,673	77,938	4,141,985	22,591	35,098	1,637	31,499	493,998	5,927,982
Additions	34,885	—	17,349	2,803,242	11,626	7,836	458	4,668	154,000	3,034,064
Acquisitions through business combinations	553,781	46,373	87,338	469,650	16,990	1,696	4,099	—	3,061,174	4,241,101
Disposals	(27)	(5,116)	(4,821)	(73,654)	(15)	—	(28)	—	(5)	(83,666)
Transfers (to) from non-current assets (or disposal groups)	(2,256)	(11,895)	—	(49,910)	—	—	—	—	—	(64,061)
Retirements	(281)	—	(1,100)	(136,879)	(951)	(261)	(62)	(82)	(18,799)	(158,415)
Depreciation expenses	—	—	(3,311)	(319,578)	(14,982)	(6,526)	(1,316)	(16,432)	(250,329)	(612,474)
Conversion difference subsidiaries	1,844	272	(2,370)	2,625	3,968	530	(101)	—	16,725	23,493
Other increases (decreases)	(522,506)	—	4,047	(477,366)	1,236	3,970	35	2,075	487,561	(500,948)
Changes, total	65,440	29,634	97,132	2,218,130	17,872	7,245	3,085	(9,771)	3,450,327	5,879,094
Closing balance as of December 31, 2012	1,153,003	65,307	175,070	6,360,115	40,463	42,343	4,722	21,728	3,944,325	11,807,076

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(c) As of December 31, 2013

	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, 2013	1,153,003	65,307	175,070	6,360,115	40,463	42,343	4,722	21,728	3,944,325	11,807,076
Additions	17,731	—	11,798	1,555,667	22,146	7,663	303	—	69,703	1,685,011
Disposals	—	—	—	(141,328)	(31)	—	(161)	—	(644,637)	(786,157)
Retirements	(615)	—	(430)	(65,151)	(270)	(15)	(10)	(219)	(19,716)	(86,426)
Depreciation expenses	—	—	(11,768)	(446,503)	(14,131)	(8,893)	(312)	(12,281)	(336,586)	(830,474)
Conversion difference subsidiaries	(53,452)	(5,955)	(12,414)	(71,013)	(3,375)	(1,527)	(286)	(1)	(320,738)	(468,761)
Other increases (decreases)	(258,017)	—	9,529	(384,669)	1,417	11,021	(2,512)	7,542	278,206	(337,483)
Changes, total	(294,353)	(5,955)	(3,285)	447,003	5,756	8,249	(2,978)	(4,959)	(973,768)	(824,290)
Closing balance as of December 31, 2013	858,650	59,352	171,785	6,807,118	46,219	50,592	1,744	16,769	2,970,557	10,982,786

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(d) Composition of the fleet

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

Aircraft	Model	As of December 31, 2013	As of December 31, 2012
Boeing 767	300	3	3
Boeing 767	300ER	34	30
Boeing 767	300F	8	8
Boeing 777	300ER	8	8
Boeing 777	Freighter	2	2
Boeing 787	800	3	3
Airbus A318	100	—	5
Airbus A319	100	39	39
Airbus A320	200	95	76
Airbus A321	200	9	8
Airbus A330	200	8	18
Airbus A340	300	—	2
Airbus A340	500	2	2
Total		<u>211</u>	<u>204</u>

Operating leases:

Aircraft	Model	As of December 31, 2013	As of December 31, 2012
Boeing 767	300ER	6	8
Boeing 767	300F	4	4
Boeing 777	300ER	2	—
Boeing 777	Freighter	2	2
Boeing 787	800	2	—
Airbus A319	100	15	18
Airbus A320	200	65	65
Airbus A321	200	1	1
Airbus A330	200	12	2
Airbus A340	300	4	3
Boeing 737	700	5	6
Bombardier	Dhc8-200	7	10
Bombardier	Dhc8-400	3	4
Total		<u>128</u>	<u>123</u>
Total fleet		<u>339</u>	<u>327</u>

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

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

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

As a result of the business combination with TAM S.A. and Subsidiaries 65 aircraft were incorporated 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.

Additionally, for the same business combination, 5 aircraft were added under operating lease contracts, which according to the stated policy, are classified as finance leases because the present value of the payments represents most of the economic value of the property. The useful life assigned is 6 years, according to the duration of the 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\$ 830,474 (ThUS\$ 612,474 at December 31, 2012, ThUS\$ 329,081 at December 31, 2011). Depreciation charges for the year are recognized in Cost of sales and administrative expenses in the consolidated statement of income.

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

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

In the period ended December 31, 2013, we added direct guarantees for nine Boeing 767-300 aircraft, nineteen Airbus A320 and one Airbus A321 aircraft. Moreover, the Company sold its interest in the permanent establishments Mirlo Leasing LLC, Osprey Leasing Limited, and subsidiary Conure Leasing Limited. Product of the above direct guarantees associated with a Boeing 767-300 aircraft, two aircraft Airbus A320-200s and eight Airbus A319-100 aircraft were eliminated. Additionally, guarantees for seven A318-100 aircraft and two Airbus A340-300 aircraft were removed from their sale.

Description of Property, plant and equipment pledged as guarantee:

Creditor of guarantee	Assets committed	Fleet	As of December 31, 2013		As of December 31, 2012	
			Existing Debt	Book Value	Existing Debt	Book Value
			ThUS\$	ThUS\$	ThUS\$	ThUS\$
Wilmington Trust Company	Aircraft and engines	Boeing 767	1,437,810	1,827,349	1,296,704	1,640,071
		Boeing 777 / 787	777,796	880,470	858,221	937,074
Banco Santander S.A.	Aircraft and engines	Airbus A319	74,042	105,353	81,698	111,458
		Airbus A320	643,945	829,185	626,317	782,609
		Airbus A321	43,071	49,208	—	—
BNP Paribas	Aircraft and engines	Airbus A318	—	—	121,172	150,026
		Airbus A319	209,993	281,846	360,100	501,836
		Airbus A320	199,114	257,857	261,139	333,105
Credit Agricole	Aircraft and engines	Airbus A319	32,251	99,241	44,002	107,625
		Airbus A320	96,774	153,531	68,096	156,355
		Airbus A340	—	—	19,531	105,349
JP Morgan	Aircraft and engines	Boeing 777	259,272	292,486	280,698	324,159
Wells Fargo	Aircraft and engines	Airbus A320	331,854	384,273	—	—
Bank of Utah	Aircraft and engines	Airbus A320	277,622	347,765	—	—
DVB Bank SE	Aircraft and engines	Boeing 767	95,292	151,824	—	—
Total direct guarantee			<u>4,478,836</u>	<u>5,660,388</u>	<u>4,017,678</u>	<u>5,149,667</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 December 31, 2013 amounted to ThUS\$ 2,167,470 (ThUS\$ 2,888,753 at December 31, 2012). The book value of assets with indirect guarantees as of December 31, 2013 amounts to ThUS\$ 2,767,593 (ThUS\$ 3,777,715 as of December 31, 2012).

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(ii) Commitments and others

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

	As of December 31, 2013 <hr/> ThUS\$	As of December 31, 2012 <hr/> ThUS\$
Gross book value of fully depreciated property, plant and equipment still in use	160,116	188,214
Commitments for the acquisition of aircraft (*)	23,900,000	24,500,000

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

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

With regards to the above, as of December 31, 2013, and as a result of different aircraft purchase contracts signed with Airbus S.A.S., there remain 64 Airbus aircraft of the A320 family to be delivered between 2014 and 2018. The approximate amount is ThUS\$ 5,600,000, according to the manufacturer's price list.

On October 2007, we signed a binding purchase agreement with The Boeing Company for the purchase of 26 Boeing 787 aircraft with deliveries starting in 2012. Moreover, purchase contracts were signed with the same manufacturer in February, May and December 2011, 3, 5 and 2 aircraft 767-300, respectively.

As of December 31, 2013, and as a result of different aircraft purchase contracts signed with The Boeing Company, remain to receive a total of 21 787 Dreamliner aircraft, with delivery dates between 2014 and 2018. The approximate amount, according to the manufacturer's price list, is ThUS\$ 4,300,000. Additionally, the Company has valid purchase options for 15 787 Dreamliner aircraft.

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The acquisition of these aircraft is part of the strategic plan for the long-term fleet. This plan also involves the sale of 15 Airbus A318 model between 2011 and 2013. During 2011 the first 5 aircraft were sold, during 2012 another 3 were sold and during 2013 the last 7 aircraft were sold.

Additionally, as a result of the business combination with TAM S.A. and Subsidiaries the following commitments are incorporated:

In November 2006, a purchase commitment was signed with Airbus S.A.S. for the acquisition of 31 A320 family aircraft and 6 A330-200 aircraft, with deliveries between 2007 and 2010. Subsequently, in January 2008 signed a new commitment for the acquisition of 20 additional A320 family aircraft and 4 aircraft A330-200, with deliveries between 2010 and 2014, also signed a purchase commitment for 22 A350 aircraft. In July 2010, signed a purchase commitment for the acquisition of 20 A320 family aircraft with deliveries between 2014 and 2015 and on the same date the option was exercised to purchase 5 A350. In October 2011, a new commitment was signed to this manufacturer for the acquisition of 10 additional aircraft of the A320 family with deliveries between 2016 and 2017, plus 22 family aircraft A320 NEO with deliveries between 2016 and 2018.

With the above, at December 31, 2013, as a result of the different aircraft purchase agreements signed with Airbus S.A.S., remain to receive 58 aircraft Airbus A320 family, with deliveries between 2014 and 2018, and 27 Airbus aircraft A350 family with delivery dates starting from 2015. Additionally, the Company has valid purchase options for 5 Airbus A350.

In December 2008, a new commitment purchase agreement was signed with The Boeing Company for 2 777 aircraft with deliveries in 2013, and in February 2011 an agreement was signed for the purchase of another 2 777 aircraft with deliveries in 2014.

With the above, at December 31, 2013, due to the various purchase contracts signed with The Boeing Company, remain to receive 2 777 aircraft, whose delivery was scheduled for 2014, which has been rescheduled for 2017. Additionally, the Company has valid purchase options for other 2 777 aircraft.

The approximate amount of individual purchase contracts incorporated for the effect of the business combination with TAM S.A. and Subsidiaries is ThUS\$ 14,000,000, according to the manufacturers price list.

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

		For the periods ended December 31,		
		2013	2012	2011
Average rate of capitalization of capitalized interest costs	%	3.63	2.60	3.51
Costs of capitalized interest	ThUS\$	25,625	45,069	33,342

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(iv) Financial leases

The detail of the main financial leases is as follows:

Lessor	Aircraft	Model	As of December 31, 2013	As of December 31, 2012
Agonandra Statutory Trust	Airbus A319	100	4	4
Agonandra Statutory Trust	Airbus A320	200	2	2
Air Canada	Airbus A340	500	2	2
AWMS I (AWAS)	Boeing 767	300	3	3
Bluebird Leasing LLC	Boeing 767	300F	—	2
Caiquen Leasing LLC	Boeing 767	300F	1	1
Cernicalo Leasing LLC	Boeing 767	300F	2	2
Chirihue Leasing Trust	Boeing 767	300F	2	—
Codomiz Leasing Limited	Airbus A319	100	2	2
Conure Leasing Limited	Airbus A320	200	2	—
Eagle Leasing LLC	Boeing 767	300ER	—	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	6
Intraelo BETA Corporation (KFW)	Airbus A320	200	1	1
Juliana Leasing Limited	Airbus A320	200	2	2
Linnet Leasing Limited	Airbus A320	200	4	4
Mirlo Leasing LLC	Boeing 767	300ER	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	—
Petrel Leasing LLC	Boeing 767	300ER	1	1
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 A320	200	12	12
TMF Interlease Aviation B.V.	Airbus A330	200	1	1
TMF Interlease Aviation II B.V.	Airbus A319	100	5	5
TMF Interlease Aviation II B.V.	Airbus A320	200	2	2
TMF Interlease Aviation III B.V.	Airbus A319	100	3	3
TMF Interlease Aviation III B.V.	Airbus A320	200	12	12
TMF Interlease Aviation III B.V.	Airbus A321	200	7	7
TMF Interlease Aviation III B.V.	Airbus A330	200	—	10
Wacapou Leasing S.A	Airbus A320	200	1	1
Wells Fargo Bank North National Association (ILFC)	Airbus A330	200	1	1
Total			99	102

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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 aircraft, perform maintenance on the aircraft and update the airworthiness certificates at their own cost.

Fixed assets acquired under financial leases are classified as Other property, plant and equipment. As of December 31, 2013 the Company had ninety and nine aircraft (one hundred and two aircraft as of December 31, 2012).

During the first quarter of 2013, due to the sale of its participation in the permanent establishments Mirlo Leasing LLC, Osprey Leasing Limited, and subsidiary Conure Leasing Limited, the Company increased its number of aircraft on lease by one Boeing 767-300, two A320-200 and eight Airbus A319-100. Therefore, these aircraft were reclassified from the Plant and equipment category to the category Other property plant and equipment.

Additionally, during the second quarter of 2013 the contracts system applied to ten A330-200 aircraft was changed from financial leasing to operative leasing. As a result, the mentioned aircraft are no longer included under Property, plant, and equipment.

During to the third quarter of 2013, the option was exercised to purchase 3 A330-200. Therefore, these aircraft were reclassified from the Other property plant and equipment category to the category Plant and equipment.

During to the fourth quarter of 2013, the option was exercised to purchase one B767-300 aircraft belonging Eagle Leasing LLC, was reclassified from the Other property plant and equipment category to the category Plant and equipment.

As a result of the business combination 81 aircraft capital leases were added as financial leasing, and during the third quarter of 2012 two more Airbus A320-200 were added in this way.

The book value of assets under financial leases as of December 31, 2013 amounts to ThUS\$ 2,835,840 (ThUS\$ 3,863,193 as of December 31, 2012).

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The minimum payments under financial leases are as follows:

As of December 31, 2013

	<u>Gross Value</u> ThUS\$	<u>Interest</u> ThUS\$	<u>Present Value</u> ThUS\$
No later than one year	462,157	(53,925)	408,232
Between one and five years	1,406,384	(118,702)	1,287,682
Over five years	633,120	(19,562)	613,558
Total	<u>2,501,661</u>	<u>(192,189)</u>	<u>2,309,472</u>

As of December 31, 2012

	<u>Gross Value</u> ThUS\$	<u>Interest</u> ThUS\$	<u>Present Value</u> ThUS\$
No later than one year	523,033	(66,090)	456,943
Between one and five years	1,687,596	(186,145)	1,501,451
Over five years	1,135,262	(57,455)	1,077,807
Total	<u>3,345,891</u>	<u>(309,690)</u>	<u>3,036,201</u>

As of December 31, 2011

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

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NOTE 20 - TAXES AND DEFERRED TAXES

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

The balances of deferred taxes are as follows:

Concept	Assets		Liabilities	
	As of December 31, 2013	As of December 31, 2012	As of December 31, 2013	As of December 31, 2012
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Depreciation	(17,152)	(662)	557,845	454,183
Leased assets	(147,074)	—	46,688	268,619
Amortization	(10,778)	15,148	113,579	91,911
Provisions	317,883	34,704	(207,358)	(520,719)
Revaluation of financial instruments	562	5,178	(15,508)	(31,741)
Tax losses	267,189	105,652	(284,339)	(314,926)
Revaluation property, plant and equipment	—	—	(18,544)	(22,892)
Intangibles	—	—	593,325	680,167
Others	(7,668)	3,047	(18,460)	(25,263)
Total	<u>402,962</u>	<u>163,067</u>	<u>767,228</u>	<u>579,339</u>

The balance of deferred tax assets and liabilities are composed principally of temporary differences to reverse in the long term.

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Movements of Deferred tax assets and liabilities from January 1, 2011 to December 31, 2013 are as follows:

(a) From January 1 to December 31, 2011

	Beginning balance asset (liability)	Recognized in consolidated income	Recognized in other comprehensive income	Incorporation by business combinations	Reclassifications	Others	Sale of investment	Ending balance asset (liability)
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Depreciation	(290,669)	(48,614)	—	—	—	—	(5)	(339,288)
Leased assets	(59,848)	(5,392)	—	—	—	—	—	(65,240)
Amortization	(17,320)	(8,903)	—	3,811	—	—	—	(22,412)
Provisions	(14,889)	(22,482)	—	—	—	—	(388)	(37,759)
Post-employment benefit obligations	1,604	(1,604)	—	—	—	—	—	—
Revaluation of financial instruments	21,926	—	6,862	—	—	—	—	28,788
Tax losses	13,229	112,013	—	—	(6,645)	—	—	118,597
Others	72,039	(63,460)	1,846	—	—	(2,521)	(67)	7,837
Total	(273,928)	(38,442)	8,708	3,811	(6,645)	(2,521)	(460)	(309,477)

(b) From January 1 to December 31, 2012

	Opening balance Assets/(liabilities)	Recognized in consolidated income	Recognized in comprehensive income	Incorporation by business combination	Exchange rate variation	Effect from change in tax rate	Others	Ending balance Asset (liability)
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Depreciation	(339,288)	(21,066)	—	(34,512)	(203)	(59,776)	—	(454,845)
Leased assets	(65,240)	(160,147)	—	(31,533)	(186)	(11,513)	—	(268,619)
Amortization	(22,412)	(29,157)	—	(18,614)	(109)	(6,471)	—	(76,763)
Provisions	(37,759)	86,040	—	512,487	3,008	(8,353)	—	555,423
Revaluation of financial instruments	28,788	(7,249)	(2,623)	12,785	138	5,080	—	36,919
Tax losses	118,597	152,022	—	134,833	792	14,334	—	420,578
Revaluation property, plant and equipment	—	(36,931)	—	59,474	349	—	—	22,892
Intangibles	—	—	—	(676,197)	(3,970)	—	—	(680,167)
Others	7,837	410	(2,734)	34,577	(165)	1,080	(12,695)	28,310
Total	(309,477)	(16,078)	(5,357)	(6,700)	(346)	(65,619)	(12,695)	(416,272)

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(c) From January 1 to December 31, 2013

	Beginning balance asset (liability)	Recognized in consolidated income	Recognized in comprehensive income	Exchange rate variation	Others	Ending balance asset (liability)
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Depreciation	(454,845)	(124,584)	—	4,432	—	(574,997)
Leased assets	(268,619)	70,807	—	4,050	—	(193,762)
Amortization	(76,763)	(49,985)	—	2,391	—	(124,357)
Provisions	555,423	35,636	—	(65,818)	—	525,241
Revaluation of financial instruments	36,919	146	(19,345)	(1,650)	—	16,070
Tax losses	420,578	148,266	—	(17,316)	—	551,528
Revaluation property, plant and equipment	22,892	3,290	—	(7,638)	—	18,544
Intangibles	(680,167)	—	—	86,842	—	(593,325)
Others	28,310	9,543	—	(28,070)	1,009	10,792
Total	<u>(416,272)</u>	<u>93,119</u>	<u>(19,345)</u>	<u>(22,777)</u>	<u>1,009</u>	<u>(364,266)</u>

Deferred tax assets not recognized:

	As of December 31, 2013 ThUS\$	As of December 31, 2012 ThUS\$
Tax losses	<u>6,538</u>	<u>1,439</u>
Total Deferred tax assets not recognized	<u>6,538</u>	<u>1,439</u>

Deferred tax assets on tax loss carry-forwards, are recognized to the extent that it is likely to provide relevant tax benefit through future taxable profits. The Company has not recognized deferred tax assets of ThUS\$ 6,538 (ThUS\$ 1,439 at December 31, 2012) compared to a loss of ThUS\$ 28,855 (ThUS\$ 5,265 at December 31, 2012) to offset against future years tax benefits.

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Expense (income) for deferred and current income taxes for the periods ended at December 31, 2013, December 31, 2012 and December 31, 2011, respectively, are as follows:

	For the periods ended		
	2013	December 31, 2012	2011
	ThUS\$	ThUS\$	ThUS\$
Expense for current income tax			
Current tax expense	73,611	34,563	19,470
Adjustment to previous period's current tax	(561)	(13,886)	3,877
Other current tax expense	—	12	—
Total current tax expense, net	<u>73,050</u>	<u>20,689</u>	<u>23,347</u>
Expense for deferred income taxes			
Deferred expense for taxes related to the creation and reversal of temporary differences	(92,863)	80,293	40,051
Reduction (increase) in value of deferred tax assets during the evaluation of its usefulness	(256)	1,404	(1,609)
Total deferred tax expense, net	<u>(93,119)</u>	<u>81,697</u>	<u>38,442</u>
Income tax expense	<u>(20,069)</u>	<u>102,386</u>	<u>61,789</u>

Composition of income tax expense (income):

	For the periods ended		
	2013	December 31, 2012	2011
	ThUS\$	ThUS\$	ThUS\$
Current tax expense, net, foreign	61,118	30,827	4,486
Current tax expense, net, Chile	11,932	(10,138)	18,861
Total current tax expense, net	<u>73,050</u>	<u>20,689</u>	<u>23,347</u>
Deferred tax expense, net, foreign	(112,047)	(53,842)	(20,876)
Deferred tax expense, net, Chile	18,928	135,539	59,318
Deferred tax expense, net, total	<u>(93,119)</u>	<u>81,697</u>	<u>38,442</u>
Income tax expense	<u>(20,069)</u>	<u>102,386</u>	<u>61,789</u>

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

	For the periods ended		
	December 31,		
	2013	2012	2011
	ThUS\$	ThUS\$	ThUS\$
Tax expense using the legal rate	(61,035)	22,633	76,410
Tax effect of legal rate change	—	70,441(*)	(10,571)
Tax effect of rates in other jurisdictions	(34,287)	(10,512)	1,916
Tax effect of non-taxable operating revenues	(24,004)	(7,029)	(11,094)
Tax effect of disallowable expenses	98,211	27,437	5,087
Other increases (decreases) in legal tax charge	1,046	(584)	41
Total adjustments to tax expense using the legal rate	40,966	79,753	(14,621)
Tax expense using the effective rate	(20,069)	102,386	61,789

Reconciliation of legal tax rate to effective tax rate:

	For the periods ended		
	December 31,		
	2013	2012	2011
	%	%	%
Legal tax rate	20.00	20.00	20.00
Effect of tax rates for legal rate change	—	62.24(*)	(2.77)
Effect of tax rates in other jurisdictions	11.24	(9.28)	0.50
Effect of tax rate on non-taxable operating revenues	7.87	(6.21)	(2.89)
Effect of tax rate on disallowable expenses	(32.18)	24.24	1.33
Other increase (decrease) in legal tax rate	(0.34)	(0.52)	0.01
Total adjustment to the legal tax rate	(13.41)	70.47	(3.82)
Total effective tax rate	6.59	90.47	16.18

(*) On September 27, 2012, the Law N° 20,630 was published in the Official Journal that “Improves Tax Legislation and Finance Education Reform”. Among the major tax reforms that the amending Law contains, the First Category Tax Rate was modified which must be declared and paid beginning in the 2013 tax year.

Thereby, at December 31, 2012 the Company had tax expense considering the increased rate of 17% to 20%, which meant a higher recorded tax expense by ThUS\$ 70,441.

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Deferred taxes related to items charged to net equity:

	For the periods ended December 31,	
	2013	2012
	ThUS\$	ThUS\$
Aggregate deferred taxation of components of other comprehensive income	(19,345)	(5,357)
Aggregate deferred taxation related to items charged to net equity	(3,440)	(257)
Total deferred taxes related to items charged to net equity	(22,785)	(5,614)

Deferred tax effects of the components of other comprehensive income:

	As of December 31, 2013		
	Amount before taxes	Income tax expense (income)	Amount after taxes
	ThUS\$	ThUS\$	ThUS\$
Cash-flow hedges	(128,166)	19,345	(108,821)
Translation adjustment	629,858	—	629,858
		19,345	

	As of December 31, 2012		
	Amount before taxes	Income tax expense (income)	Amount after taxes
	ThUS\$	ThUS\$	ThUS\$
Cash-flow hedges	2,510	2,623	5,133
Translation adjustment	(19,170)	2,734	(16,436)
		5,357	

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

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NOTE 21 - OTHER FINANCIAL LIABILITIES

The composition of Other financial liabilities is as follows:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Current		
(a) Interest bearing loans	1,969,281	1,977,255
(b) Derivatives not recognized as a hedge	4,040	4,477
(c) Hedge derivatives	66,466	65,598
Total current	<u>2,039,787</u>	<u>2,047,330</u>
Non-current		
(a) Interest bearing loans	7,803,588	7,582,302
(b) Derivatives not recognized as a hedge	1,491	5,515
(c) Hedge derivatives	54,906	111,040
Total non-current	<u>7,859,985</u>	<u>7,698,857</u>

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(a) Interest bearing loans

Obligations with credit institutions and debt instruments:

	As of December 31, 2013	As of December 31, 2012
	<u>ThUS\$</u>	<u>ThUS\$</u>
Current		
Loans to exporters	401,263	242,955
Bank loans	602,618	519,762
Guaranteed obligations	455,512	411,313
Other guaranteed obligations	31,109	—
Subtotal bank loans	1,490,502	1,174,030
Obligation with the public	21,761	273,682
Financial leases	423,537	471,896
Other loans	33,481	57,647
Total current	<u>1,969,281</u>	<u>1,977,255</u>
Non-current		
Bank loans	322,207	219,319
Guaranteed obligations	3,776,910	3,432,919
Other guaranteed obligations	64,247	—
Subtotal bank loans	4,163,364	3,652,238
Obligation with the public	1,116,671	1,123,840
Financial leases	1,902,715	2,615,924
Other loans	620,838	190,300
Total non-current	<u>7,803,588</u>	<u>7,582,302</u>
Total obligations with financial institutions	<u>9,772,869</u>	<u>9,559,557</u>

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

Currency balances that make the interest bearing loans at December 31, 2013 and December 31, 2012, are as follows:

	As of December 31, 2013	As of December 31, 2012
	<u>ThUS\$</u>	<u>ThUS\$</u>
Currency		
Argentine peso	43,335	—
Brazilian real	76,674	326,394
Chilean peso	267,554	—
Euro	2,029	1,785
US Dollar	<u>9,383,277</u>	<u>9,231,378</u>
Total	<u>9,772,869</u>	<u>9,559,557</u>

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Interest-bearing loans due in installments due at December 31, 2013, at nominal value.

Class of Liability	Debtor tax No	Debtor	Debtor country	Creditor tax No	Creditor	Creditor country	Currency	Up to 90 days ThUS \$
Loans to exporters	89.862.200-2	LATAM Airlines Group S.A.	Chile	97.032.000-8	BBVA	Chile	US \$	—
		LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US \$	230,000
		LATAM Airlines Group S.A.	Chile	97.030.000-7	ES TADO	Chile	US \$	—
		LATAM Airlines Group S.A.	Chile	76.100.458-1	BLADEX	Chile	US \$	100,000
Bank loans	89.862.200-2	LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US \$	—
		LATAM Airlines Group S.A.	Chile	97.023.000-9	CORP BANCA	Chile	UF	15,590
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK	Argentina	ARS \$	—
Guaranteed obligations	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	BBVA	Argentina	ARS \$	—
		LATAM Airlines Group S.A.	Chile	0-E	ING	U.S.A	US \$	2,865
		LATAM Airlines Group S.A.	Chile	0-E	CREDIT AGRICOLE	France	US \$	12,920
		LATAM Airlines Group S.A.	Chile	0-E	PEFCO	U.S.A	US \$	2,219
		LATAM Airlines Group S.A.	Chile	0-E	BNP PARIBAS	U.S.A	US \$	8,875
		LATAM Airlines Group S.A.	Chile	0-E	WELLS FARGO	U.S.A	US \$	46,007
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK	U.S.A	US \$	9,607
		LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US \$	5,021
		LATAM Airlines Group S.A.	Chile	0-E	BTMU	U.S.A	US \$	2,579
		LATAM Airlines Group S.A.	Chile	0-E	APPLE BANK	U.S.A	US \$	1,264
		LATAM Airlines Group S.A.	Chile	0-E	US BANK	U.S.A	US \$	13,840
		LATAM Airlines Group S.A.	Chile	0-E	DEUTS CHE BANK	U.S.A	US \$	4,348
Other guaranteed obligations	89.862.200-2	LATAM Airlines Group S.A.	Chile	—	SWAP Aircraft arrivals	—	US \$	681
		LATAM Airlines Group S.A.	Chile	0-E	DVB BANK SE	U.S.A	US \$	7,703
Financial leases	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	ING	U.S.A	US \$	4,523
		LATAM Airlines Group S.A.	Chile	0-E	CREDIT AGRICOLE	France	US \$	4,808
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK	U.S.A	US \$	1,430
		LATAM Airlines Group S.A.	Chile	0-E	PEFCO	U.S.A	US \$	13,867
Other loans	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	BNP PARIBAS	U.S.A	US \$	6,443
		LATAM Airlines Group S.A.	Chile	0-E	BANC OF AMERICA	U.S.A	US \$	616
		LATAM Airlines Group S.A.	Chile	0-E	BOEING	U.S.A	US \$	—
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK (*)	U.S.A	US \$	—
Total								495,206

Class of Liability	More than 90 days to one year ThUS \$	More than one to three years ThUS \$	More than three to five years ThUS \$	More than five years ThUS \$	Total nominal value ThUS \$	Amortization	Effective rate %	Total accounting value ThUS \$	Nominal rate %
Loans to exporters	30,000	—	—	—	30,000	At Expiration	1.00%	30,022	1.00%
	—	—	—	—	230,000	At Expiration	1.63%	230,819	1.63%
	40,000	—	—	—	40,000	At Expiration	1.06%	40,023	1.06%
	—	—	—	—	100,000	At Expiration	1.87%	100,399	1.87%
Bank loans	—	115,051	—	—	115,051	At Expiration	3.19%	115,204	3.19%
	46,772	124,724	81,374	—	268,460	Quarterly	4.85%	267,554	4.85%
Guaranteed obligations	15,335	—	—	—	15,335	Monthly	20.75%	15,370	20.75%
	27,603	—	—	—	27,603	Monthly	23.78%	27,965	23.78%
	8,808	25,172	27,867	26,831	91,543	Quarterly	5.69%	90,705	5.01%
	34,713	82,646	10,033	—	140,312	Quarterly	1.99%	140,601	1.99%
	6,745	—	—	—	8,964	Quarterly	3.06%	8,966	2.73%
	27,256	76,985	83,871	221,267	418,254	Quarterly	2.45%	417,306	2.31%
	139,012	378,314	389,759	1,146,684	2,099,776	Quarterly	2.47%	2,003,334	1.76%
	29,315	81,681	87,189	164,399	372,191	Quarterly	2.64%	364,068	2.04%
	15,237	41,767	43,552	95,022	200,599	Quarterly	1.32%	195,687	1.78%
	7,846	21,655	22,801	63,189	118,070	Quarterly	1.64%	114,484	1.04%
	3,848	10,636	11,210	31,544	58,502	Quarterly	1.63%	56,780	1.04%
	41,995	115,549	120,924	411,684	703,992	Quarterly	2.81%	656,764	2.81%
13,408	38,018	32,448	84,814	173,036	Quarterly	3.27%	173,741	3.27%	
1,915	4,104	2,521	765	9,986	Quarterly	—	9,986	—	
Other guaranteed obligations	23,342	64,247	—	—	95,292	Quarterly	1.99%	95,356	1.99%
Financial leases	13,896	37,656	9,001	—	65,076	Quarterly	3.23%	65,226	3.03%
	13,833	63,715	7,158	—	89,514	Quarterly	1.21%	89,658	1.21%
	4,414	12,707	14,254	7,759	40,564	Quarterly	6.38%	40,138	5.65%
	42,702	121,395	108,403	22,407	308,774	Quarterly	5.35%	306,532	4.23%
19,839	56,989	56,934	7,129	147,334	Quarterly	4.65%	145,826	4.15%	
1,891	5,392	—	—	7,899	Monthly	1.43%	7,930	1.43%	
Other loans	—	170,838	—	—	170,838	At Expiration	1.75%	172,488	1.75%
	—	79,611	174,178	196,211	450,000	Quarterly	6.00%	454,050	6.00%
Total									
609,725 1,728,852 1,283,477 2,479,705 6,596,965 6,436,982									

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

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Interest-bearing loans due in installments due at December 31, 2013, at nominal value.

Class of Liability	Debtor tax No	Debtor	Debtor country	Creditor tax No	Creditor	Creditor country	Currency	Up to 90 days ThUS\$		
Bank loans	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	CITIBANK	Brazil	US\$	2,207		
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO DO BRASIL S.A.	Brazil	US\$	9,050		
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO ITAU BBA	Brazil	US\$	26,611		
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO SAFRA	Brazil	US\$	40,626		
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO SAFRA	Brazil	BRL	193		
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO BRADESCO	Brazil	US\$	74,700		
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO BRADESCO	Brazil	BRL	—		
					NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ	Holland	US\$	102		
Obligations with the publics	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	THE BANK OF NEW YORK	U.S.A.	US\$	—		
Financial leases	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	AFS INVESTMENT IX LLC	U.S.A.	US\$	1,762		
		TAM S.A. and Subsidiaries	Brazil	0-E	AIR CANADA	U.S.A.	US\$	1,325		
		TAM S.A. and Subsidiaries	Brazil	0-E	AIRBUS FINANCIAL SERVICES	U.S.A.	US\$	3,020		
		TAM S.A. and Subsidiaries	Brazil	0-E	AWAS	U.S.A.	US\$	2,992		
		TAM S.A. and Subsidiaries	Brazil	0-E	BNP PARIBAS	U.S.A.	US\$	580		
		TAM S.A. and Subsidiaries	Brazil	0-E	BNP PARIBAS	France	US\$	578		
		TAM S.A. and Subsidiaries	Brazil	0-E	CITIBANK	England	US\$	5,983		
		TAM S.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE-CIB	U.S.A.	US\$	4,258		
		TAM S.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE-CIB	France	US\$	7,911		
		TAM S.A. and Subsidiaries	Brazil	0-E	DVB BANK SE	Germany	US\$	3,125		
		TAM S.A. and Subsidiaries	Brazil	0-E	DVB BANK SE	U.S.A.	US\$	197		
				TAM S.A. and Subsidiaries	Brazil	0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A.	US\$	3,430
				TAM S.A. and Subsidiaries	Brazil	0-E	HSBC	France	US\$	1,307
				TAM S.A. and Subsidiaries	Brazil	0-E	KFW IPEX-BANK	Germany	US\$	3,877
				TAM S.A. and Subsidiaries	Brazil	0-E	NATIXIS	France	US\$	6,009
				TAM S.A. and Subsidiaries	Brazil	0-E	PK AIRFINANCE US, INC.	U.S.A.	US\$	2,780
				TAM S.A. and Subsidiaries	Brazil	0-E	WACAPOU LEASING S.A.	Luxembourg	US\$	453
				TAM S.A. and Subsidiaries	Brazil	0-E	WELLS FARGO BANK NORTHWEST N.A.	U.S.A.	US\$	1,769
				TAM S.A. and Subsidiaries	Brazil	0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	11,772
				TAM S.A. and Subsidiaries	Brazil	0-E	THE TORONTO-DOMINION BANK	U.S.A.	US\$	515
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO DE LAGE LANDEN BRASIL S.A	Brazil	BRL	239		
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO IBM S.A	Brazil	BRL	134		
		TAM S.A. and Subsidiaries	Brazil	0-E	HP FINANCIAL SERVICE	Brazil	BRL	287		
		TAM S.A. and Subsidiaries	Brazil	0-E	SOCIETE AIR FRANCE	France	EUR	69		
Other loans	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	COMPANHIA BRASILEIRA DE MEIOS DE PAGAMENTO	Brazil	BRL	27,244		
								Total	245,105	
								Total Consolidated	740,311	

Class of Liability	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total nominal value ThUS\$	Amortization	Effective rate %	Total accounting value ThUS\$	nominal rate %
Bank loans	41,678	—	—	—	43,885	At Expiration	3.76%	44,719	3.20%
	128,799	—	—	—	137,849	At Expiration	5.20%	140,152	4.66%
	47,219	—	—	—	73,830	At Expiration	6.31%	76,228	4.73%
	21,731	—	—	—	62,357	At Expiration	3.73%	63,981	2.94%
	443	48	—	—	684	Monthly	7.42%	669	7.42%
	47,641	—	—	—	122,341	At Expiration	3.87%	126,046	3.29%
42,688	—	—	—	42,688	At Expiration	10.63%	42,701	10.15%	
316	915	1,031	1,851	4,215	Monthly	6.01%	4,236	6.01%	
Obligations with the publics	—	—	300,000	800,000	1,100,000	At Expiration	8.60%	1,138,432	8.41%
Financial leases	5,438	15,673	17,540	17,908	58,321	Monthly	1.25%	58,595	1.25%
	1,645	—	—	—	2,970	Monthly	—	2,970	—
	9,311	26,792	20,813	15,416	75,352	Monthly	1.42%	75,488	1.42%
	2,659	—	—	—	5,651	Monthly	—	6,315	—
	1,810	5,262	5,982	8,448	22,082	Quarterly	1.00%	22,153	1.00%
	1,758	4,959	5,371	9,693	22,359	Quarterly	0.86%	22,433	0.75%
	18,179	44,318	47,123	106,987	222,590	Quarterly	1.03%	223,008	0.90%
	12,917	55,573	11,431	13,766	97,945	Quarterly	1.40%	98,203	1.40%
25,433	58,866	50,469	52,717	195,396	Quarterly/ Semiannual	0.75%	195,819	0.65%	

	9,375	12,500	—	—	25,000	Quarterly	2.50%	25,070	2.50%
	590	1,210	282	—	2,279	Monthly	1.75%	2,283	1.75%
	48,548	—	—	—	51,978	Monthly	1.25%	52,049	1.25%
	3,983	10,976	11,533	36,497	64,296	Quarterly	1.45%	64,425	1.25%
	11,869	28,660	20,499	17,813	82,718	Monthly/ Quarterly	1.74%	82,869	1.74%
	16,490	49,293	55,352	118,984	246,128	Quarterly/ Semiannual	2.81%	247,705	2.78%
	8,610	40,227	17,171	37,615	106,403	Monthly	1.71%	106,588	1.71%
	1,303	3,097	2,617	14,267	21,737	Quarterly	2.00%	21,782	2.00%
	1,425	—	—	—	3,194	Monthly	1.25%	3,198	1.25%
	35,604	87,655	96,473	102,591	334,095	Quarterly	3.86%	335,017	3.78%
	1,566	4,297	4,485	6,531	17,394	Quarterly	0.57%	17,420	0.57%
	724	—	—	—	963	Monthly	10.38%	896	10.38%
	192	511	213	—	1,050	Monthly	10.58%	1,069	10.58%
	746	2,218	308	—	3,559	Monthly	9.90%	3,558	9.90%
	1,310	—	—	—	1,379	Monthly	6.82%	2,029	6.82%
Other loans	537	—	—	—	27,781	Monthly	2.38%	27,781	2.38%
	<u>552,537</u>	<u>453,050</u>	<u>668,693</u>	<u>1,361,084</u>	<u>3,280,469</u>			<u>3,335,887</u>	
	<u>1,162,262</u>	<u>2,181,902</u>	<u>1,952,170</u>	<u>3,840,789</u>	<u>9,877,434</u>			<u>9,772,869</u>	

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Interest-bearing loans due in installments to December 31, 2013, at accounting values

Class of Liability	Debtor tax No	Debtor	Debtor country	Creditor tax No	Creditor	Creditor country	Currency	Up to 90 days ThUS\$
Loans to export	89.862.200-2	LATAM Airlines Group S.A.	Chile	97.032.000-8	BBVA	Chile	US \$	—
		LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US \$	230,819
		LATAM Airlines Group S.A.	Chile	97.030.000-7	ESTADO	Chile	US \$	—
		LATAM Airlines Group S.A.	Chile	76.100.458-1	BLADEX	Chile	US \$	100,399
Bank loans	89.862.200-2	LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US \$	153
		LATAM Airlines Group S.A.	Chile	97.023.000-9	CORPBANCA	Chile	UF	17,475
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK	Argentina	ARS \$	35
Guaranteed obligations	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	BBVA	Argentina	ARS \$	362
		LATAM Airlines Group S.A.	Chile	0-E	ING	U.S.A.	US \$	3,635
		LATAM Airlines Group S.A.	Chile	0-E	CREDIT AGRICOLE	France	US \$	13,209
		LATAM Airlines Group S.A.	Chile	0-E	PEFCO	U.S.A.	US \$	2,239
		LATAM Airlines Group S.A.	Chile	0-E	BNP P ARIBAS	U.S.A.	US \$	10,356
		LATAM Airlines Group S.A.	Chile	0-E	WELLS FARGO	U.S.A.	US \$	52,722
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK	U.S.A.	US \$	10,850
		LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US \$	5,347
		LATAM Airlines Group S.A.	Chile	0-E	BTMU	U.S.A.	US \$	2,784
		LATAM Airlines Group S.A.	Chile	0-E	APP LE BANK	U.S.A.	US \$	1,431
		LATAM Airlines Group S.A.	Chile	0-E	US BANK	U.S.A.	US \$	17,106
		LATAM Airlines Group S.A.	Chile	0-E	DEUTSCHE BANK	U.S.A.	US \$	5,053
LATAM Airlines Group S.A.	Chile	—	SWAP Aircraft arrivals -	—	US \$	681		
Other guaranteed obligations	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	DVB BANK SE	U.S.A.	US \$	7,766
Financial leases	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	ING	U.S.A.	US \$	4,964
		LATAM Airlines Group S.A.	Chile	0-E	CREDITE AGRICOLE	France	US \$	4,952
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK	U.S.A.	US \$	1,651
		LATAM Airlines Group S.A.	Chile	0-E	PEFCO	U.S.A.	US \$	15,884
		LATAM Airlines Group S.A.	Chile	0-E	BNP PARIBAS	U.S.A.	US \$	6,908
Other loans	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	BANC OF AMERICA	U.S.A.	US \$	647
	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	BOEING	U.S.A.	US \$	—
								4,050
Total								521,478

Class of Liability	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	Amortization	Effective rate	Total nominal value	Nominal rate
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$			ThUS\$	%
Loans to export	30,022	—	—	—	30,022	At Expiration	1.00%	30,000	1.00%
	—	—	—	—	230,819	At Expiration	1.63%	230,000	1.63%
	40,023	—	—	—	40,023	At Expiration	1.06%	40,000	1.06%
Bank loans	—	—	—	—	100,399	At Expiration	1.87%	100,000	1.87%
	—	115,051	—	—	115,204	At Expiration	3.19%	115,051	3.19%
	46,771	122,780	80,528	—	267,554	Quarterly	4.85%	268,460	4.85%
Guaranteed obligations	15,335	—	—	—	15,370	Monthly	20.75%	15,335	20.75%
	27,603	—	—	—	27,965	Monthly	23.78%	27,603	23.78%
	8,807	24,144	27,437	26,682	90,705	Quarterly	5.69%	91,543	5.01%
	34,713	82,646	10,033	—	140,601	Quarterly	1.99%	140,312	1.99%
	6,746	(19)	—	—	8,966	Quarterly	3.06%	8,964	2.73%
	27,256	75,420	83,243	221,031	417,306	Quarterly	2.45%	418,254	2.31%
	139,012	330,363	365,871	1,115,366	2,003,334	Quarterly	2.47%	2,099,776	1.76%
	29,315	76,583	84,847	162,473	364,068	Quarterly	2.64%	372,191	2.04%
	15,238	38,966	42,256	93,880	195,687	Quarterly	1.32%	200,599	0.78%
	7,846	19,797	21,891	62,166	114,484	Quarterly	1.64%	118,070	1.04%
	3,848	9,716	10,758	31,027	56,780	Quarterly	1.63%	58,502	1.04%
	41,995	93,083	109,417	395,163	656,764	Quarterly	2.81%	703,992	2.81%
13,408	38,017	32,449	84,814	173,741	Quarterly	3.27%	173,036	3.27%	
1,915	4,104	2,521	765	9,986	Quarterly	—	9,986	—	

Other guaranteed obligations	23,343	64,247	—	—	95,356	Quarterly	1.99%	95,292	1.99%
Financial leases	13,896	37,395	8,971	—	65,226	Quarterly	3.23%	65,076	3.03%
	13,834	63,715	7,157	—	89,658	Quarterly	1.21%	89,514	1.21%
	4,413	12,254	14,089	7,731	40,138	Quarterly	6.38%	40,564	5.65%
	42,702	118,027	107,595	22,324	306,532	Quarterly	5.35%	308,774	4.23%
	19,839	55,403	56,567	7,109	145,826	Quarterly	4.65%	147,334	4.15%
	1,891	5,392	—	—	7,930	Monthly	1.43%	7,899	1.43%
Other loans	1,650	170,838	—	—	172,488	At Expiration	1.75%	170,838	1.75%
	—	79,611	174,178	196,211	454,050	Quarterly	6.00%	450,000	6.00%
	<u>611,421</u>	<u>1,637,533</u>	<u>1,239,808</u>	<u>2,426,742</u>	<u>6,436,982</u>			<u>6,596,965</u>	

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

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Interest-bearing loans due in installments to December 31, 2013, at accounting value

Class of Liability	Debtor tax No	Debtor	Debtor country	Creditor tax No	Creditor	Creditor country	Currency	Up to 90 days
								ThUS\$
Bank loans	02.012.862/ 0001-60	TAMS.A. and Subsidiaries	Brazil	0-E	CITIBANK	Brazil	US\$	2,306
		TAMS.A. and Subsidiaries	Brazil	0-E	BANCODEBRASIL S.A.	Brazil	US\$	9,410
		TAMS.A. and Subsidiaries	Brazil	0-E	BANCOITAUBBA	Brazil	US\$	27,804
		TAMS.A. and Subsidiaries	Brazil	0-E	BANCOSAFRA	Brazil	US\$	41,768
		TAMS.A. and Subsidiaries	Brazil	0-E	BANCOSAFRA	Brazil	BRL	187
		TAMS.A. and Subsidiaries	Brazil	0-E	BANCO BRADESCO	Brazil	US\$	77,218
		TAMS.A. and Subsidiaries	Brazil	0-E	BANCO BRADESCO	Brazil	BRL	—
		TAMS.A. and Subsidiaries	Brazil	0-E	NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ	Holland	US\$	123
Obligations with the publics	02.012.862/ 0001-60	TAMS.A. and Subsidiaries	Brazil	0-E	THE BANK OF NEW YORK	U.S.A	US\$	19,760
Financial leases	02.012.862/0001-60	TAMS.A. and Subsidiaries	Brazil	0-E	AFS INVESTMENT IX LLC	U.S.A	US\$	2,036
		TAMS.A. and Subsidiaries	Brazil	0-E	AIR CANADA	U.S.A	US\$	1,325
		TAMS.A. and Subsidiaries	Brazil	0-E	USAIRBUS FINANCIAL SERVICES	U.S.A	US\$	3,156
		TAMS.A. and Subsidiaries	Brazil	0-E	AWAS	U.S.A	US\$	3,656
		TAMS.A. and Subsidiaries	Brazil	0-E	BNP PARIBAS	U.S.A	US\$	651
		TAMS.A. and Subsidiaries	Brazil	0-E	BNP PARIBAS	France	US\$	652
		TAMS.A. and Subsidiaries	Brazil	0-E	CITIBANK	England	US\$	6,401
		TAMS.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE - CIB	U.S.A	US\$	4,516
		TAMS.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE - CIB	France	US\$	8,334
		TAMS.A. and Subsidiaries	Brazil	0-E	DVB BANK SE	Germany	US\$	3,195
		TAMS.A. and Subsidiaries	Brazil	0-E	DVB BANK SE	U.S.A	US\$	201
		TAMS.A. and Subsidiaries	Brazil	0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A	US\$	3,501
		TAMS.A. and Subsidiaries	Brazil	0-E	HSBC	France	US\$	1,436
		TAMS.A. and Subsidiaries	Brazil	0-E	KFWIPEX-BANK	Germany	US\$	4,027
		TAMS.A. and Subsidiaries	Brazil	0-E	NATIXIS	France	US\$	7,586
		TAMS.A. and Subsidiaries	Brazil	0-E	PKAIRFINANCE US, INC.	U.S.A	US\$	2,964
		TAMS.A. and Subsidiaries	Brazil	0-E	WACAPOULEASING S.A.	Luxembourg	US\$	498
		TAMS.A. and Subsidiaries	Brazil	0-E	WELLS FARGOBANK NORTHWEST N.A.	U.S.A	US\$	1,773
		TAMS.A. and Subsidiaries	Brazil	0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	12,694
		TAMS.A. and Subsidiaries	Brazil	0-E	THE TORONTO- DOMINIONBANK	U.S.A	\$US	541
		TAMS.A. and Subsidiaries	Brazil	0-E	BANCODE LAGE LANDEN BRASIL S.A	Brazil	BRL	222
		TAMS.A. and Subsidiaries	Brazil	0-E	BANCOIBM S.A	Brazil	BRL	153
		TAMS.A. and Subsidiaries	Brazil	0-E	HP FINANCIAL SERVICE	Brazil	BRL	285
		TAMS.A. and Subsidiaries	Brazil	0-E	SOCIETE AIR FRANCE	France	EUR	824
Other loans	02.012.862/0001-60	TAMS.A. and Subsidiaries	Brazil	0-E	COMPANHIA BRASILEIRA DE MEIOS DE PAGAMENTO	Brazil	BRL	27,244
					Total			276,447
					Total Consolidated			797,925

Class of Liability	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	Amortization	Effective rate	Total nominal value	Nominal rate
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$		%	ThUS\$	%
Bank loans	42,413	—	—	—	44,719	At expiration	3.76%	43,885	3.20%
	130,742	—	—	—	140,152	At expiration	5.20%	137,849	4.66%
	48,424	—	—	—	76,228	At expiration	6.31%	73,830	4.73%
	22,213	—	—	—	63,981	At expiration	3.73%	62,357	2.94%
	431	51	—	—	669	Monthly	7.42%	684	7.42%
	48,828	—	—	—	126,046	At expiration	3.87%	122,341	3.29%
	42,701	—	—	—	42,701	At expiration	10.63%	42,688	10.15%
	—	—	—	—	—	—	—	—	—
	316	915	1,031	1,851	4,236	Monthly	6.01%	4,215	6.01%
Obligations with the publics	2,001	5,343	305,554	805,774	1,138,432	At expiration	8.60%	1,100,000	8.41%
Financial leases	5,437	15,673	17,541	17,908	58,595	Monthly	1.25%	58,321	1.25%
	1,645	—	—	—	2,970	Monthly	—	2,970	—
	9,311	26,792	20,812	15,417	75,488	Monthly	1.42%	75,352	1.42%
	2,659	—	—	—	6,315	Monthly	—	5,651	—
	1,810	5,262	5,982	8,448	22,153	Quarterly	1.00%	22,082	1.00%
	1,758	4,959	5,371	9,693	22,433	Quarterly	0.86%	22,359	0.75%
	18,179	44,318	47,123	106,987	223,008	Quarterly	1.03%	222,590	0.90%

	12,917	55,573	11,431	13,766	98,203	Quarterly	1.40%	97,945	1.40%
	25,433	58,866	50,469	52,717	195,819	Quarterly/ Semiannual	0.75%	195,396	0.65%
	9,375	12,500	—	—	25,070	Quarterly	2.50%	25,000	2.50%
	590	1,210	282	—	2,283	Monthly	1.75%	2,279	1.75%
	48,548	—	—	—	52,049	Monthly	1.25%	51,978	1.25%
	3,983	10,976	11,533	36,497	64,425	Quarterly	1.45%	64,296	1.25%
	11,869	28,660	20,500	17,813	82,869	Monthly/ Quarterly	1.74%	82,718	1.74%
	16,490	49,293	55,352	118,984	247,705	Quarterly/ Semiannual	2.81%	246,128	2.78%
	8,611	40,227	17,171	37,615	106,588	Monthly	1.71%	106,403	1.71%
	1,303	3,097	2,617	14,267	21,782	Quarterly	2.00%	21,737	2.00%
	1,425	—	—	—	3,198	Monthly	1.25%	3,194	1.25%
	35,604	87,655	96,473	102,591	335,017	Quarterly	3.86%	334,095	3.78%
	1,566	4,297	4,485	6,531	17,420	Quarterly	0.57%	17,394	0.57%
	674	—	—	—	896	Monthly	10.38%	963	10.38%
	192	511	213	—	1,069	Monthly	10.58%	1,050	10.58%
	745	2,220	308	—	3,558	Monthly	9.90%	3,559	9.90%
	1,205	—	—	—	2,029	Monthly	6.82%	1,379	6.82%
Other loans	537	—	—	—	27,781	Monthly	2.38%	27,781	2.38%
	<u>559,935</u>	<u>458,398</u>	<u>674,248</u>	<u>1,366,859</u>	<u>3,335,887</u>			<u>3,280,469</u>	
	<u>1,171,356</u>	<u>2,095,931</u>	<u>1,914,056</u>	<u>3,793,601</u>	<u>9,772,869</u>			<u>9,877,434</u>	

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Interest-bearing loans due in installments due at December 31, 2012, at nominal value

Class of Liability	Debtor tax No	Debtor	Debtor country	Creditor tax No	Creditor	Creditor country	Currency	Up to 90 days
								ThUS\$
Loans to exporters	89.862.200-2	LATAM Airlines Group S.A.	Chile	97.004.000-5	BANCODECHILE	Chile	US \$	30,000
		LATAM Airlines Group S.A.	Chile	97.006.000-6	BCI	Chile	US \$	35,000
		LATAM Airlines Group S.A.	Chile	76.645.030-K	ITAU	Chile	US \$	75,000
		LATAM Airlines Group S.A.	Chile	97.032.000-8	BBVA	Chile	US \$	102,000
Bank loans	89.862.200-2	LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US \$	—
		LATAM Airlines Group S.A.	Chile	97.030.000-7	ESTADO	Chile	US \$	—
Guaranteed obligations	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	ING	U.S.A.	US \$	2,732
		LATAM Airlines Group S.A.	Chile	0-E	CREDITE AGRICOLE	France	US \$	12,203
		LATAM Airlines Group S.A.	Chile	0-E	PEFCO	U.S.A.	US \$	3,474
		LATAM Airlines Group S.A.	Chile	0-E	BNP PARIBAS	U.S.A.	US \$	13,578
		LATAM Airlines Group S.A.	Chile	0-E	WELLS FARGO	U.S.A.	US \$	39,546
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK	U.S.A.	US \$	9,311
		LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US \$	4,931
		LATAM Airlines Group S.A.	Chile	0-E	BTMU	U.S.A.	US \$	2,514
		LATAM Airlines Group S.A.	Chile	0-E	APPLE BANK	U.S.A.	US \$	1,231
		LATAM Airlines Group S.A.	Chile	0-E	BANK OF AMERICA MERRIL LYNCH	U.S.A.	US \$	3,159
		LATAM Airlines Group S.A.	Chile	0-E	DEVELOPMENT BANK OF JAPAN	U.S.A.	US \$	1,962
		LATAM Airlines Group S.A.	Chile	0-E	DEUTSCHE BANK	U.S.A.	US \$	4,151
		LATAM Airlines Group S.A.	Chile	—	SWAP Aircraft arrivals	-	US \$	815
Financial leases	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	ING	U.S.A.	US \$	6,510
		LATAM Airlines Group S.A.	Chile	0-E	CREDITE AGRICOLE	France	US \$	4,646
		LATAM Airlines Group S.A.	Chile	0-E	CITIBANK	U.S.A.	US \$	1,358
		LATAM Airlines Group S.A.	Chile	0-E	S.CHARTERED	U.S.A.	US \$	1,825
		LATAM Airlines Group S.A.	Chile	0-E	PEFCO	U.S.A.	US \$	11,899
Other loans	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	BOEING	U.S.A.	US \$	—
		LATAM Airlines Group S.A.	Chile	—	OTROS	U.S.A.	US \$	3,524
Total								371,369

Class of Liability	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	Amortization	Effective rate	Total accounting value	Nominal rate	
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$		%	ThUS\$	%	
Loans to exporters	—	—	—	—	30,000	Semiannual	2.17%	30,253	2.17%	
	—	—	—	—	35,000	Semiannual	1.70%	35,056	1.70%	
	—	—	—	—	75,000	Quarterly	1.32%	75,084	1.32%	
	—	—	—	—	102,000	Annual	1.83%	102,562	1.79%	
Bank loans	—	214,373	—	—	214,373	—	2.57%	214,586	2.57%	
Guaranteed obligations	44,848	—	—	—	44,848	Semiannual	1.76%	44,972	1.74%	
	8,374	23,951	26,478	41,114	102,649	Quarterly	5.69%	101,461	5.01%	
	33,402	35,129	6,714	—	87,448	Quarterly	3.42%	87,719	3.37%	
	10,696	20,753	13,014	18,211	66,148	Quarterly	4.96%	65,494	4.41%	
	41,635	118,769	130,877	146,231	451,090	Quarterly	4.15%	444,700	3.67%	
	119,458	324,890	334,407	1,141,162	1,959,463	Quarterly	2.57%	1,872,616	1.76%	
	28,406	79,112	84,369	208,710	409,908	Quarterly	2.71%	399,854	2.10%	
	14,919	40,930	42,645	117,024	220,449	Quarterly	1.39%	214,435	0.85%	
	7,638	21,116	22,221	74,733	128,222	Quarterly	1.73%	123,920	1.13%	
	3,748	10,359	10,919	37,223	63,480	Quarterly	1.71%	61,411	1.11%	
	—	9,602	26,388	27,586	106,054	172,789	Quarterly	1.97%	165,394	1.26%
	—	5,974	16,404	17,153	65,579	107,072	Quarterly	1.98%	102,662	1.27%
	—	12,813	36,339	39,791	96,906	190,000	Quarterly	3.35%	190,813	3.35%
—	2,316	5,158	3,549	1,916	13,754	—	—	13,754	—	
Financial leases	16,075	35,499	25,563	1,844	85,491	Quarterly	3.71%	85,670	3.42%	
—	14,192	29,145	30,216	25,485	103,684	Quarterly	1.32%	103,869	1.29%	
—	4,164	12,014	13,461	15,089	46,086	Quarterly	6.38%	45,480	5.65%	
—	5,637	—	—	—	7,462	Quarterly	1.31%	7,466	1.31%	
—	36,603	104,071	112,116	49,572	314,261	Quarterly	5.29%	311,418	4.70%	
Other loans	—	146,189	—	—	146,189	—	1.86%	148,582	1.86%	
—	10,706	29,472	15,258	—	58,960	Quarterly	2.08%	58,340	2.08%	
Total								5,107,571		

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Interest-bearing loans due in installments due at December 31, 2012, at nominal value

Class of Liability	Debtor tax No	Debtor	Debtor country	Creditor Tax No	Creditor	Creditor country	Currency	Up to 90 days ThUS\$
Bank loans	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE	France	US\$	—
		TAM S.A. and Subsidiaries	Brazil	0-E	CITIBANK	Brazil	US\$	24,363
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO DO BRASIL S.A.	Brazil	US\$	42,106
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO IBM S.A	Brazil	BRL	92
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO ITAUBBA	Brazil	US\$	45,539
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO SAFRA	Brazil	BRI/US\$	17,306
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO UNIBANCO	Brazil	BRL	61
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO BRADESCO	Brazil	BRL	—
		TAM S.A. and Subsidiaries	Brazil	0-E	NEDERLANDSCHE CREDIET VERZEKERING MAATSCHAPPU	Holland	US\$	96
		TAM S.A. and Subsidiaries	Brazil	0-E	THE BANK OF NEW YORK	U.S.A.	US\$	—
Obligations with the publics	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	BANCO DO BRASIL S.A.	Brazil	BRL	24,468
Financial leases	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	AFS INVESTMENT IX LLC	U.S.A.	US\$	1,666
		TAM S.A. and Subsidiaries	Brazil	0-E	AIR CANADA	U.S.A.	US\$	3,400
		TAM S.A. and Subsidiaries	Brazil	0-E	AIRBUS FINANCIAL SERVICES	U.S.A.	US\$	2,862
		TAM S.A. and Subsidiaries	Brazil	0-E	AWAS	U.S.A.	US\$	2,991
		TAM S.A. and Subsidiaries	Brazil	0-E	BNP PARIBAS	U.S.A.	US\$	544
		TAM S.A. and Subsidiaries	Brazil	0-E	BNP PARIBAS	France	US\$	2,372
		TAM S.A. and Subsidiaries	Brazil	0-E	CITIBANK	England	US\$	11,862
		TAM S.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE-CIB	U.S.A	US\$	4,182
		TAM S.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE -CIB	France	US\$	15,945
		TAM S.A. and Subsidiaries	Brazil	0-E	DVB BANK SE	Germany	US\$	3,125
		TAM S.A. and Subsidiaries	Brazil	0-E	DVB BANK SE	U.S.A.	US\$	456
		TAM S.A. and Subsidiaries	Brazil	0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A.	US\$	9,140
		TAM S.A. and Subsidiaries	Brazil	0-E	HSBC	France	US\$	1,275
		TAM S.A. and Subsidiaries	Brazil	0-E	KFW IPEX-BANK	Germany	US\$	3,709
		TAM S.A. and Subsidiaries	Brazil	0-E	NATIXIS	France	US\$	5,972
		TAM S.A. and Subsidiaries	Brazil	0-E	PK AIRFINANCE US, INC.	U.S.A.	US\$	2,600
		TAM S.A. and Subsidiaries	Brazil	0-E	WACAPOU LEASING S.A.	Luxembourg	US\$	493
		TAM S.A. and Subsidiaries	Brazil	0-E	WELLS FARGO BANK NORTHWEST N.A.	U.S.A.	US\$	1,769
		TAM S.A. and Subsidiaries	Brazil	0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	11,355
		TAM S.A. and Subsidiaries	Brazil	0-E	THE TORONTO-DOMINION BANK	U.S.A.	US\$	504
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCODE LAGE LANDEN BRASIL S.A	Brazil	BRL	252
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO IBM S.A	Brazil	BRL	543
		TAM S.A. and Subsidiaries	Brazil	0-E	CISLATINA ARRENDAMENTO MERCANTIL S.A	Brazil	BRL	40
		TAM S.A. and Subsidiaries	Brazil	0-E	HP FINANCIAL SERVICE	Brazil	BRL	189
		TAM S.A. and Subsidiaries	Brazil	0-E	SOCIETE AIR FRANCE	France	EUR	61
		TAM S.A. and Subsidiaries	Brazil	0-E	SOCIETE GENERALE LEASING S.A.	Brazil	BRL	2,520
Others loans	02.012.862/ 0001-60	TAMS.A. and Subsidiaries	Brazil	0-E	COMPANHIA BRASILEIRA DE MEIOS DE PAGAMENTO	Brazil	BRL	31,882
					Total			275,749
					Total Consolidated			647,118

Class of Liability	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total nominal value ThUS\$	Amortization	Effective rate %	Total accounting value ThUS\$	Nominal rate %
Bank loans	50,322	—	—	—	50,322	Quarterly	2.81%	64,480	2.81%
	5,623	—	—	—	29,986	At Expiration	4.03%	30,419	4.03%
	109,874	—	—	—	151,980	At Expiration	5.35%	152,517	5.35%
	—	—	—	—	92	Semiannual	10.72%	336	10.72%
	117,852	—	—	—	163,391	At Expiration	5.65%	166,916	5.65%
	14,356	784	—	—	32,446	Monthly/ At Expiration	7.69%/4.01%	32,596	7.69%/4.01%
	27	—	—	—	88	Monthly	8.94%	78	8.94%
	27,484	—	—	—	27,484	At Expiration	3.34%	27,506	3.34%
	297	861	971	2,383	4,608	Monthly	0.96%	4,674	0.95%
Obligations with the publics	—	—	300,000	800,000	1,100,000	At Expiration	8.60%	1,146,251	8.41%

	220,210	—	—	—	244,678	Semiannual	8.96%	251,271	8.56%
Financial leases	5,140	14,816	16,580	26,925	65,127	Monthly	N/A	66,032	N/A
	9,350	—	—	—	12,750	Monthly	N/A	12,871	N/A
	8,819	25,357	27,070	22,925	87,033	Monthly	2.25%	87,409	2.25%
	8,975	5,651	—	—	17,617	Monthly	N/A	18,588	N/A
	1,699	4,939	5,609	11,535	24,326	Quarterly	1.50%	24,479	1.50%
	7,237	17,064	17,384	43,929	87,986	Quarterly	3.84%	88,109	3.84%
	41,043	82,593	81,129	234,657	451,284	Quarterly	3.69%	451,201	3.69%
	12,683	67,629	10,627	19,689	114,810	Quarterly	2.29%	115,493	2.29%
	47,894	126,930	121,391	182,561	494,721	Quarterly/ Semiannual	2.01%/0.82%	497,986	2.01%/0.37%
	9,375	25,000	—	—	37,500	Quarterly	2.89%	37,570	2.89%
	1,369	2,821	756	—	5,402	Monthly	2.25%	5,420	2.25%
	19,967	51,979	—	—	81,086	Monthly	2.59%	81,379	2.59%
	3,887	10,713	11,249	42,334	69,458	Quarterly	1.70%	69,596	0.85%
	11,343	32,226	23,604	26,888	97,770	Monthly/ Quarterly	2.11%/2.21%	98,111	2.11%/2.21%
	20,421	59,579	66,989	163,464	316,425	Quarterly/ Semiannual	2.62%/3.32%	319,002	2.62%/3.32%
	8,080	23,530	36,373	46,500	117,092	Monthly	1.96%	117,520	1.96%
	1,417	3,369	2,847	15,521	23,647	Quarterly	2.42%	23,844	2.42%
	5,308	3,194	—	—	10,271	Monthly	1.98%	10,300	1.98%
	34,574	90,164	91,964	151,968	380,025	Quarterly	1.95%	381,847	1.95%
	1,532	4,207	4,390	8,798	19,431	Quarterly	0.88%	19,544	0.08%
	758	1,015	—	—	2,025	Monthly	7.51%	1,344	7.51%
	1,631	81	—	—	2,255	Monthly	10.58%	2,192	10.58%
	13	—	—	—	53	Monthly	5.31%	50	5.31%
	484	74	—	—	747	Monthly	9.08%	711	9.08%
	191	1,320	—	—	1,572	Monthly	6.82%	1,785	6.82%
	—	—	—	—	2,520	Monthly	0.00%	1,534	0.00%
Others loans	9,143	—	—	—	41,025	Monthly	2.20%	41,025	2.20%
	<u>818,378</u>	<u>655,896</u>	<u>818,933</u>	<u>1,800,077</u>	<u>4,369,033</u>			<u>4,451,986</u>	
	<u>1,249,584</u>	<u>1,985,957</u>	<u>1,775,270</u>	<u>3,946,930</u>	<u>9,604,859</u>			<u>9,559,557</u>	

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Interest-bearing loans due in installments to December 31, 2012, at accounting values

Class of Liability	Debtor tax No	Debtor	Debtor country	Creditor Tax No	Creditor	Creditor country	Currency	Up to 90 days ThUS\$
Loans to export	89.862.200-2	LATAM Airlines Group S.A.	Chile	97.004.000-5	BANCO DE CHILE	Chile	US \$	30,253
		LATAM Airlines Group S.A.	Chile	97.006.000-6	BCI	Chile	US \$	35,056
		LATAM Airlines Group S.A.	Chile	76.645.030-K	ITAU	Chile	US \$	75,084
		LATAM Airlines Group S.A.	Chile	97.032.000-8	BBVA	Chile	US \$	102,562
Bank loans	89.862.200-2	LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US \$	214
		LATAM Airlines Group S.A.	Chile	97.030.000-7	ESTADO	Chile	US \$	—
Guaranteed obligations	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	ING	U.S.A.	US \$	3,590
		LATAM Airlines Group S.A.	Chile	0-E	CREDIT AGRICOLE	France	US \$	12,475
		LATAM Airlines Group S.A.	Chile	0-E	PEFCO	U.S.A.	US \$	3,829
		LATAM Airlines Group S.A.	Chile	0-E	BNP PARIBAS	U.S.A.	US \$	15,428
		LATAM Airlines Group S.A.	Chile	0-E	WELLS FARGO	U.S.A.	US \$	45,109
		LATAM Airlines Group S.A.	Chile	0-E	CITI BANK	U.S.A.	US \$	10,711
		LATAM Airlines Group S.A.	Chile	97.036.000-K	SANTANDER	Chile	US \$	5,308
		LATAM Airlines Group S.A.	Chile	0-E	BTMU	U.S.A.	US \$	2,746
		LATAM Airlines Group S.A.	Chile	0-E	APPLE BANK	U.S.A.	US \$	1,418
		LATAM Airlines Group S.A.	Chile	0-E	BANK OF AMERICA MERRILL LYNCH	U.S.A.	US \$	3,566
Financial leases	89.862.200-2	LATAM Airlines Group S.A.	Chile	0-E	DEVELOPMENT OF JAPAN	U.S.A.	US \$	2,373
		LATAM Airlines Group S.A.	Chile	0-E	DEUTSCHE BANK	U.S.A.	US \$	4,964
		LATAM Airlines Group S.A.	Chile	—	SWAP Aircraft arrivals	—	US \$	815
		LATAM Airlines Group S.A.	Chile	0-E	ING	U.S.A.	US \$	7,167
		LATAM Airlines Group S.A.	Chile	0-E	CREDITE AGRICOLE	France	US \$	4,831
		LATAM Airlines Group S.A.	Chile	0-E	CITI BANK	U.S.A.	US \$	1,603
		LATAM Airlines Group S.A.	Chile	0-E	S.CHARTERED	U.S.A.	US \$	1,828
		LATAM Airlines Group S.A.	Chile	0-E	PEFCO	U.S.A.	US \$	13,960
		LATAM Airlines Group S.A.	Chile	0-E	BOEING	U.S.A.	US \$	563
		LATAM Airlines Group S.A.	Chile	—	OTHERS	U.S.A.	US \$	3,524
Total								388,977

Class of Liability	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total accounting value ThUS\$	Amortization	Effective rate %	Total nominal value ThUS\$	Nominal rate %
Loans to export	—	—	—	—	30,253	Semiannual	2.17%	30,000	2.17%
	—	—	—	—	35,056	Semiannual	1.70%	35,000	1.70%
	—	—	—	—	75,084	Quarterly	1.32%	75,000	1.32%
	—	—	—	—	102,562	Annual	1.83%	102,000	1.79%
Bank loans	—	214,372	—	—	214,586	—	2.57%	214,373	2.57%
	44,988	(16)	—	—	44,972	Semiannual	1.76%	44,848	1.74%
Guaranteed obligations	8,374	22,767	25,947	40,783	101,461	Quarterly	5.69%	102,649	5.01%
	33,402	35,128	6,714	—	87,719	Quarterly	3.42%	87,448	3.37%
	10,696	20,126	12,764	18,079	65,494	Quarterly	4.96%	66,148	4.41%
	41,635	113,648	128,765	145,224	444,700	Quarterly	4.15%	451,090	3.67%
	119,458	284,423	313,700	1,109,926	1,872,616	Quarterly	2.57%	1,959,463	1.76%
	28,406	73,422	81,588	205,727	399,854	Quarterly	2.71%	409,908	2.10%
	14,919	37,798	41,117	115,293	214,435	Quarterly	1.39%	220,449	0.85%
	7,638	19,070	21,177	73,289	123,920	Quarterly	1.73%	128,222	1.13%
	3,748	9,347	10,401	36,497	61,411	Quarterly	1.71%	63,480	1.11%
	9,602	23,088	25,860	103,278	165,394	Quarterly	1.97%	172,789	1.26%
5,974	14,360	16,085	63,870	102,662	Quarterly	1.98%	107,072	1.27%	
12,813	36,339	39,791	96,906	190,813	Quarterly	3.35%	190,000	3.35%	
2,316	5,158	3,549	1,916	13,754	—	—	13,754	—	
Financial leases	16,076	35,155	25,431	1,841	85,670	Quarterly	3.71%	85,491	3.42%
	14,191	29,145	30,216	25,486	103,869	Quarterly	1.32%	103,684	1.29%
	4,164	11,481	13,237	14,995	45,480	Quarterly	6.38%	46,086	5.65%
	5,638	—	—	—	7,466	Quarterly	1.31%	7,462	1.31%
36,603	100,514	110,981	49,360	311,418	Quarterly	5.29%	314,261	4.70%	

Other loans	1,829	146,190	—	—	148,582	—	1.86%	146,189	1.86%
	10,706	29,472	14,638	—	58,340	Quarterly	2.08%	58,960	2.08%
	<u>433,176</u>	<u>1,260,987</u>	<u>921,961</u>	<u>2,102,470</u>	<u>5,107,571</u>			<u>5,235,826</u>	

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Interest-bearing loans due in installments to December 31, 2012, at accounting value

Class of Liability	Debtor tax No	Debtor	Debtor country	Creditor Tax No	Creditor	Creditor country	Currency	Up to 90 days ThUS\$
Bank loans	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE	France	US\$	733
		TAM S.A. and Subsidiaries	Brazil	0-E	CITIBANK	Brazil	US\$	24,735
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO DO BRASIL S.A.	Brazil	US\$	41,444
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO IBM S.A	Brazil	BRL	336
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO ITAU BBA	Brazil	US\$	47,205
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO SAFRA	Brazil	BRL/US\$	17,288
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO UNIBANCO	Brazil	BRL	50
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO BRADESCO	Brazil	BRL	—
Obligations with the public	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ	Holland	US\$	162
		TAM S.A. and Subsidiaries	Brazil	0-E	THE BANK OF NEW YORK	U.S.A	US\$	12,759
Financial leases	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	BANCO DO BRASIL S.A	Brazil	BRL	31,061
		TAM S.A. and Subsidiaries	Brazil	0-E	AFS INVESTMENT IX LLC	U.S.A	US\$	2,571
		TAM S.A. and Subsidiaries	Brazil	0-E	AIR CANADA	U.S.A	US\$	3,521
		TAM S.A. and Subsidiaries	Brazil	0-E	AIRBUS FINANCIAL SERVICES	U.S.A	US\$	3,238
		TAM S.A. and Subsidiaries	Brazil	0-E	AWAS	U.S.A	US\$	3,962
		TAM S.A. and Subsidiaries	Brazil	0-E	BNP PARIBAS	U.S.A	US\$	697
		TAM S.A. and Subsidiaries	Brazil	0-E	BNP PARIBAS	France	US\$	2,495
		TAM S.A. and Subsidiaries	Brazil	0-E	CITIBANK	England	US\$	11,779
		TAM S.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE - CIB	U.S.A.	US\$	4,865
		TAM S.A. and Subsidiaries	Brazil	0-E	CREDIT AGRICOLE - CIB	France	US\$	19,209
		TAM S.A. and Subsidiaries	Brazil	0-E	DVB BANK SE	Germany	US\$	3,195
		TAM S.A. and Subsidiaries	Brazil	0-E	DVB BANK SE	U.S.A	US\$	474
		TAM S.A. and Subsidiaries	Brazil	0-E	GENERAL ELECTRIC CAPITAL CORPORATION	U.S.A	US\$	10,536
		TAM S.A. and Subsidiaries	Brazil	0-E	HSBC	France	US\$	1,413
		TAM S.A. and Subsidiaries	Brazil	0-E	KFWIPEX-BANK	Germany	US\$	4,049
		TAM S.A. and Subsidiaries	Brazil	0-E	NATIXIS	France	US\$	8,549
		TAM S.A. and Subsidiaries	Brazil	0-E	PK AIRFINANCE US, INC.	U.S.A.	US\$	3,037
		TAM S.A. and Subsidiaries	Brazil	0-E	WACAPOU LEASING S.A.	Luxembourg	US\$	1,192
		TAM S.A. and Subsidiaries	Brazil	0-E	WELLS FARGO BANK NORTHWEST N.A.	U.S.A.	US\$	1,798
		TAM S.A. and Subsidiaries	Brazil	0-E	SOCIÉTÉ GÉNÉRALE MILAN BRANCH	Italy	US\$	13,177
		TAM S.A. and Subsidiaries	Brazil	0-E	THE TORONTO-DOMINION BANK	U.S.A	US\$	618
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO DE LAGE LANDEN BRASIL S.A	Brazil	BRL	103
		TAM S.A. and Subsidiaries	Brazil	0-E	BANCO IBM S.A	Brazil	BRL	505
		TAM S.A. and Subsidiaries	Brazil	0-E	CISLATINA ARRENDAMENTO MERCANTIL S.A	Brazil	BRL	37
		TAM S.A. and Subsidiaries	Brazil	0-E	HP FINANCIAL SERVICE	Brazil	BRL	158
		TAM S.A. and Subsidiaries	Brazil	0-E	SOCIETE AIR FRANCE	France	EUR	602
		TAM S.A. and Subsidiaries	Brazil	0-E	SOCIETE GENERALE LEASING S.A	Brazil	BRL	1,534
Others loans	02.012.862/ 0001-60	TAM S.A. and Subsidiaries	Brazil	0-E	COMPANHIA BRASILEIRA DE MEIOS DE PAGAMENTO	Brazil	BRL	31,882
Total								310,969
Total Consolidated								699,946

Class of Liability	More than 90 days to one year ThUS\$	More than one to three years ThUS\$	More than three to five years ThUS\$	More than five years ThUS\$	Total accounting value ThUS\$	Amortization	Effective rate %	Total nominal value ThUS\$	Nominal rate %
Bank loans	63,747	—	—	—	64,480	Quarterly	2.81%	50,322	2.81%
	5,684	—	—	—	30,419	At Expiration	4.03%	29,986	4.03%
	111,073	—	—	—	152,517	At Expiration	5.35%	151,980	5.35%
	—	—	—	—	336	Semiannual	10.72%	92	10.72%
	119,711	—	—	—	166,916	At Expiration	5.65%	163,391	5.65%
	14,560	748	—	—	32,596	Monthly/ At Expiration	7,69%/4,01%	32,446	7,69%/4,01%
	28	—	—	—	78	Monthly	8.94%	88	8.94%
	27,506	—	—	—	27,506	At Expiration	3.34%	27,484	3.34%
	298	861	971	2,382	4,674	Monthly	0.96%	4,608	0.95%
	Obligations with the public	9,652	6,720	306,771	810,349	1,146,251	At Expiration	8.60%	1,100,000
	220,210	—	—	—	251,271	Semiannual	8.96%	244,678	8.56%
Financial leases	5,140	14,816	16,580	26,925	66,032	Monthly	N/ A	65,127	N/ A

	9,350	—	—	—	12,871	Monthly	N/ A	12,750	N/ A
	8,819	25,357	27,070	22,925	87,409	Monthly	2.25%	87,033	2.25%
	8,975	5,651	—	—	18,588	Monthly	N/ A	17,617	N/ A
	1,699	4,939	5,609	11,535	24,479	Quarterly	1.50%	24,326	1.50%
	7,237	17,064	17,384	43,929	88,109	Quarterly	3.84%	87,986	3.84%
	41,043	82,593	81,129	234,657	451,201	Quarterly	3.69%	451,284	3.69%
	12,683	67,629	10,627	19,689	115,493	Quarterly	2.29%	114,810	2.29%
	47,894	126,929	121,392	182,562	497,986	Quarterly/ Semiannual	2,01%/0,82%	494,721	2,01%/0,37%
	9,375	25,000	—	—	37,570	Quarterly	2.89%	37,500	2.89%
	1,369	2,821	756	—	5,420	Monthly	2.25%	5,402	2.25%
	19,967	50,876	—	—	81,379	Monthly	2.59%	81,086	2.59%
	3,887	10,713	11,249	42,334	69,596	Quarterly	1.70%	69,458	0.85%
	11,343	32,226	23,605	26,888	98,111	Monthly/ Quarterly	2,11%/2,21%	97,770	2,11%/2,21%
	20,421	59,579	66,989	163,464	319,002	Quarterly/ Semiannual	2,62%/3,32%	316,425	2,62%/3,32%
	8,080	23,530	36,373	46,500	117,520	Monthly	1.96%	117,092	1.96%
	1,417	3,370	2,847	15,018	23,844	Quarterly	2.42%	23,647	2.42%
	5,308	3,194	—	—	10,300	Monthly	1.98%	10,271	1.98%
	34,574	90,164	91,964	151,968	381,847	Quarterly	1.95%	380,025	1.95%
	1,533	4,205	4,390	8,798	19,544	Quarterly	0.88%	19,431	0.08%
	302	939	—	—	1,344	Monthly	7.51%	2,025	7.51%
	1,585	102	—	—	2,192	Monthly	10.58%	2,255	10.58%
	13	—	—	—	50	Monthly	5.31%	53	5.31%
	472	81	—	—	711	Monthly	9.08%	747	9.08%
	35	1,148	—	—	1,785	Monthly	6.82%	1,572	6.82%
	—	—	—	—	1,534	Monthly	0.00%	2,520	0.00%
Others loans	9,143	—	—	—	41,025	Monthly	2.20%	41,025	2.20%
	<u>844,133</u>	<u>661,255</u>	<u>825,706</u>	<u>1,809,923</u>	<u>4,451,986</u>			<u>4,369,033</u>	
	<u>1,277,309</u>	<u>1,922,242</u>	<u>1,747,667</u>	<u>3,912,393</u>	<u>9,559,557</u>			<u>9,604,859</u>	

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Summary of other financial non-current loans (other than bank loans, obligations with the public and financial leases)

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Current		
a) Other interest bearing loans (see note 21 a)	33,481	57,647
b) Derivative not recognized as a hedge (see note 21 b)	4,040	4,477
c) Hedge derivatives (see note 21 c)	66,466	65,598
Total currents	<u>103,987</u>	<u>127,722</u>
Non-current		
a) Other interest bearing loans (see note 21 a)	620,838	190,300
b) Derivative not recognized as a hedge (see note 21 b)	1,491	5,515
c) Hedge derivatives (see note 21 c)	54,906	111,040
Total non-currents	<u>677,235</u>	<u>306,855</u>

(b) Derivatives not recognized as a hedge.

Derivatives not recognized as a hedge as of December 31, 2013 and December 31, 2012, respectively, is as follows:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Current		
Interest rate derivative not recognized as a hedge	4,040	4,477
Total current	<u>4,040</u>	<u>4,477</u>
Non-current		
Interest rate derivative not recognized as a hedge	1,491	5,515
Total non-current	<u>1,491</u>	<u>5,515</u>
Total other financial liabilities	<u>5,531</u>	<u>9,992</u>

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(c) Hedge derivatives

Hedge derivatives as of December 31, 2013 and December 31, 2012 are as follows:

	As of December 31, 2013 ThUS\$	As of December 31, 2012 ThUS\$
Current		
Accrued interest from the last date of interest rate swap	5,775	4,660
Fair value of interest rate derivatives	32,070	37,076
Fair value of fuel derivatives	—	10,502
Fair value of foreign currency derivatives	28,621	13,360
Total current	<u>66,466</u>	<u>65,598</u>
Non-current		
Fair value of interest rate derivatives	54,906	104,547
Fair value of fuel derivatives	—	4,530
Fair value of foreign currency derivatives	—	1,963
Total non-current	<u>54,906</u>	<u>111,040</u>
Total hedging liabilities	<u>121,372</u>	<u>176,638</u>

The foreign currency derivatives exchange are collars and cross currency swap.

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Hedging operation

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

	As of December 31, 2013	As of December 31, 2012
	ThUS\$	ThUS\$
Cross currency swaps (CCS) (1)	(26,028)	—
Interest rate options (2)	6	6
Interest rate swaps (3)	(92,088)	(146,283)
Fuel collars (4)	1,878	(911)
Fuel swap (5)	13,990	(9,000)
Currency forward R\$/US\$ (6)	32,058	—
Currency forward CLP/US\$ (7)	(1,121)	—
Currency collars (8)	(1,652)	(15,228)

- (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 dollar-UF of bank loans. These contracts are recorded as cash flow hedges.
- (2) Covers the significant variations in cash flows associated with market risk implicit in the changes in the 3-month LIBOR interest rate for long-term loans incurred in the acquisition of aircraft. These contracts are recorded as cash flow hedges.
- (3) Covers the significant variations in cash flows associated with market risk implicit in the increases in the 3 months LIBOR interest rates for long-term loans incurred in the acquisition of aircraft and bank loans. These contracts are recorded as cash flow hedges.
- (4) Covers 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.
- (5) Covers the 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.
- (6) Covers the foreign exchange risk exposure of operating cash flows caused mainly by fluctuations in the exchange rate R\$/US\$. These contracts are recorded as cash flow hedges.
- (7) Covers the investments denominated in Chilean pesos to Dollar-Chilean peso exchange rate, in order to secure investment in Dollars. These contracts are recorded as cash flow hedges.
- (8) Covers the foreign exchange risk exposure of Multiplus income caused by fluctuations in the exchange rate R\$/US\$. These contracts are recorded as cash flow hedges.

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During the periods presented, the Company only maintains cash flow hedges. In the case of fuel hedges, the cash flows subject to said hedges will impact results in the next 6 months from the consolidated statement of financial position date, where as in the case of interest rate hedging, the hedges will impact results over the life of the related loans, which are valid for 12 years. The hedges on investments will impact results continuously throughout the life of the investment (up to 3 months), while the cash flows occur at the maturity of the investment.

During the periods presented, there have not occurred hedging operations of future highly probable transaction that have not been realized.

During the periods presented, there has been hedge ineffectiveness recognized in the consolidated statement of income, for currency collars.

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 periods ended		
	2013	December 31,	2011
	ThUS\$	ThUS\$	ThUS\$
Debit (credit) recognized in comprehensive income during the period	128,166	(2,510)	(40,368)
Debit (credit) transferred from net equity to income during the period	(18,688)	(26,470)	62

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NOTE 22 - TRADE AND OTHER ACCOUNTS PAYABLES

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

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Current		
(a) Trade and other accounts payables	1,264,395	1,403,546
(b) Accrued liabilities at the reporting date	<u>293,341</u>	<u>286,444</u>
Total trade and other accounts payables	<u>1,557,736</u>	<u>1,689,990</u>

(a) Trade and other accounts payable as of December 31, 2013 and December 31, 2012 are as follows:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Trade creditors	969,260	1,069,345
Leasing obligation	44,756	30,818
Other accounts payable (*)	<u>250,379</u>	<u>303,383</u>
Total	<u>1,264,395</u>	<u>1,403,546</u>

(*) Includes agreement entitled "Plea Agreement" with the Department of Justice of the United States of America. See detail in Note 23.

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

	As of December 31, 2013	As of December 31, 2012
	<u>ThUS\$</u>	<u>ThUS\$</u>
Aircraft Fuel	302,419	360,618
Boarding Fee	217,389	182,185
Other personnel expenses	117,418	134,357
Airport charges and overflight	98,560	125,402
Suppliers' technical purchases	67,995	64,981
Professional services and advisory	63,082	46,934
Marketing	50,009	51,360
Handling and ground handling	48,797	49,738
Land services	47,046	38,436
Leases, maintenance and IT services	46,163	34,903
Aircraft and engines leasing	44,756	84,729
Services on board	29,940	26,674
U.S.A. Department of Justice (**)	18,290	18,387
Maintenance	15,793	5,305
Tax recovery program (*)	14,569	19,668
Crew	14,040	16,233
Aviation insurance	10,665	7,465
Achievement of goals	9,806	5,024
Airlines	5,054	9,362
Communications	4,578	4,948
Distribution sistem	3,103	1,389
Fleet (JOL)	—	59,181
Others	34,923	56,267
Total trade and other accounts payables	<u>1,264,395</u>	<u>1,403,546</u>

(*) Fiscal Recovery Program in Brazil (REFIS), established in Law No. 11.941/09 and Provisional Measure No. 449/2009. REFIS is intended to allow the settlement of tax debts through a special mechanism to pay and refinance.

(**) Includes agreement entitled "Plea Agreement" with the Department of Justice of the United States of America. See detail in Note 23.

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(b) The liabilities accrued at December 31, 2013 and December 31, 2012, are as follows:

	As of December 31, 2013 <u>ThUSS</u>	As of December 31, 2012 <u>ThUSS</u>
Accrued personnel expenses	151,586	171,873
Accounts payable to personnel (*)	110,147	70,625
Aircraft and engine maintenance	3,741	22,053
Others accrued liabilities	<u>27,867</u>	<u>21,893</u>
Total accrued liabilities	<u>293,341</u>	<u>286,444</u>

(*) Profits and bonds participation (Note 26 letter b)

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NOTE 23 - OTHER PROVISIONS

The detail of Other provisions as of December 31, 2013 and December 31, 2012 is as follows:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Current		
Provision for contingencies (1)		
Tax contingencies	7,092	6,774
Civil contingencies	13,430	23,880
Labor contingencies	7,334	28,920
Total other provisions, current	<u>27,856</u>	<u>59,574</u>
Non-current		
Provision for contingencies (1)		
Tax contingencies	968,211	1,137,961
Civil contingencies	50,022	60,732
Labor contingencies	64,895	91,248
Other	27,770	6,066
Provision for European Commission investigation (2)	11,349	10,865
Total other provisions, non-current	<u>1,122,247</u>	<u>1,306,872</u>
Total other provisions (3)	<u>1,150,103</u>	<u>1,366,446</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, except for the fair value by application of IFRS 3 business combination, in which case the recognition is in the State of Financial Position in the heading of Goodwill.

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- (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 December 31, 2013, and at December 31, 2012, 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.

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The movement of provisions between January 1, 2011 and December 31, 2013 is as follows:

	Legal claims	European Commission Investigation(***)	Total
	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2011	21,957	10,916	32,873
Increase in provisions	12,085	—	12,085
Provision used	(3,592)	—	(3,592)
Reversal of provisions (*)	(11,518)	—	(11,518)
Exchange difference	141	(241)	(100)
Closing balance as of December 31, 2011	<u>19,073</u>	<u>10,675</u>	<u>29,748</u>
Opening balance as of January 1, 2012	19,073	10,675	29,748
Increase in provisions	30,399	—	30,399
Provision used (**)	(131,136)	—	(131,136)
Additions due to business combination	1,429,012	—	1,429,012
Subsidiaries conversion difference	8,391	—	8,391
Reversal of provisions	(449)	—	(449)
Exchange difference	291	190	481
Closing balance as of December 31, 2012	<u>1,355,581</u>	<u>10,865</u>	<u>1,366,446</u>
Opening balance as of January 1, 2013	1,355,581	10,865	1,366,446
Increase in provisions	65,107	—	65,107
Provision used	(57,192)	—	(57,192)
Reversal of provision	(53,459)	—	(53,459)
Subsidiaries conversion difference	(170,452)	—	(170,452)
Exchange difference	(831)	484	(347)
Closing balance as of December 31, 2013	<u>1,138,754</u>	<u>11,349</u>	<u>1,150,103</u>

(*) Is mainly related to the reversal of tax contingencies

(**) The judicial deposit in guarantee, related to the Fundo Aeroviário (FA), in the amount of ThUS\$ 102, was 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. 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.

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(***) European Commission Provision:

(a) This provision was established because of the investigation brought by the Directorate General for Competition of the European Commission against more than 25 cargo airlines, including Lan Cargo S.A., as part of a global investigation begun in 2006 regarding possible unfair competition on the air cargo market. This was a joint investigation by the European and U.S.A. authorities. The start of the investigation was disclosed through a 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 a 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 are LATAM Airline 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 Airline 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 Airline Group S.A. This is a minor fine in comparison to the original decision, as there was a significant reduction in fine because LATAM Airline Group S.A. cooperated during the investigation.

(d) On January 24, 2011, LATAM Airline Group S.A. and Lan Cargo S.A. appealed the decision before the Court of Justice of the European Union. At December 31, 2013, the provision reached the amount of ThUS\$ 11,349 (ThUS\$ 10,865 at December 31, 2012 and ThUS\$ 10,675 at December 31, 2011).

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NOTE 24 - TAX LIABILITIES

The composition of Tax liabilities is as follow:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Current		
Income tax provision	9,919	13,152
Additional tax provision	<u>1,664</u>	<u>1,360</u>
Total current	<u>11,583</u>	<u>14,512</u>

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NOTE 25 - OTHER NON-FINANCIAL LIABILITIES

Other non-financial liabilities as of December 31, 2013 and December 31, 2012 are as follows:

	As of December 31, 2013 ThUS\$	As of December 31, 2012 ThUS\$
Current		
Deferred revenues (*)	2,739,125	2,360,151
Sales tax	52,576	47,122
Retentions	49,355	45,413
Others taxes	12,294	8,434
Dividends payable	275	4,023
Other sundry liabilities	18,015	20,744
Total other non-financial liabilities, current	<u>2,871,640</u>	<u>2,485,887</u>
Non-current		
Deferred revenues (*)	77,513	99,261
Other sundry liabilities	54	62
Total other non-financial liabilities, non-current	<u>77,567</u>	<u>99,323</u>
Total other non-financial liabilities	<u>2,949,207</u>	<u>2,585,210</u>

(*) Note 2.20.

The balance comprises, among other, programs such as: LANPASS, TAM Fidelidade y Multiplus.

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

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

Multiplus is a coalition of loyalty program, with the aim of operating activities accumulation and redemption of points TAM Fidelidade. 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.

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NOTE 26 - EMPLOYEE BENEFITS

Liability for employee benefits as of December 31, 2013 and December 31, 2012, respectively, are as follows:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Pension payments	9,639	32,323
Termination payments	493	240
Other obligations	<u>35,534</u>	<u>5,532</u>
Total liability for employee benefits	<u>45,666</u>	<u>38,095</u>

(a) The movement in Pension and termination payments and other obligations between January 1, 2011 and December 31, 2013 is as follows:

	<u>ThUS\$</u>
Opening balance as of January 1, 2011	9,657
Increase (decrease) current service provision	5,482
Benefits paid	<u>(2,007)</u>
Closing balance as of December 31, 2011	13,132
Opening balance as of January 1, 2012	13,132
Increase (decrease) current service provision	25,003
Benefits paid	<u>(40)</u>
Closing balance as of December 31, 2012	38,095
Opening balance as of January 1, 2013	38,095
Increase (decrease) current service provision	9,866
Benefits paid	<u>(2,295)</u>
Closing balance as of December 31, 2013	<u>45,666</u>

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(b) The liability for short-term benefits as of December 31, 2013 and December 31, 2012 respectively, is detailed below:

	As of December 31, 2013	As of December 31, 2012
	<u>ThUS\$</u>	<u>ThUS\$</u>
Profit-sharing and bonuses (*)	<u>110,147</u>	<u>70,625</u>

(*) Accounts payables to employees (Note 22 letter b)

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

(c) Employment expenses are detailed below:

	For the periods ended December 31,		
	2013	2012	2011
	<u>ThUS\$</u>	<u>ThUS\$</u>	<u>ThUS\$</u>
Salaries and wages	1,720,513	1,296,101	764,396
Short-term employee benefits	452,158	397,824	85,681
Termination benefits	67,508	32,864	18,207
Other personnel expenses	252,590	182,126	144,219
Total	<u>2,492,769</u>	<u>1,908,915</u>	<u>1,012,503</u>

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NOTE 27 - ACCOUNTS PAYABLE, NON-CURRENT

Non-current accounts payable as of December 31, 2013 and December 31, 2012 are as follows:

	As of December 31, 2013 <u>ThUS\$</u>	As of December 31, 2012 <u>ThUS\$</u>
Aircraft and engine maintenance	663,837	685,441
Tax recovery program (*)	176,666	207,089
Fleet financing (JOL)	57,997	140,769
Provision for vacations and bonuses	9,879	9,954
Other accounts payable (**)	2,654	26,354
Other sundry liabilities	11,854	15,994
Total accounts payable, non-current	<u>922,887</u>	<u>1,085,601</u>

(*) Fiscal Recovery Program in Brazil (REFIS), established in Law No. 11.941/09 and Provisional Measure No. 449/2009. REFIS is intended to allow the settlement of tax debts through a special mechanism to pay and refinance.

(**) Agreement entitled "Plea Agreement" with the Department of Justice of United States of America; its short-term part is in Trade and other payable. See details in Note 23.

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NOTE 28 - 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 capital of the Company at December 31, 2013 amounts to ThUS\$ 2,389,384 divided into 535,243,229 common stock of a same series (ThUS\$ 1,501,018, divided into 479,098,052 shares as of December 31, 2012), no par value. There are no special series of shares and no privileges. The form of its stock certificates and their issuance, exchange, disablement, loss, replacement and other similar circumstances, as well as the transfer of the shares, is governed by the provisions of Corporations Law and its regulations.

(b) Subscribed and paid shares

(b.1) At December 31, 2013:

The total number of ordinary shares authorized stands at 551,847,819 shares with no par value, in accordance with the increase in equity approved at the Extraordinary Shareholders' Meeting held on June 11, 2013 issuing 63,500,000 ordinary shares with no par value. As of the close of this period, 400,124,163 are fully paid up and 135,119,066 were subject to exchange for shares in the companies Sister Holdco S.A. and Holdco II S.A. Totaling 535,243,229 shares fully paid.

As reported by Essential Matter dated on April 30, 2013, on that date the Board approved an Extraordinary Shareholders' Meeting to be held on June 11, 2013, to address matters including the following:

1. To increase corporate equity by the amount of US\$ 1,000,000,000 (one billion United States Dollars), with the objective of financing part of the investment plan for upcoming years, particularly requirements for fleet renewal and growth, and to strengthen the company's financial position, through the issuance of a number of ordinary shares with no par value, as determined at the meeting;
2. To destine a part of said new capital to compensation plans, under the terms specified in Article 24 of Law 18,046, the Corporations Law;
3. To set the price, manner, time, and procedure for the placement of the shares issued relating to this increase in equity; or to delegate to the Board the faculty of determining the price, manner, time, and procedure, and other conditions for the placement of said shares, including but not limited to setting the terms and conditions of the company's compensation plans.

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On June 20, 2013, information was presented to the Superintendency of Securities and Insurance in order to request the registration of the share issuance approved at the aforementioned Extraordinary Shareholders' Meeting. On July 22, 2013 the Superintendency of Securities and Insurance remitted the Company providing comments for said registration by Deed No. 16,141. The Company replied to these submissions on October 16, 2013.

Finally, on November 11, 2013, the Superintendency of Securities and Insurance issued the certificate that approved the registration of that issuance under the number 987. On November 20, 2013, began the preferential subscription period of the 62,000,000 shares not destined for the above compensation plans, settling the price that these shares would be offered to shareholders in US\$ 15,17. On December 19, 2013, ended the preferential subscription period, have been subscribed and paid the total of 51,695,410 shares and collected the equivalent of ThUS\$ 784,219, the unsubscribed remainder of 10,304,590 shares shall be offered and placed on the general market.

(b.2) At December 31, 2012:

The total number of ordinary shares authorized stands at 488,355,791 shares with no par value, in accordance with the increase in equity approved at the Extraordinary Shareholders' Meeting held on December 21, 2011 issuing 147,355,882 ordinary shares with no par value. Of this increase, 142,555,882 shares, were destined to the merge with Sister Holdco S.A. and Holdco II S.A. 4,800,000 shares, were destined to compensation plans for employees of the Company and its subsidiaries. As of the close of this period, 343,978,986 shares are fully paid and 135,119,066 were subject to exchange for shares in the companies Sister Holdco S.A. and Holdco II S.A., totaling 479,098,052 shares fully paid.

As reported by Essential Matter dated June 28, 2012, the Board agreed to submit to the approval of shareholders of the Company that the remaining 7,436,816 shares that were not used in the exchange, not be used for the purpose of creating and implementing a compensation plan for employees of the Company and its subsidiaries, as provided in Article 24 of the Corporations Law, but instead preferably intended to be offered to shareholders of LATAM Airlines Group S.A., according to article 25 of the Corporation Law.

According to the information through Essential Matter dated August 3, 2012, to this date, the Board agreed to call Extraordinary Shareholders Meeting to discuss, among other matters, that the referred 7,436,816 shares were intended to be offered preferentially to shareholders of the Company and the balance not subscribed, was offered and placed on the market in general. The aforementioned Extraordinary Shareholders Meeting held on September 4, 2012, agreed, among other matters, the approval of the remaining 7,436,816 shares of total 142,555,882 shares issued under the authorization of the Extraordinary Shareholders Meeting dated December 21, 2011, and were not to be exchanged for shares of the Sister Holdco S.A. and Holdco II S.A., were intended to be offered preferably between the LATAM shareholders under Article 25 of the Corporations Law and that the unsubscribed balance, would be offered and placed on the market in general.

The re-destination and placement of those shares was approved by the Superintendency of Securities and Insurance, dated December 11, 2012. On December 20, 2012, the Board of Directors agreed to start, from December 21, 2012, the period of preferred option of those shares, proceeded to fix the price of placing them, which was reported to the Superintendency of Securities and Insurance by Essential Matter on the same date. At the end of the period of first refusal, that is, to January 19, 2013, were 6,857,190 shares subscribed and paid the said remnant, leaving a balance of 579,626 shares to be subscribed. This balance was auctioned on the Santiago Stock Exchange—Stock Exchange dated January 23, 2013 at a value of CLP\$ 11,921 per share.

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The following table shows the movement of the authorized and fully paid shares described above between January 1, 2012 and December 31, 2013.

Movement of authorized shares	No. Of shares
Authorized shares as of January 1, 2012	488,355,882
Increase capital option closing year 2007 options over canceled shares	(91)
Authorized shares as of December 31, 2012	488,355,791
Authorized shares as of January 1, 2013	488,355,791
Increase capital approved at Extraordinary Shareholders meeting dated June 11, 2013	63,500,000
Full right decrease of treasury stock	(7,972)
Authorized shares as of December 31, 2013	551,847,819

Movement fully paid shares

	No. of shares	Movement value of shares (*) ThUS\$	Cost of issuance and placement of shares (**) ThUS\$	Paid-in Capital ThUS\$
Paid shares as of January 1, 2012	340,326,431	476,579	(2,672)	473,907
Exercise stock options increase capital 2007	673,478	10,226	—	10,226
Exchange of shares for merger Companies Sister Holdco S.A and Holdco II S.A.	135,119,066	951,409	—	951,409
Capitalization of reserves	—	—	(3,510)	(3,510)
Placement of the remaining preferential shares issued for merger Companies Sister Holdco S.A. y Holdco II S.A.	2,979,077	68,986	—	68,986
Paid shares as of December 31, 2012	479,098,052	1,507,200	(6,182)	1,501,018
Paid shares as of January 1, 2013	479,098,052	1,507,200	(6,182)	1,501,018
Placement of the remaining preferred shares issued for merger with Companies Sister Holdco S.A. y Holdco II S.A.	4,457,739	104,351	—	104,351
Full right decrease of treasury stock	(7,972)	(25)	—	(25)
Capitalization of reserves	—	—	(179)	(179)
Preferential placement capital increase approved at Extraordinary Shareholders meeting dated June 11, 2013	51,695,410	784,219	—	784,219
Paid shares as of December 31, 2013	535,243,229	2,395,745	(6,361)	2,389,384

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

(**) 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.

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(c) Treasury stock

At December 31, 2013, as per minutes of 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.

At December 31, 2012, the total subscribed and paid shares of the company acquired 7,972 shares, shareholders who exercised the right to withdraw an amount of US\$203.

(d) Reserve of share- based payments

The movement of Reserves of share- based payments between January 1, 2011 and December 31, 2013, is as follows:

	Reserve of share - based payments
	<u>ThUS\$</u>
Opening balance as of January 1, 2011	5,401
Stock option plan	2,084
Deferred tax	(355)
Closing balance as of December 31, 2011	<u>7,130</u>
Opening balance as of January 1, 2012	7,130
Stock option plan	(1,299)
Deferred tax	(257)
Closing balance as of December 31, 2012	<u>5,574</u>
Opening balance as of January 1, 2013	5,574
Stock option plan	18,877
Deferred tax	(3,440)
Closing balance as of December 31, 2013	<u>21,011</u>

These reserves are related to the "Share-based payments" explained in Note 38.

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(e) Other sundry reserves

The movement of Other sundry reserves between January 1, 2011 and December 31, 2013, is as follows:

	Other sundry reserves
	ThUS\$
Opening balance as of January 1, 2011	62
Transactions with non-controlling interest	(1,801)
Capitalization share issuance and placement cost (1)	2,672
Legal reserves	429
Closing balance as of December 31, 2011	<u>1,362</u>
Opening balance as of January 1, 2012	1,362
Transactions with non-controlling interest	(1,604)
Cost of issuance and placement of shares (1)	(3,510)
Capitalization share issuance and placement cost (1)	3,510
Higher value for TAM S.A. share exchange	2,665,692
Legal reserves	1,232
Closing balance as of December 31, 2012	<u>2,666,682</u>
Opening balance as of January 1, 2013	2,666,682
Transactions with non-controlling interest	(1,950)
Cost of issuance and placement of shares (2)	(5,443)
Capitalization share issuance and placement cost (2)	179
Legal reserves	(1,668)
Closing balance as of December 31, 2013	<u>2,657,800</u>

- (1) The costs of issuance and placement of shares recognized in reserves during the first half of 2012 were capitalized during the month of September 2012, according to the Extraordinary Meeting of Shareholders held on September 4, 2012. Capitalization share issuance and placement cost caused by the capital increase carried out in 2007, as set out Extraordinary Meeting of Shareholders held on December 21, 2011.
- (2) The costs incurred through the issuance and placement correspond to ThUS\$ 5,264 and ThUS\$179 corresponding at increase of capital according to the Extraordinary Meeting of Shareholders held on June 11, 2013 and at the remaining 7,436,816 shares, not used in this exchange, reallocated as agreed at the Extraordinary Shareholders' Meeting held on September 4, 2012, The cost of ThUS\$ 179, were capitalized during June 2013, according to the Extraordinary Shareholders' Meeting held on June 11, 2013.

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(e.1) Other sundry reserves

The balance of Other sundry reserves comprises the following:

	As of December 31, 2013 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2011 ThUS\$
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	2,620
Transactions with non-controlling interest (3)	(5,355)	(3,405)	(1,801)
Cost of issuance and placement of shares	(5,264)	—	—
Others	107	1,775	543
Total	<u>2,657,800</u>	<u>2,666,682</u>	<u>1,362</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 December 31, 2013, correspond to the loss generated by the participation by Lan Pax Group S.A. in the acquisition of shares of Aerovías de Integración Regional Aires of ThUS\$ (1,065), the acquisition of TAM S.A. of the minority holding of Aerolíneas Brasileiras S.A. of ThUS(885) and accumulated losses from transactions with minority shareholders of ThUS\$ (3,405) at December 31, 2012. The corresponding accumulated losses of ThUS\$ (2,422) in Lan Pax Group S.A. for increases of capital held by Aerovías de Integración Regional Aires S.A. and the accumulated losses of ThUS\$ (983) Lan Cargo Inversiones S.A. for the capital increase made by Línea Aérea Carguera de Colombia S.A.

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(f) Reserves with effect in other comprehensive income.

The movement of Reserves with effect in other comprehensive income between January 1, 2011 and December 31, 2013 is as follows:

	Currency translation reserve	Cash flow hedging reserve	Total
	ThUS\$	ThUS\$	ThUS\$
Opening balance as of January 1, 2011	(4,257)	(107,050)	(111,307)
Derivatives valuation gains (losses)	—	(40,368)	(40,368)
Deferred tax	1,855	6,862	8,717
Conversion difference subsidiaries	(10,925)	—	(10,925)
Closing balance as of December 31, 2011	<u>(13,327)</u>	<u>(140,556)</u>	<u>(153,883)</u>
Opening balance as of January 1, 2012	(13,317)	(140,556)	(153,873)
Derivatives valuation gains (losses)	—	5,003	5,003
Deferred tax	(2,727)	(5,177)	(7,904)
Conversion difference subsidiaries	19,618	—	19,618
Closing balance as of December 31, 2012	<u>3,574</u>	<u>(140,730)</u>	<u>(137,156)</u>
Opening balance as of January 1, 2013	3,574	(140,730)	(137,156)
Derivatives valuation gains (losses)	—	124,227	124,227
Deferred tax	—	(18,005)	(18,005)
Conversion difference subsidiaries	(593,565)	—	(593,565)
Closing balance as of December 31, 2013	<u>(589,991)</u>	<u>(34,508)</u>	<u>(624,499)</u>

(f.1) Currency translation reserve

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

(f.2) Cash flow hedging reserve

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

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(g) Retained earnings

The movement of Retained earnings between January 1, 2011 and December 31, 2013, is as follows:

	ThUS\$
Opening balance as of January 1, 2011	949,214
Result for the period	320,197
Other increase (decreases)	(632)
Dividends	(151,981)
Closing balance as of December 31, 2011	<u>1,116,798</u>
Opening balance as of January 1, 2012	1,116,798
Result for the period	(19,076)
Other increase (decreases)	163
Dividends	(21,749)
Closing balance as of December 31, 2012	<u>1,076,136</u>
Opening balance as of January 1, 2013	1,076,136
Result for the period	(281,114)
Other increase (decreases)	281
Closing balance as of December 31, 2013	<u>795,303</u>

(h) Dividends per share

As of December 31, 2013

Description of dividend	Final dividend 2012
Date of dividend	04-29-2013
Amount of the dividend (ThUS\$)	3,288
Number of shares among which the dividend is distributed	483,547,819
Dividend per share (US\$)	0.0068
As of December 31, 2012	

As of December 31, 2013

Description of dividend	Final dividend 2011	Minimum mandatory dividend 2012
Date of dividend	04-26-2012	12-31-2012
Amount of the dividend (ThUS\$)	18,462	3,287
Number of shares among which the dividend is distributed	340,999,909	479,098,052
Dividend per share (US\$)	0.05414	0.00686

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As of December 31, 2011

Description	Final dividend 2010	Interim dividend 2011	Interim dividend 2011
Date of dividend	04-29-2011	08-30-2011	12-20-2011
Amount of the dividend (ThUS\$)	10,386	56,595	85,000
Number of shares among which the dividend is distributed	339,310,509	339,358,209	340,164,105
Dividend per share (US\$)	0.03061	0.16677	0.24988

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

At December 31, 2013, mandatory minimum dividend was not applicable; therefore no provision was made for.

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NOTE 29 - REVENUE

The detail of revenues is as follows:

	2013	For the periods ended December 31,	2011
	ThUS\$	2012	ThUS\$
		ThUS\$	ThUS\$
Passengers	11,061,557	7,966,846	4,008,910
Cargo	1,862,980	1,743,526	1,576,530
Total	12,924,537	9,710,372	5,585,440

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NOTE 30 - COSTS AND EXPENSES BY NATURE

(a) Costs and operating expenses

The main operating costs and administrative expenses are detailed below:

	For the periods ended December 31,		
	2013	2012	2011
	ThUS\$	ThUS\$	ThUS\$
Other rentals and landing fees	1,373,061	1,048,342	671,614
Aircraft fuel	4,414,249	3,434,569	1,750,052
Comissions	408,671	308,941	209,255
Other operating expenses	1,644,827	1,316,095	646,051
Aircraft rentals	441,077	313,038	174,197
Aircraft maintenance	477,086	297,618	182,358
Passenger services	331,405	239,848	136,049
Total	<u>9,090,376</u>	<u>6,958,451</u>	<u>3,769,576</u>

(b) Depreciation and amortization

Depreciation and amortization are detailed below:

	For the periods ended December 31,		
	2013	2012	2011
	ThUS\$	ThUS\$	ThUS\$
Depreciation (*)	985,317	739,973	386,644
Amortization	56,416	31,140	9,831
Total	<u>1,041,733</u>	<u>771,113</u>	<u>396,475</u>

(*) Includes 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 December 31, 2013 is ThUS\$396,974 (ThUS\$315,206 at December 31, 2012 and ThUS\$122,903 at December 31, 2011).

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(c) Personnel expenses

The costs for personnel expenses are disclosed in Liability for employee benefits (See Note 26).

(d) Financial costs

The detail of financial costs is as follows:

	For the periods ended		
	December 31,		
	2013	2012	2011
	ThUS\$	ThUS\$	ThUS\$
Bank loan interest	382,969	185,013	109,168
Financial leases	76,343	44,717	12,265
Other financial instruments	3,212	64,868	17,644
Total	<u>462,524</u>	<u>294,598</u>	<u>139,077</u>

Costs and expenses by nature presented in this note plus the Employee expenses disclosed in Note 26, 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.

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NOTE 31 - GAINS (LOSSES) ON THE SALE OF NON-CURRENT ASSETS NOT CLASSIFIED AS HELD FOR SALE

The Gains (losses) on sales of non-current assets not classified as held for sale as of December 31, 2013, 2012 and 2011 are as follows:

	For the periods ended		
	December 31,		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<u>ThUS\$</u>	<u>ThUS\$</u>	<u>ThUS\$</u>
Property, plant and equipment	<u>2,545</u>	<u>(2,836)</u>	<u>(172)</u>
Total	<u>2,545</u>	<u>(2,836)</u>	<u>(172)</u>

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NOTE 32 - OTHER INCOME, BY FUNCTION

Other income by function is as follows:

	For the periods ended		
	December 31,		
	2013	2012	2011
	ThUS\$	ThUS\$	ThUS\$
Duty free	14,748	17,463	16,874
Aircraft leasing	36,614	28,863	12,701
Logistics and courier	—	—	10,958
Customs and warehousing	24,281	24,537	24,677
Tours	105,449	74,226	43,952
Maintenance	12,392	5,358	—
Multiplus	68,925	26,696	—
Other miscellaneous income	79,156	43,013	23,642
Total	<u>341,565</u>	<u>220,156</u>	<u>132,804</u>

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NOTE 33 - 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 latter due to business combinations with TAM S.A. and Subsidiaries.

The functional currency is defined primarily as the currency of the primary economic environment in which an entity operates in each state 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	As of
	December 31, 2013	December 31, 2012
	ThUS\$	ThUS\$
Cash and cash equivalents	538,213	337,223
Argentine peso	41,092	68,705
Brazilian real	3,683	3,308
Chilean peso	229,913	40,091
Colombian peso	5,254	671
Euro	16,571	15,502
U.S. dollar	44,656	94,035
Strong bolivar	162,809	51,346
Other currency	34,235	63,565
Other financial assets	51,082	30,936
Argentine peso	885	—
Brazilian real	—	2,167
Chilean peso	25,854	550
Colombian peso	2,039	2,147
Euro	6	8
U.S. dollar	22,035	18,020
Strong bolivar	14	601
Other currency	249	7,443

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Current assets	As of	As of
	December 31, 2013	December 31, 2012
	ThUS\$	ThUS\$
Other non - financial assets	56,218	53,493
Argentine peso	5,310	3,740
Brazilian real	846	10,037
Chilean peso	16,846	15,310
Colombian peso	1,011	909
Euro	3,052	4,598
U.S. dollar	2,221	1,649
Strong bolivar	102	351
Other currency	26,830	16,899
Trade and other accounts receivable	417,775	503,601
Argentine peso	11,387	9,441
Brazilian real	19,986	33,313
Chilean peso	80,461	130,736
Colombian peso	2,240	3,153
Euro	21,479	67,287
U.S. dollar	114,372	166,758
Strong bolivar	2,353	2,759
Other currency	165,497	90,154
Accounts receivable from related entities	466	14,565
Chilean peso	466	14,565
Tax assets	14,836	11,060
Brazilian real	—	716
Chilean peso	3,398	9,454
Colombian peso	787	15
Euro	35	20
U.S. dollar	515	—
Other currency	10,101	855
Total assets	1,078,590	950,878
Argentine peso	58,674	81,886
Brazilian real	24,515	49,541
Chilean peso	356,938	210,706
Colombian peso	11,331	6,895
Euro	41,143	87,415
U.S. Dollar	183,799	280,462
Strong bolivar	165,278	55,057
Other currency	236,912	178,916

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Non-current assets	As of	As of
	December 31, 2013	December 31, 2012
	ThUS\$	ThUS\$
Other financial assets	17,517	31,329
Argentine peso	24	8
Brazilian real	597	3,505
Chilean peso	1,701	98
Colombian peso	254	524
Euro	5,488	7,817
U.S. dollar	8,625	15,895
Other currency	828	3,482
Other non - financial assets	18,006	22,063
Other currency	18,006	22,063
Accounts receivable	13,429	14,812
Chilean peso	8,227	9,564
U.S. dollar	5,000	5,000
Other currency	202	248
Deferred tax assets	4,460	4,203
U.S. dollar	2,056	—
Other currency	2,404	4,203
Total assets	53,412	72,407
Argentine peso	24	8
Brazilian real	597	3,505
Chilean peso	9,928	9,662
Colombian peso	254	524
Euro	5,488	7,817
U.S. dollar	15,681	20,895
Other currency	21,440	29,996

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

Current liabilities	Up to 90 days		91 days to 1 year	
	As of December 31, 2013	As of December 31, 2012	As of December 31, 2013	As of December 31, 2012
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other financial liabilities	303,626	241,473	561,428	589,105
Chilean peso	53,619	—	46,772	—
Euro	824	602	1,205	35
U.S. dollar	249,183	240,871	513,451	589,070
Trade and other accounts payables	679,769	899,536	20,676	19,850
Argentine peso	31,603	21,398	—	—
Brazilian real	9,671	38,506	8	8
Chilean peso	29,560	72,643	11,975	11,938
Colombian peso	14,445	29,268	422	—
Euro	19,373	38,540	3,316	1,695
U.S. dollar	433,377	283,003	4,902	6,157
Strong bolivar	4,024	2,710	—	—
Other currency	137,716	413,468	53	52
Accounts payable to related entities	318	14	—	—
Chilean peso	14	14	—	—
U.S. dollar	304	—	—	—
Tax liabilities	134	302	—	—
Chilean peso	4	21	—	—
Colombian peso	—	150	—	—
Other currency	130	131	—	—

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Current liabilities	Up to 90 days		91 days to 1 year	
	As of	As of	As of	As of
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other non-financial liabilities	76,040	14,337	72	13
Argentine peso	10,710	2,125	—	—
Brazilian real	3,746	3,023	52	10
Chilean peso	37,227	3,478	19	2
Colombian peso	6,069	50	—	—
Euro	8,382	3,261	—	—
U.S. dollar	1,272	325	—	—
Strong bolivar	637	1,211	—	—
Other currency	7,997	864	1	1
Total liabilities	1,059,887	1,155,662	582,176	608,968
Argentine peso	42,313	23,523	—	—
Brazilian real	13,417	41,529	60	18
Chilean peso	120,424	76,156	58,766	11,940
Colombian peso	20,514	29,468	422	—
Euro	28,579	42,403	4,521	1,730
U.S. dollar	684,136	524,199	518,353	595,227
Strong bolivar	4,661	3,921	—	—
Other currency	145,843	414,463	54	53

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Non-current liabilities	More than 1 to 3 years		More than 3 to 5 years		More than 5 years	
	As of December 31, 2013	As of December 31, 2012	As of December 31, 2013	As of December 31, 2012	As of December 31, 2013	As of December 31, 2012
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Other financial liabilities	578,393	623,828	754,256	859,526	1,366,860	1,811,660
Chilean peso	122,780	—	80,528	—	—	—
Euro	—	1,148	—	—	—	—
U.S. dollar	455,613	622,680	673,728	859,526	1,366,860	1,811,660
Accounts payable	647,880	667,582	641	138	11	—
Chilean peso	7,187	8,286	641	138	11	—
U.S. dollar	639,204	657,998	—	—	—	—
Other currency	1,489	1,298	—	—	—	—
Other provisions	11,929	16,187	—	—	—	—
Argentine peso	410	664	—	—	—	—
Brazilian real	146	808	—	—	—	—
Chilean peso	—	36	—	—	—	—
Euro	11,349	10,865	—	—	—	—
U.S. dollar	24	—	—	—	—	—
Other currency	—	3,814	—	—	—	—
Provisions for employees benefits	636	86	—	—	—	—
U.S. dollar	636	86	—	—	—	—
Total non-current liabilities	1,238,838	1,307,683	754,897	859,664	1,366,871	1,811,660
Argentine peso	410	664	—	—	—	—
Brazilian real	146	808	—	—	—	—
Chilean peso	129,967	8,322	81,169	138	11	—
Euro	11,349	12,013	—	—	—	—
U.S. dollar	1,095,477	1,280,764	673,728	859,526	1,366,860	1,811,660
Other currency	1,489	5,112	—	—	—	—

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General summary of foreign currency:	As of	As of
	December 31, 2013	December 31, 2012
	ThUS\$	ThUS\$
Total assets	1,132,002	1,023,285
Argentine peso	58,698	81,894
Brazilian real	25,112	53,046
Chilean peso	366,866	220,368
Colombian peso	11,585	7,419
Euro	46,631	95,232
U.S. dollar	199,480	301,357
Strong bolivar	165,278	55,057
Other currency	258,352	208,912
Total liabilities	5,002,669	5,743,637
Argentine peso	42,723	24,187
Brazilian real	13,623	42,355
Chilean peso	390,337	96,556
Colombian peso	20,936	29,468
Euro	44,449	56,146
U.S. dollar	4,338,554	5,071,376
Strong bolivar	4,661	3,921
Other currency	147,386	419,628
Net position		
Argentine peso	15,975	57,707
Brazilian real	11,489	10,691
Chilean peso	(23,471)	123,812
Colombian peso	(9,351)	(22,049)
Euro	2,182	39,086
U.S. dollar	(4,139,074)	(4,770,019)
Strong bolivar	160,617	51,136
Other currency	110,966	(210,716)

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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 December 31, 2013, 2012 and 2011, generated a loss of ThUS\$ 482,174, a gain of ThUS\$ 66,685 and a loss of ThUS\$ 256, respectively.

Exchange differences recognized in equity as reserves for currency translation differences for the period ended December 31, 2013, 2012 and 2011, represented a loss of ThUS\$ 629,858, a gain of ThUS\$ 19,170 and a loss of ThUS\$ 10,864, respectively.

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

	As of December 31, 2013	As of December 31, 2012
Argentine peso	6.52	4.91
Brazilian real	2.36	2.04
Chilean peso	524.61	479.96
Colombian peso	1,925.52	1,760.00
Euro	0.72	0.76
Strong bolivar	6.30	4.30
Australian dollar	1.12	0.96
Boliviano	6.86	6.86
Mexican peso	13.07	12.99
New Zealand dollar	1.22	1.22
Peruvian Sol	2.80	2.55
Uruguayan peso	21.49	19.05

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NOTE 34 - EARNINGS PER SHARE

Basic earnings	2013	For the periods ended	
		December 31, 2012 (*)	2011
Earnings attributable to controlling company's equity holders (ThUS\$)	(281,114)	(19,076)	320,197
Weighted average number of shares, basic	487,930,977	412,267,624	339,424,598
Basic earnings per share (US\$)	(0.57613)	(0.04627)	0.94335

Diluted earnings	2013	For the periods ended	
		December 31, 2012 (*)	2011
Earnings attributable to controlling company's equity holders (ThUS\$)	(281,114)	(19,076)	320,197
Weighted average number of shares, basic	487,930,977	412,267,624	339,424,598
Adjustment diluted weighted average shares Stock options	—	—	271,380
Weighted average number of shares, diluted	<u>487,930,977</u>	<u>412,267,624</u>	<u>339,695,978</u>
Diluted earnings per share (US\$)	(0.57613)	(0.04627)	0.94260

(*) The impact of the changes described in Note 18.2 on earnings per share at December 31, 2012 was US\$ (0,07284).

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NOTE 35 – CONTINGENCIES

Lawsuits

(i) 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 29th, 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. Variglog is in the process of judicial recovery in Brazil and has asked Switzerland to recognize the judgment that declared the state of judicial recovery and subsequent the bankruptcy.	17,100 Plus interests and costs
Atlantic Aviation Investments LLC (AAI)	Supreme Court of the State of New York County of New York.	602286-09	Atlantic Aviation Investments LLC. (“AAI”) sued on July 24, 2009 Matlin Patterson Global Advisers LLC, Matlin Patterson Global Opportunities Partners II LP, Matlin Patterson Global Opportunities Partners (Cayman) II LP and Logistics LLC Volo (a) as alter egos of Variglog for non-payment of the four loans mentioned in the previous note and (b) for breach of its obligation to guarantee and other obligations under the Memorandum of Understanding signed between the parties on September 29, 2006.	AAI filed a “summary judgment” (abbreviated trial) which the court ruled favorably. The defendants appealed this decision which was ultimately dismissed by the High Court. The cause was turned back to the lower court for determination of the amount actually payable by the applicants (damages) ongoing proceedings before the court.	17,100 Plus interest costs and compensation for damage.

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<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed</u> ThUS\$
Aerotransportes Mas de Carga S.A.	Federal Court of Fiscal and Administrative Justice.	31698/11-17-01-8	Nullity trial against the tax authority's refusal to restore balance in favor of VAT.	Pleadings stage.	4,900
Aerolane Lineas Aéreas Nacionales del Ecuador S.A.	2nd District Court Guayaquil.	09504-2010-0114	Order Determining the Value Added Tax (VAT) 2006.	The Ruling was adverse to the Company. On November 15, 2013, the Company proposed extraordinary appeal. Which has been accepted for consideration by the Fourth Chamber of the District Court No. 2 Contencios Tax Guayaquil.	4,565
Aerolane Lineas Aéreas Nacionales del Ecuador S.A.	Tribunal Fiscal de Guayaquil.	6319-4064-05	Judicial proceedings against the Regional Director of the Internal Revenue Services Guayaquil, for overpayment of taxes.	Tax Litigation Division of the National Court accepts appeal of IRS. Extraordinary Action Protection for the Constitutional Court.	4,210 Plus interest
Aerolane Lineas Aéreas Nacionales del Ecuador S.A.	Internal Revenue Service.	17502-2012-0082	Determination Act for 2006 Income Tax, which have unknown CEDT requesting certification of branch expenses, ARC commissions without Withholding of Income Tax, etc. Process initiated in 2012.	Sentence pending. Appeal for Review.	8,064
Aerolane Lineas Aéreas Nacionales del Ecuador S.A.	Internal Revenue Service.	1720130100068	IR Determination Act of 2008. Glosses are caused by lack of supports in rebills, audit certificates, no withholdings on commissions, and lack of means of payment. Unaware exempt income because the federal return is not translated into Spanish.	On October 9, 2013, the IRS confirmed the contents of Determination Act. On November 11, 2013, the Company filed a motion for review. Now awaiting resolution.	6,047 (income tax 5,039; surcharge 20% 1,008)

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<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed</u> <u>ThUS\$</u>
Lan Argentina S.A.	National Administrative Chamber.	36337/13	ORSNA Resolution No. 123 which directs Lan Argentina to vacate the hangar located in the Metropolitan Airport.	ORSNA appealed the injunction that ordered to rescind the eviction. Lan Argentina filed suit against Resolution No. 123 of ORSNA. On December 23, 2013, the Second Division of the National Court of Appeals in Federal Administrative Matters confirmed the injunction decided in First Instance in favor of Lan Argentina S.A., being suspended eviction order formalized by ORSNA respect Aeroparque Jorge Newbery hangar.	Undetermined
Tam Linhas Aéreas S.A	Wollerau Switzerland.	Court -	Claim the amount withheld by TOP AIR AGENCY AG (GSA in Switzerland, Austria, Norway, Denmark and Eastern Europe) after completion of the GSA contract with TAM in 2008.	Filed suit in November 2013 in the Swiss court to recover the amount that arbitration in Switzerland in May 2011 recognized that corresponds to TAM.	1,747

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(ii) Trials 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 for possible violations of airline competition freighters, especially fuel surcharge. On December 26, 2007, the Directorate General for Competition of the European Commission notified Lan Cargo S.A. and LATAM Airlines Group S.A. of a case against twenty-five cargo airlines, including Lan Cargo S.A., for possible violations of free competition in the European air cargo market, especially the alleged fixing a fuel surcharge and freight. On November 9, 2010, the Directorate General 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\$ 11,349. This penalty is being appealed by Lan Cargo S.A. and LATAM Airlines Group S.A. The outcome of this appeal cannot be predicted.	On April 14, 2008, the notification of the European Commission was answered. The appeal was filed on January 24, 2011.	11,349
Lan Cargo S.A. y LATAM Airlines Group S.A.	In the High Court of Justice Chancery Division (Inglaterra) and Directie Juridische Zaken Afdeling Ceveil Recht (Netherlands).	—	Lawsuits filed against European airlines by users of freight services in private prosecutions as a result of the investigation for possible violations of airline competition freighters, especially fuel surcharge. Lan Cargo S.A. and LATAM Airlines Group S.A. have been sued in court proceedings as third parties, based in England and the Netherlands.	Case is in evidence discovery process.	Undetermined

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<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed</u> <u>ThUS\$</u>
Aerolinhas Brasileiras S.A.	Administrative Council for Economic Defense, Brazil.	—	Investigation for possible violations of airline competition freighters, especially fuel surcharge.	On September 3, 2013, CADE's decision was published in the Diario da Uniao confirming the sentencing of violation and imposition of fines to ABSA for the amount of ThUS\$51,020. This fine will be appealed by ABSA. In turn CADE fined also a current director of ABSA and two former officials for the respective amounts of ThUS\$ 971, ThUS\$ 486 and ThUS\$ 486. On December 5 was filed application for administrative reconsideration to the CADE. There is also the possibility of further appeal through the judicial process in the courts. We cannot predict the outcome of these appeals process.	51,020
Aerolinhas Brasileiras S.A.	Federal Revenue Secretary of Brazil.	10831-005.704/2006-43	Collection of import taxes and penalties owed to the verification of declared loss volumes and allegedly transported the country. The Administrative Court of São Paulo started collection of PIS and COFINS, keeping only the debts related to II, IPI and the 50% penalty in the second.	DRJ performed collection of PIS and COFINS, keeping only the debts related to II, IPI and the 50% penalty in the second. Awaiting trial by CARF.	9,391
Aerolinhas Brasileiras S.A.	Federal Revenue Secretary of Brazil.	10831-008.687/2006-04	Collection of import taxes and fines due to the determination of charge storage when end of manifest information.	On 12/08/2010 CARF dismissed the Voluntary Action. Filed an extraordinary appeal, which is pending trial.	5,122

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<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed ThUS\$</u>
LATAM Airlines Group S.A.	Tenth Civil Court of Santiago.	—	The company Jara&Jara Limited sues LATAM Airlines Group S.A. based on the damage they have caused due to the criminal complaints filed for the crime of fraud against them in 2008, which were dismissed for good. They claim that the damage caused by LATAM Airlines Group S.A. affected their prestige and business continuity.	First instance.	11,935
Aerolane Lineas Aéreas Nacionales del Ecuador S.A.	Civil Court 20 Pichincha.	374-2012 LA	Passenger demand for misuse by counter agent of credit card.	In discharge step test, hearing in New appearance (for judicial confession)of the legal representative set for February 13, 2014.	5,500
Tam Linhas Aéreas S.A.	Tribunal Regional Federal da 2 da Região(the Court of the Second Region).	2001.51.01.012530-0	Ordinary judicial action brought to declare that there is no legal relationship obligating the Company to raise the Air Fund.	First instance sentence not favorable. Currently awaiting the decision of the appeal filed by the company. To suspend the tax credit application to the Court was delivered by guarantee ThUS\$ 102 which is revealed in more detail in Note 23.	120,460
Tam Linhas Aéreas S.A.	Secretary of Federal Revenues of Brazil (Internal Revenue Service of Brazil).	16643.000087/2009-36	Notice of Violation of the requirement to pay the social contribution on net profit (“CSL”).	Decisions of first and second administrative instance adverse to the interests of the Company. Currently awaiting the decision of the new action brought by the Company.	30,921
Tam Linhas Aéreas S.A.	Secretary of Federal Revenues of Brazil (Internal Revenue Service of Brazil).	10880.725950/2011-05	Compensation claims of social contributions PIS and COFINS.	Court decision was unfavorable to the interests of the company, so it was appealed. At present, pending the trial of the appeal, the Board of Tax Appeals (CARF).	28,426

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<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed ThUS\$</u>
Pantanal Linhas Aéreas S.A.	Regional Court of the Third District.	1997.0002503-9	Execution filed to collect tax penalties for breach of special customs regime of temporary admission.	Waiting for the decision of the second instance. Favorable sentence.	5,233
Tam Linhas Aéreas S.A.	6th Public rod of Sao Paulo.	0012938-14.2013.8.26.0053	Judgment proposed to cancel the collection of incident Service Tax on amounts paid to Infraero.	The ruling overturned the injunction previously granted, and granted in part the action proposed by the company. Opposing a motion for clarification, which was rejected. Both parties filed motions, both of which received the double effect (suspension and forwarding). Currently waiting for the referral to the Court of Justice of the State of São Paulo and therefore appeals trial.	14,192
Tam Linhas Aéreas S.A.	Secretary of Federal Revenues of Brazil (Internal Revenue Service of Brazil).	16643.000085/2009-47	Auto compound to demand and collection of income tax and detail CSL derived royalties and fees using the mark TAM.	First instance decision unfavorable to the interests of the company. On March 14, 2012, the application of business and voluntary action were judged by CARF, so that was adduced the resource trade to restore the expenditure to the royalties, and partially provided voluntary action of TAM to (i) rescind the compensation for tax losses and (ii) apart calculating the default interest Selic rate effect on the government claim. It, currently expects the ruling on the admissibility of the special appeal filed by the Special Attorney for Finance and the notification of the decision.	13,684

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<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed</u> <u>ThUS\$</u>
Tam Linhas Aéreas S.A.	Secretary of Federal Revenues of Brazil (Internal Revenue Service of Brazil).	10831.012344/2005-55	Infraction II presented to demand payment and social contributions of PIS and COFINS arising from the loss of unidentified international cargo.	Partially favorable decision in the first administrative and supportive in the second instance. However, the upper chamber of the Board of Tax Appeals was to the special appeal filed by the Union. Currently pending resolution of the motion for clarification with the opposition of the company.	11,008
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de São Paulo (Secretary of Finance of the State of Sao Paulo).	3.123.785-0	Order of infringement to demand payment of ICMS governing the importation of aircraft.	Under the laws of the state of São Paulo, the Administrative Court was to declare the agreement of the matter discussed in the infraction and the related injunction, so the case was referred to the State Attorney and a determination is expected on that demand.	9,553
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de São Paulo (Secretary of Finance of the State of Sao Paulo).	3.130.043-1	Order of infringement to demand payment of ICMS governing the importation of aircraft.	On June 4, 2013, the decision was issued denying the special appeal filed by the company. Currently, waiting for the demarcation of the court order regarding the administrative process.	9,187
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de São Paulo ((Secretary of Finance of the State of Sao Paulo).	3.099.486-0	Order of infringement to demand payment of ICMS governing the importation of aircraft.	Under the laws of the state of São Paulo, the Administrative Court was to declare the agreement of the matter discussed in the infraction and the related injunction, so the case was referred to the State Attorney and a determination is expected on that demand.	6,952

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<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed</u> <u>ThUS\$</u>
Tam Linhas Aéreas S.A.	Secretary of Federal Revenues of Brazil (Internal Revenue Service of Brazil).	11610.001360/2001-56	Application for reimbursement of social security contributions of PIS.	Unfavorable ruling in the first and second administrative instances. Currently expecting fiscal execution ruling.	7,732
Tam Linhas Aéreas S.A.	Secretary of Finance of the State of Sao Paulo (Secretary of Finance of the State of Sao Paulo).	3.117.001-8	Notice of infringement demanding payment of ICMS on imports of aircraft.	Under the laws of the state of São Paulo, the Administrative Court was to declare the agreement of the matter discussed in the infraction and the related injunction, so the case was referred to the State Attorney and a determination is expected on that demand.	7,599
Tam Linhas Aéreas S.A.	Tribunal Regional Federal da 3a Região (Court of the Third Region).	2006.03.00.022504-6	Penalty forcing IRPJ collection in the months of February, March and August 1998.	Pending first instance ruling.	7,036
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de São Paulo (Secretary of Finance of the State of Sao Paulo).	3.120.286-0	Order of infringement to demand payment of ICMS governing the importation of aircraft.	Trial suspended. It now expects the end of main trial.	6,311
Tam Linhas Aéreas S.A.	Governo do Estado de São Paulo (State Government of Sao Paulo).	990.172	Fiscal Execution to demand payment of ICMS that affects the import of aircraft.	Trial suspended. It now expects the end of main trial.	5,971
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de São Paulo (Secretary of Finance of the State of Sao Paulo).	3.123.000-3	Order of infringement to demand payment of ICMS governing the importation of aircraft.	Trial suspended. It now expects the end of main trial.	5,749

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<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed</u> <u>ThUS\$</u>
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de São Paulo (Secretary of Finance of the State of Sao Paulo).	004960-83.2013.8.26.0053	Judgment proposed to cancel the charge and to demand payment of ICMS and fine affects import of aircraft.	Currently awaiting a ruling of first instance.	5,797
Tam Linhas Aéreas S.A.	Internal Revenue Service.	2002.61.19.001123-1	Injunction filed to prevent recovery of IPI on imports of aircraft.	Currently awaiting a ruling on the appeal filed by the Company.	5,540
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de São Paulo (Secretary of Finance of the State of Sao Paulo).	4.002.475-1	Order of infringement to demand payment of ICMS governing the importation of aircraft.	Expected the ruling on impeachment filed by the Company.	5,336
Tam Linhas Aéreas S.A.	6th Public rod of Sao Paulo	0013306-23.2013.8-26.0053	Judgment proposed to cancel the collection of incident Service Tax on amounts received as discount on the go over the shipping rates to Infraero.	Currently awaiting the decision of first instance.	4,907
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado da Paraíba (Secretary of Finance of the State of Sao Paulo).	3.019.886-0	Order of infringement to demand payment of ICMS governing the importation of aircraft.	Trial suspended. It now expects the end of main trial.	4,892
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado da Paraíba (Secretary of Finance of the State of Paraíba).	93300008.09.00000883/2009-31	Order of infringement to demand payment of ICMS in particular operations.	Currently awaiting a ruling on the appeal filed by the Company.	4,835

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<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed</u> <u>ThUS\$</u>
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de São Paulo (Secretary of Finance of the State of Sao Paulo).	3.123.770-8	Order of infringement to demand payment of ICMS governing the importation of aircraft.	Under the laws of the state of São Paulo, the Administrative Court was to declare the agreement of the matter discussed in the infraction and the related injunction, so the case was referred to the State Attorney and a determination is expected on that demand.	4,814
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de São Paulo (Secretary of Finance of the State of Sao Paulo).	3.154.701-1	Order of infringement to demand payment of ICMS governing the importation of aircraft.	Expected the ruling on impeachment filed by the Company.	4,708
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de São Paulo (Secretary of Finance of the State of Sao Paulo).	3.146.575-4	Order of infringement to demand payment of ICMS governing the importation of aircraft.	Trial suspended. It now expects the end of main trial.	4,562
Tam Linhas Aéreas S.A.	Secretaria da Receita Federal (Internal Revenue Service).	10880-676.339/2009-13	Order of infringement to demand payment of IRPJ.	Expected the ruling on impeachment filed by the Company.	4,523
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de São Paulo (Secretary of Finance of the State of Sao Paulo).	3.146.651-5	Order of infringement to demand payment of ICMS governing the importation of aircraft.	Trial suspended. It now expects the end of main trial.	4,445
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de Goiás (Secretary of Finance of Estado de Goias).	3032722060291	Order of infringement to demand payment of ICMS in particular operations.	Currently awaiting a ruling on the appeal filed by the Company.	4,218

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<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed</u> <u>ThUS\$</u>
Tam Linhas Aéreas S.A.	Secretaria da Receita Federal (Internal Revenue Service of Brazil).	16643.000088/2009-81	Order of infringement to demand payment of IRPJ and CSLL.	On November 26, 2013, in order to assert the benefits of art. 40 of Law No. 12865/13, the company applied for exemption and, cumulatively, waived any claim of right on which the appeal is based. At present, pending review of the exemption request.	4,167
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de São Paulo (Secretary of Finance of the State of Sao Paulo).	3.117.801-7	Order of infringement to demand payment of ICMS governing the importation of aircraft.	Trial suspended. It now expects the end of main trial.	4,139
Tam Linhas Aéreas S.A.	Secretaria da Fazenda do Estado de São Paulo (Secretary of Finance of the State of Sao Paulo).	3.129.987-8	Order of infringement to demand payment of ICMS governing the importation of aircraft.	Procedure suspended. Presently waiting for an end to the main proceedings.	3,899
Tam Linhas Aéreas S.A.	Public Rod of Florianopolis-SC.	023.12.036784-2	Lawsuit filed by InstitutoLiberdade on the product Espaço+.	Currently awaiting convocation of the other companies, for us to answer.	4,269
Tam Linhas Aéreas S.A.	1st Civil Court of the District of Navegantes / SC.	033.03.013110-6 (precautionary) 033.03.014870-0 (ordinary).	Action filed by a former sales representative of TAM demanding compensation for moral and economic damage in consequence of the alleged wrongful termination of contract and unfounded trade representative land freight transport other than agreeing in advance the establishment of protection enforceable court.	We are currently awaiting the evaluation of our objection to the expert report.	3,986

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<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.	Tribunal do Trabalho de Porto Alegre -Labor Court of Porto Alegre.	0001611-93.2012.5.04.0013	Civil Action in the Ministry of Labour, which requires the granting of black shoes, belts and socks for employees who wear uniforms.	Process in the first instance, waiting judgment of appeal.	10,375 Approximate value
Tam Linhas Aéreas S.A.	Tribunal do Trabalho de Porto Alegre -Labor Court of Porto Alegre.	0000504-79.2010.5.04.0014	Lawsuit filed by the Union of Aviation Porto Alegre / RS demanding payment for the additional hazard.	Judgment in appeal stage. Final instance.	6,098 Approximate value
Tam Linhas Aéreas S.A.	Labor Justice Salvador / BA-Labor Jurisdiction Salvador / BA.	0000033-78.2011.5.05.0021	Class action by the National Union of Aviation workers, which requires payment of risk bonus for all employees of the SSA base.	Process in the first instance. Awaiting sentencing.	19,083 Approximate value
Tam Linhas Aéreas S.A.	Labor Court Brasilia.	01683.2009.015.10.00.3	Action by the Union Aerovias Brasilia/DF demanding payment of hazard compensation for all maintenance employees.	Process in the last instance. Awaiting the outcome of the appeal.	5,559 Approximate value
Tam Linhas Aéreas S.A.	Secretary of Finance of Sao Paulo.	4.023.832-5	Notice of infraction to demand payment of import tax that rules aircraft.	After the adverse decision in the first instance, the company filed an ordinary appeal. Currently, pending the decision of the appeal before the Administrative Tribunal.	5,501

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<u>Company</u>	<u>Court</u>	<u>Case Number</u>	<u>Origin</u>	<u>Stage of trial</u>	<u>Amounts Committed</u> <u>ThUS\$</u>
Aerovías de Integración Regional AIRE S.A.	Florida USA.	2013-20319 CA 01	In July 30, 2012 LAN AIRLINES COLOMBIA initiated legal proceedings in Colombia against regional One Inc. and Volvo Aero Services LLC, in order to declare that these companies are civilly liable for moral and material damages caused to LAN AIRLINES COLOMBIA , arising from breach of contractual obligations of the aircraft HK In June 20, 2013 AIRE SA AND / OR LAN AIRLINES COLOMBIA was notified of the lawsuit filed in the U.S. by INC and Dash regional One 224 LLC for damages caused by the aircraft HK claiming COLOMBIA LAN AIRLINES had the requirement to obtain customs import declaration when the aircraft in April 2010 entered Colombia for maintenance required by Regional One.	The process in Colombia is pending resolution of preliminary objections filed by the defendant As for the process in the U.S. Federal Court is deciding whether the process follows on as a court with jurisdiction in Colombia is resolving a parallel demand in Colombia Although continues pending the decision to declare or not without case in the U.S. by the judge, the court has noted a date for trial in August 2014 if the decision is to grant the request to the case in the U.S..	12,443
Tam Linhas Aéreas S.A.	Secretaria da Receita Federal (Internal Revenue Service of Brazil).	10880-926.383/2013-66	Decision of the Internal Revenue Service does not approve compensation made by the company in the application for refund of income tax for 2009.	Pending the result of the dissatisfaction expressed by the company.	6,826
Tam Linhas Aéreas S.A.	Secretaria da Receita Federal (Internal Revenue Service of Brazil).	1720130100068	Notice of infraction to demand tax credit is due, as the company would have improperly excluded amounts paid as interest on own capital for the years 2010 and 2011.	Pending the result of the objection filed by the company.	5,234

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<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.	Secretary of Finance of Rio de Janeiro.	03.431129-0	It is an infraction, for which the State of Rio de Janeiro requires the VAT tax credit for purchasing fuel kerosene (jet fuel). According to a report, the auditor notes that there is no legislation in Rio de Janeiro for the appropriation of this credit, so the credit has been rejected and required tribute.	Waiting for the contestation presented by the company.	97,179

In order to deal with any financial obligations arising from legal proceedings outstanding at December 31, 2013, whether civil, labor or tax, LATAM Airlines Group S.A., has made provisions, which are included in heading Other provisions, non-current, which is disclosed in Note 23.

The Company has not disclosed the individual probability of success for each contingency in order to not negatively affect its outcome.

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NOTE 36 - COMMITMENTS

(a) Loan covenants

With respect to various loans signed by the Company for the financing of Boeing 767, 777 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.

Additionally, with respect to various loans signed by its subsidiary Lan Cargo S.A. for the financing of Boeing 767F and 777F aircraft, which carry the guarantee of the United States Export-Import Bank, restrictions have been established to the Company's management and its subsidiary Lan Cargo S.A. in terms of shareholder composition and disposal of assets.

In connection with the financing of spare engines for its Boeing 767, 767F, 777, 777F and 787, which are guaranteed by the Export-Import Bank of the United States, restrictions have been placed on the ownership structure of their guarantors and their legal successor in case of merger.

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

At December 31, 2013, the Company is in compliance with all indicators detailed above.

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(b) Commitments under operating leases as lessee

Details of the main operating leases are as follows:

Lessor	Aircraft	As of December 31, 2013	As of December 31, 2012
ACS Aircraft Finance Bermuda Ltd. - Aircastle (WFBN)	Boeing 737	1	1
Air Canada (Sublessor)	Airbus A340	—	1
Airbus Financial Services	Airbus A340	3	2
Aircraft 76B-26261 Inc. (ILFC)	Boeing 767	—	1
Aircraft 76B-26329 Inc. (ILFC)	Boeing 767	1	1
Aircraft 76B-27613 Inc. (ILFC)	Boeing 767	1	1
Aircraft 76B-27615 Inc. (ILFC)	Boeing 767	1	1
Aircraft 76B-28206 Inc. (ILFC)	Boeing 767	1	1
Aircraft Solutions Lux V S.À.R.L. (AVMAX)	Bombardier Dhc8-200	—	1
ALC A319 1703, LLC (*)	Airbus A319	—	1
Aviacion Centaurus, A.I.E (Santander) (*)	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	—
Avolon Aerospace AOE 63 Limited	Boeing 787	1	—
AWAS (SWEDEN TWO) AB (*)	Airbus A320	—	2
AWAS 4839 Trust	Airbus A320	1	1
AWAS 5125 Trust	Airbus A320	1	1
AWAS 5178 Limited	Airbus A320	1	1
AWAS 5234 Trust	Airbus A320	1	1
Baker & Spice Aviation Limited (*)	Airbus A320	2	2
BOC Aviation Pte. Ltd.	Airbus A320	1	1
Celestial Aviation Trading 35 Ltd. (GECAS)	Boeing 767	—	1
CIT Aerospace International	Boeing 767	1	1
CIT Aerospace International (*)	Airbus A319	1	3
CIT Aerospace International (*)	Airbus A320	4	4
Continuity Air Finance IV B.V (BOC) (*)	Airbus A319	1	1
Delaware Trust Company, National Association (CRAFT)	Bombardier Dhc8-200	7	9
Eden Irish Aircr Leasing MSN 1459 (AERCAP) (*)	Airbus A320	1	1
GECAS Sverige Aircraft Leasing Worldwide AB (*)	Airbus A320	10	10

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Lessor	Aircraft	As of December 31, 2013	As of December 31, 2012
GECAS Sverige Aircraft Leasing Worldwide AB (*)	Airbus A330	2	2
GFL Aircraft Leasing Netherlands B.V. (GECAS) (*)	Airbus A320	1	1
International Lease Finance Corporation	Boeing 737	1	2
International Lease Finance Corporation	Boeing 767	1	1
International Lease Finance Corporation (*)	Airbus A320	1	1
KN Operating Limited (NAC)	Bombardier Dhc8-400	3	4
MASL Sweden (1) AB (MACQUARIE) (*)	Airbus A320	1	1
MASL Sweden (2) AB (MACQUARIE) (*)	Airbus A320	1	1
MASL Sweden (7) AB (MACQUARIE) (*)	Airbus A320	1	1
MASL Sweden (8) AB (MACQUARIE) (*)	Airbus A320	1	1
MCAP Europe Limited - Mitsubishi (WTC)	Boeing 737	1	1
Orix Aviation Systems Limited	Airbus A320	3	3
Pembroke B737-7006 Leasing Limited	Boeing 737	2	2
RBS Aerospace Limited (*)	Airbus A320	6	6
SKY HIGH V LEASING COMPANY LIMITED (*)	Airbus A320	1	1
Sky High XXIV Leasing Company Limited	Airbus A320	3	—
Sky High XXV Leasing Company Limited	Airbus A320	2	—
Sunflower Aircraft Leasing Limited - AerCap	Airbus A320	2	2
Volito Aviation August 2007 AB (*)	Airbus A320	2	2
Volito Aviation November 2006 AB (*)	Airbus A320	2	2
Volito Brasilien AB (*)	Airbus A319	1	1
Volito November 2006 AB (*)	Airbus A320	2	2
Wells Fargo Bank North National Association (ACG) (*)	Airbus A319	1	1
Wells Fargo Bank North National Association (ACG) (*)	Airbus A320	2	2
Wells Fargo Bank North National Association (BAKER & SPICE) (*)	Airbus A320	—	1
Wells Fargo Bank North National Association (BOC) (*)	Airbus A319	3	3
Wells Fargo Bank North National Association (BOC) (*)	Airbus A320	—	2
Wells Fargo Bank Northwest N.A. (AVOLON) (*)	Airbus A320	4	4
Wells Fargo Bank Northwest National Association (ACG) (*)	Airbus A320	2	2
Wells Fargo Bank Northwest National Association (AerCap) (*)	Airbus A330	10	—
Wells Fargo Bank Northwest National Association (BBAM)	Boeing 777	1	—
Wells Fargo Bank Northwest National Association (BBAM)	Boeing 787	1	—
Wells Fargo Bank Northwest National Association (BOC) (*)	Airbus A320	1	1
Wells Fargo Bank Northwest, N.A. (GECAS)	Boeing 767	4	4
Wells Fargo Bank Northwest, N.A. (GECAS)	Boeing 777	2	2
Wilmington Trust Company (ILFC) (*)	Airbus A319	1	1
Yamasa Singapore Pte. Ltd.	Airbus A340	1	—
Zipdell Limited (BBAM) (*)	Airbus A320	1	1
Total		128	123

(*) The composition of the fleet as operating leases at December 31, 2013, incorporates the effects of business combinations with TAM S.A. and Subsidiaries.

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

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

	As of December 31, 2013	As of December 31, 2012
	ThUS\$	ThUS\$
No later than one year	475,762	380,713
Between one and five years	1,101,741	852,659
Over five years	335,019	235,658
Total	<u>1,912,522</u>	<u>1,469,030</u>

The minimum lease payments charged to income are the following:

	For the periods ended December 31,		
	2013	2012	2011
	ThUS\$	ThUS\$	ThUS\$
Minimum operating lease payments	441,077	310,496	168,369
Total	<u>441,077</u>	<u>310,496</u>	<u>168,369</u>

In September 2011, the Company signed a contract to establish the early departure of three Boeing 737-700. The return of these three aircraft was completed during the second quarter of 2012.

During the second quarter of 2012, added three Airbus A320-200 aircraft leased for a period of 8 years. During the third quarter of 2012, it the Company added two Airbus A320-200 aircraft, leased for periods of six and eight years. In addition, two Boeing 767-300 aircraft and two Airbus A320-200 were returned given the end of the lease contract. During the fourth quarter of 2012, were returned four Airbus A320-200 on lease term.

In the first quarter of 2013, it returned an Airbus A320-200, while during the second quarter of 2013 two Airbus A319-100, one Airbus A320-200 and one Bombardier Dhc8-200 were returned as their leasing contracts had ended. During June 2013 the contracts system applied to ten Airbus A330-200 aircraft was changed from financial leasing to operative leasing, with each aircraft being leased for a period of forty months. During the third quarter of 2013, two Airbus A320-200 aircraft was leased for a period of 8 years each, one Boeing 787 aircraft was leased for a period of 12 years and two Boeing 777 aircraft were leased for a period of 5 years each. Moreover, one Airbus A320-200, two Boeing 767-300 aircraft and one Bombardier Dhc8-400 aircraft were returned. Additionally, during July of 2013 two Dhc8-200 aircraft were acquired on leasing. In the fourth quarter of 2013, three Airbus A320-200 aircraft was leased for a period of 8 years each, one Boeing 787 aircraft was leased for a period of 12 years. Moreover, two Airbus A320-200, one Airbus A319-100, one Airbus A340-300, one Boeing 737-700 aircraft and one Bombardier Dhc8-400 aircraft were returned.

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

At December 31, 2013 the Company has existing letters of credit related to operating leasing as follows:

Creditor Guarantee	Debtor	Type	Value ThUS\$	Release date
AFS Investments 48 LLC.	Lan Cargo S.A.	Two letter of credit	3,500	Jan 25, 2014
Air Canada	LATAM Airlines Group S.A.	One letter of credit	1,800	Jun 30, 2014
CIT Aerospace International	LATAM Airlines Group S.A.	Two letter of credit	3,240	May 13, 2014
GE Capital Aviation Services Limited	LATAM Airlines Group S.A.	Three letter of credit	12,134	Dec 4, 2014
GE Capital Aviation Services Limited	Lan Cargo S.A.	Six letter of credit	17,965	Apr 25, 2014
International Lease Finance Corp	LATAM Airlines Group S.A.	Five letter of credit	2,300	Feb 24, 2014
Orix Aviation System Limited	LATAM Airlines Group S.A.	One letter of credit	3,255	Jul 31, 2014
PB Leasing Aircraft, No 28 (UK) Limited	LATAM Airlines Group S.A.	One letter of credit	3,265	May 5, 2014
TAF Mercury	LATAM Airlines Group S.A.	One letter of credit	4,000	Dec 4, 2014
TAF Venus	LATAM Airlines Group S.A.	One letter of credit	4,000	Dec 4, 2014
Wells Fargo Bank Northwest, National Association	Lan Cargo S.A.	One letter of credit	2,530	Jun 30, 2014
Baker & Spice Aviation Limited	Tam Linhas Aéreas S.A.	Two letter of credit	32,733	Apr 13, 2014
BOC Aviation (USA) Corporation	Tam Linhas Aéreas S.A.	One letter of credit	5,500	Nov 29, 2014
Cit Aerospace International	Tam Linhas Aéreas S.A.	Three letter of credit	15,281	Jan 31, 2014
DVB Group Merchant Bank (Asia) Ltd.	Tam Linhas Aéreas S.A.	One letter of credit	5,500	Dec 4, 2014
PK Airfinance US, Inc.	Tam Linhas Aéreas S.A.	One letter of credit	1,600	Dec 19, 2014
Royal Bank Of scotland Aerospace	Tam Linhas Aéreas S.A.	Twelve letter of credit	5,360	Feb 20, 2014
SMBC Aviation Capital Ltd.	Tam Linhas Aéreas S.A.	One letter of credit	6,262	Feb 28, 2014
Wells Fargo Bank Northwest, National Association	Tam Linhas Aéreas S.A.	Two letter of credit	6,000	Mar 28, 2014
Wilmington Trust SP Services Ltd.	Tam Linhas Aéreas S.A.	Two letter of credit	11,281	Jan 31, 2014
			<u>147,506</u>	

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(c) Other commitments

At December 31, 2013 the Company has existing letters of credit, certificates of deposits and warranty insurance policies as follows:

Creditor Guarantee	Debtor	Type	Value ThUS\$	Release date
American Alternative Insurance Corporation	LATAM Airlines Group S.A.	Four letter of credit	2,910	Apr 5, 2014
Citibank N.A.	LATAM Airlines Group S.A.	One letter of credit	9,750	Dec 20, 2014
Comisión Europea	LATAM Airlines Group S.A.	One letter of credit	8,220	Feb 11, 2015
Deutsche Bank A.G.	LATAM Airlines Group S.A.	Three letter of credit	40,000	Jan 1, 2014
Dirección General de Aviación Civil de Chile	LATAM Airlines Group S.A.	Sixty four ticket guarantee	16,917	Mar 31, 2014
Dirección Seccional de Aduanas de Bogotá	Línea Aérea Carguera de Colombia S.A.	Two insurance policies guarantee	3,755	Apr 7, 2014
Empresa Pública de Hidrocarburos del Ecuador EP Petroecuador	LATAM Airlines Group S.A.	One letter of credit	5,500	Jun 21, 2014
Metropolitan Dade County	LATAM Airlines Group S.A.	Five letter of credit	1,675	May 31, 2014
Servicio Nacional de Aduanas	LATAM Airlines Group S.A.	Three letter of credit	1,333	Jun 28, 2014
The Royal Bank of Scotland plc	LATAM Airlines Group S.A.	Two letter of credit	18,000	May 20, 2014
Washington International Insurance	LATAM Airlines Group S.A.	Two letter of credit	2,100	Apr 5, 2014
Westpac Banking Corporation	LATAM Airlines Group S.A.	One letter of credit	1,066	Apr 4, 2014
6ª Vara de Execuções Fiscais Federal de Campo Grande/MS	Tam Linhas Aéreas S.A. (Pantanal)	Two insurance policies guarantee	31,728	Jan 4, 2016
8 Vara da Fazenda Pública da Comarca de São Paulo	Tam Linhas Aéreas S.A. (Pantanal)	One insurance policies guarantee	15,389	Apr 12, 2015
Fundação de Proteção e Defesa do Consumidor Procon	Tam Linhas Aéreas S.A.	One insurance policies guarantee	1,837	May 16, 2016
Vara da Fazenda Pública da Comarca de São Paulo	Tam Linhas Aéreas S.A.	One insurance policies guarantee	3,274	Mar 29, 2016
Vara De Execuções Fiscais Estaduais de São Paulo	Tam Linhas Aéreas S.A.	One insurance policies guarantee	15,395	Apr 16, 2015
União Federal	Tam Linhas Aéreas S.A.	One insurance policies guarantee	1,061	Jul 24, 2015
			<u>179,910</u>	

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NOTE 37 - TRANSACTIONS WITH RELATED PARTIES

(a) Transactions with related parties for the period ended December 31, 2013

<u>Tax No.</u>	<u>Related party</u>	<u>Nature of relationship with related parties</u>	<u>Country of origin</u>	<u>Explanation of other information about related parties</u>	<u>Nature of related transactions</u>	<u>Currency</u>	<u>Transaction amount with related parties</u> <u>ThUS\$</u>
96.810.370-9	Inversiones Costa Verde Ltda. y CPA.	Controlling shareholder	Chile	Investments	Revenue from services provided	CLP	17
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Leases as lessor	CLP	253
					Services received	CLP	(1,186)
					Services received	US\$	(1,146)
65.216.000-k	Comunidad Mujer	Other related parties	Chile	Promotion and training of women	Revenue from services provided	CLP	10
					Services received	CLP	(11)
78.591.370-1	Bethia S.A y filiales	Other related parties	Chile	Investments	Leases as lessor	CLP	(6)
					Revenue from services provided	CLP	2,726
					Services received	CLP	(883)
					Sale of Property plant and equipment (1)	CLP	14,217
79.773.440-3	Transportes San Felipe S.A	Other related parties	Chile	Transport	Revenue from services provided	CLP	17
					Services received	CLP	(142)
					Commitments made on behalf of the entity	CLP	(84)
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Pisciculture	Revenue from services provided	CLP	231
Foreign	Inversora Aeronáutica Argentina	Other related parties	Argentina	Investments	Revenue from services provided	US\$	9
					Leases as lessor	US\$	(358)
Foreign	Jochmann Participacoes Ltda.	Other related parties	Brazil	Transport	Services received	US\$	(27)
Foreign	TAM Aviação Executiva e Taxi Aéreo S/A	Other related parties	Brazil	Transport	Revenue from services provided	BRL	485
					Commitments made on behalf of the entity	BRL	(17)
Foreign	Prismah Fidelidade S.A.	Joint Venture	Brazil	Marketing	Liabilities settlement on behalf of the entity for the related party	BRL	(499)

On December 28, 2012, Inmobiliaria Aeronáutica S.A. as seller and Sotraser S.A. (Subsidiary of Bethia S.A.) as purchaser, entered into an agreement to purchase the land called "Lot No. 12 of parcellation project Lo Echevers". The value of the sale amounts to ThUS\$ 14,217. On December 31, 2013, this balance is paid.

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(b) Transactions with related parties for the period ended December 31, 2012

Tax No.	Related party	Nature of relationship with related parties	Country of origin	Explanation of other information about related parties	Nature of related parties transactions	Currency	Transaction amount with related parties ThUS\$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA.	Controlling shareholder	Chile	Investments	Revenue from services provided	CLP	11
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Leases as lessor Services received Services received	CLP CLP US\$	411 (1,101) (803)
65.216.000-K	Comunidad Mujer	Other related parties	Chile	Promotion and training of women	Revenue from services provided Services received	CLP CLP	13 (13)
78.591.370-1	Bethia S.A. y Filiales	Other related parties	Chile	Investments	Leases as lessor Revenue from services provided Commitments made on behalf of the entity Services received Sale of Property plant and equipment (1)	CLP CLP CLP CLP	741 897 3 14,217
79.773.440-3	Transportes San Felipe S.A.	Other related parties	Chile	Transport	Services received	CLP	(279)
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Pisculture	Revenue from services provided	CLP	243
96.812.280-0	San Alberto S.A. y Filiales	Other related parties	Chile	Investments	Services received	US\$	(29)
Foreign	Inversora Aeronáutica Argentina	Other related parties	Argentina	Investments	Leases as lessee Liabilities settlement on behalf of the entity for the related party	US\$ US\$	(442) 11
Foreign	Tadef-Transporte Administração e Participação Ltda.	Other related parties	Brazil	Transport	Services received	US\$	(18)
Foreign	TAM Aviação Executiva e Taxi Aéreo S.A.	Other related parties	Brazil	Transport	Revenue from services provided Liabilities settlement on behalf of the entity for the related party	BRL BRL	306 3
Foreign	Made In Everywhere Repr. Com. Distr.	Other related parties	Brazil	Transport	Services received	BLR	(211)
Foreign	Prismah Fidelidade S.A	Joint Venture	Brazil	Marketig	Liabilities settlement on behalf of the entity for the related party	BLR	419

- (1) On December 28, 2012, Inmobiliaria Aeronáutica S.A. as seller and Sotraser S.A. (Subsidiary of Bethia S.A.) as purchaser, entered into an agreement to purchase the land called "Lot No. 12 of parcellation project Lo Echevers". The value of the sale amounts to ThUS\$ 14,217.

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(c) Transactions with related parties for the period ended December 31, 2011

Tax No.	Related party		Country of origin	Explanation of other information about related parties	Nature of related parties transactions	Currency	Amount of transactions ThUS\$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA.	Controlling shareholder	Chile	Investments	Leases as lessor	CLP	71
					Revenue from services provided	CLP	19
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Leases as lessor	CLP	122
					Services received	CLP	(652)
					Services received	US\$	(594)
78.591.370-1	Bethia S.A . y Filiales (1)	Other related parties	Chile	Investments	Leases as lessor	CLP	546
					Revenue from services provided	CLP	1,683
					Cession granted debt	CLP	4,461
					Services received	CLP	(456)
					Sale of subsidiaries	CLP	53,386
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Fish farming	Revenue from services provided	CLP	199
96.625.340-1	Inversiones Mineras del Cantabrico S.A .	Other related parties	Chile	Investments	Other prepayments received	US\$	(811)
Foreign	Inversora Aeronáutica Argentina	Other related parties	Argentina	Investments	Leases as lessee	US\$	(412)
					Other prepayments granted	US\$	811

- (1) On April 6, 2011, Lan Cargo S.A. and Inversiones Lan S.A., subsidiaries of LATAM Airlines Groups S.A. as sellers and Servicios de Transporte Limitada and Inversiones Betmin SpA., subsidiaries of Bethia S.A., as purchasers, entered into a contract of sale related to 100% of the social equity of companies Blue Express INTL Ltda. y Blue Express S.A. The value of the sale of Blue INTL Ltda. and subsidiary was for ThUS\$ 53,386.

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Operations corresponding to holders of common stock in TAM S.A. and subsidiaries are included following the date of the business combination, on June 22, 2012.

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.

(d) Compensation of key management

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

	For the periods ended December 31,		
	2013 ThUS\$	2012 ThUS\$	2011 ThUS\$
Remuneration	15,148	15,146	9,696
Management fees	368	653	185
Non-monetary benefits	565	395	665
Short-term benefits	4,056	5,060	5,011
Share-based payments	17,709	1,412	2,084
Total	<u>37,846</u>	<u>22,666</u>	<u>17,641</u>

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NOTE 38 – 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 from the first quarter of 2013 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 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. 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:

Percentage	Period	
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, 2013	—
Share options granted	<u>4,497,000</u>
Share options in agreements of share- based payments, as of December 31, 2013	<u>4,497,000</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 December 2013 corresponds to ThUS\$ 17,200.

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

Weighted average share price	Exercise price	Expected volatility	Life of option	Dividends expected	Risk-free interest
US\$ 23.55	US\$ 24.97	61.52%	3.6 years	0%	0.0055

(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 affiliates, in conformity with the stipulations established in Article 24 of the Corporations Law. Regard to this compensation plan, not exist yet a defined date for implementation. 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:

Percentage	Period
100%	From November 15, 2017 and until June 11, 2018.

(b) Subsidiaries compensation plans

TAM Linhas Aereas S.A. and Multiplus S.A., both subsidiaries of TAM S.A., have outstanding stock options at December 31, 2013, which amounted to 837,733 shares and 1,082,463 shares, respectively.

TAM Linhas Aéreas S.A.

Description	1st Grant	2nd Grant	3rd Grant	4th Grant	1st Extraordinary Grant	3rd Extraordinary Grant	4h Extraordinary Grant	Total
Date	12-28-2005	11-30-2006	12-14-2007	05-28-2010	09-27-2007	04-01-2010	04-01-2010	
Outstanding option number	—	119,401	259,857	228,475	230,000	—	—	837,733

Multiplus S.A.

Description	1st Grant	2nd Grant	3rd Grant	4th Grant	1st Extraordinary Grant	2nd Extraordinary Grant	3rd Extraordinary Grant	4nd Extraordinary Grant	Total
Date	10-04-2010	11-08-2010	04-16-2012	10-04-2010	10-04-2010	10-04-2010	04-16-2012	11-20-2013	
Outstanding option number	11,289	2,245	166,236	334,207	362,911	—	—	205,575	1,082,463

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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.

As of December 31, 2013 the acquisition of the share's rights, in both companies is as follows:

<u>Company</u>	<u>Number of shares Accrued options</u>	<u>Number of shares Non accrued options</u>
TAM Linhas Aéreas S.A.	609,258	228,475
Multiplus S.A.	161,294	921,169

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 method, where the cases were updated with information LATAM Airlines Group S.A. The fair value recorded in liabilities at December 31, 2013 is ThUS\$ 1,493 and in income ThUS\$ 509.

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NOTE 39 - THE ENVIRONMENT

LATAM Airlines Group S.A. manages environmental issues at the corporate, centralized in Environmental Management. To monitor the company and minimize their impact on the environment is a commitment to the highest level, where continuous improvement and contribute to the solution of the problem of global climate change, 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 benefits and to join the currently completed.

The Environment Strategy LATAM Airlines Group S.A., is based on the following objectives:

- Minimize the impact of its operations by using a modern fleet, efficient operational management and continuous incorporation of new technologies.
- Promote the efficient use of resources and minimization of waste in all processes.
- Manage responsibly our carbon footprint by measuring, monitoring and reducing emissions.
- Promote the development and use of alternative energy more efficient and less environmental impact.
- Encourage sustainable tourism as a pillar for the development of the region.

For 2013, we have established three priority areas of work to develop:

1. Implementing an Environmental Management System;
2. Management Carbon Footprint by measuring, verification and compensation of our emissions;
3. Promoting biofuels market development in the region.

Similarly, during 2013, activities were conducted in the following initiatives:

- The environmental management of LATAM was an important part again for maintain recognition as industry leaders in the subgroup of Emerging Markets of Dow Jones Sustainability Index.
- The environmental management of LATAM was recognized by the Carbon Disclosure Project obtaining a classification B80, the highest in Chile and one of the highest in the region.
- Implementation of an Environmental Management System for LAN Airlines and LAN Cargo, and specific to the offices of Miami, USA and Quito, Ecuador;
- The corporation's carbon footprint was externally measured and verified.
- Review the environmental standards demanded at ours suppliers.
- A biofuel study was conducted, including application potential, costs, and benefits.
- Active participation in the project Renewable Bio Chile.
- The first commercial flight with biofuel in Colombia was conducted.
- Spearheaded global discussion on how to regulate CO2 emissions from the international aviation industry, to achieve the commitment of IATA and ICAO respect to advance in a carbon-neutral growth from 2020.

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- Compliance was made with European regulations on CO₂ emissions, providing compensation to offset flights within the EU during 2012, corresponding to US\$ 32,000.
- Energy efficiency projects were implemented in our operations.

The total amount of the Environmental Division expenses for 2013 is US\$ 427,704 (US\$526,074 during 2012).

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NOTE 40 - EVENTS SUBSEQUENT TO THE DATE OF THE FINANCIAL STATEMENTS

(a) Term capital increase placement 2013

On January 10, 2014 were placed by the procedure of Auction Orders Book, according to the provisions of Section 2.4A of the Operations Manual in Shares by Stock Exchange Santiago, Stock Exchange, and the 10,314,872 cash shares that were not subscribed within the period of first refusal ended December 19, 2013. The placement price was US\$ 15.17, the exchange rate observed dollar published by the Central Bank of Chile in force for Monday January 9, 2014 , equivalent to \$8,072.60 , having raised therefore the equivalent today US\$ 156.5 million, approximately . Thus concluded the process of placing 100 % of 62,000,000 shares for payment of first issue (not include Employee Compensation Plan for the Company and its subsidiaries) to be placed by the Company under the capital increase approved by the Extraordinary Shareholders' Meeting held on LATAM June 11, 2013 , total revenues of US\$ 940.5 million having been achieved.

LATAM Airlines Group S.A. and Subsidiaries' consolidated financial statements as at December 31, 2013, have been approved by Management on April 30, 2014.

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NOTE 41 - CONSOLIDATION SCHEDULE

In accordance with SEC rule SX 3-10 the Company is presenting consolidation schedules as Senior Notes issued by TAM Capital (issuer), a 100% subsidiary of TAM S.A., in 2007 are fully and unconditionally guaranteed by TAM S.A. (guarantor) and by TAM Linhas Aéreas (guarantor) which is also a 100% subsidiary of TAM S.A. The consolidation schedules separately present the financial information for LATAM Airlines Group S.A. (parent company), TAM S.A. (guarantor), TAM Linhas Aéreas S.A. (guarantor) and other consolidated subsidiaries of LATAM Airlines Group S.A. (non-guarantors).

The comparative consolidation schedules have been revised as a result of modifications made to the fair values calculated in the business combination with TAM S.A. and Subsidiaries, during the measurement period in accordance with IFRS 3, and correction of non- significant errors originated before the date of acquisition within TAM S.A. (Note 18.2.(c)).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2013	As of December 31, 2013	As of December 31, 2013	As of December 31, 2013	As of December 31, 2013	As of December 31, 2013	As of December 31, 2013
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Assets							
Current assets							
Cash and cash equivalents	1,368,719	108	88	122,104	325,719	168,165	1,984,903
Other financial assets	106,020	2,179	—	198,268	1,283,402	(879,925)	709,944
Other non-financial assets	48,556	189	—	165,578	54,547	66,747	335,617
Trade and other accounts receivable	437,232	6,468	—	859,524	357,886	(28,016)	1,633,094
Accounts receivable from related entities	301,283	1,708	—	237,480	1,112,530	(1,652,373)	628
Inventories	124,877	—	—	97,885	8,266	—	231,028
Tax assets	14,017	13,989	—	60,013	77,512	(83,641)	81,890
Total current assets other than non-current assets (or disposal groups) classified as held for sale	2,400,704	24,641	88	1,740,852	3,219,862	(2,409,043)	4,977,104
Non-current assets and disposal groups held for sale	16	—	—	1,772	657	—	2,445
Total current assets	2,400,720	24,641	88	1,742,624	3,220,519	(2,409,043)	4,979,549
Non-current assets							
Other financial assets	15,533	—	—	45,559	4,197	—	65,289
Other non-financial assets	70,574	477	—	147,837	6,714	46,674	272,276
Accounts receivable	5,510	—	—	5,863	89,402	—	100,775
Accounts receivable from related parties	336,204	78	388,871	113,631	1,646,732	(2,485,516)	—
Equity accounted investments	1,324,427	411,955	—	327,043	595,829	(2,652,658)	6,596
Intangible assets other than goodwill	91,124	16,333	—	1,439,241	493,282	53,328	2,093,308
Goodwill	3,602,159	53,328	—	—	122,571	(50,453)	3,727,605
Property, plant and equipment	7,599,227	44	—	2,661,177	629,873	92,465	10,982,786
Current tax assets, long term portion	—	—	—	—	46,367	(46,367)	—
Deferred tax assets	—	34,074	—	421,554	140,030	(192,696)	402,962
Total non-current assets	13,044,758	516,289	388,871	5,161,905	3,774,997	(5,235,223)	17,651,597
Total assets	15,445,478	540,930	388,959	6,904,529	6,995,516	(7,644,266)	22,631,146

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$
Liabilities and shareholder's equity							
Current liabilities							
Other financial liabilities	1,101,396	—	3,318	819,320	115,753	—	2,039,787
Trade and other accounts payable	319,004	3,898	—	724,311	546,130	(35,607)	1,557,736
Accounts payable to related parties	387,543	305	—	289,053	974,140	(1,650,536)	505
Other provisions	6,807	—	—	19,664	1,385	—	27,856
Tax liabilities	3,939	6,680	—	52,402	31,559	(82,997)	11,583
Other non-financial liabilities	1,249,124	369	—	894,099	673,173	54,875	2,871,640
Total current liabilities	3,067,813	11,252	3,318	2,798,849	2,342,140	(1,714,265)	6,509,107
Non-current liabilities							
Other financial liabilities	5,039,852	—	298,422	1,408,863	1,112,848	—	7,859,985
Accounts payable	46,647	—	—	816,898	81,089	(21,747)	922,887
Accounts payable to related parties	1,306,254	85,202	57,608	294,758	743,271	(2,487,093)	—
Provision for losses on investments	246,981	—	—	—	21,414	(268,359)	36
Other provisions	15,529	123	—	1,017,362	89,197	—	1,122,211
Deferred tax liabilities	471,308	16,333	—	205,397	230,911	(156,721)	767,228
Employee benefits	12,273	—	—	—	15,276	18,117	45,666
Other non-financial liabilities	—	—	—	77,317	250	—	77,567
Total non-current liabilities	7,138,844	101,658	356,030	3,820,595	2,294,256	(2,915,803)	10,795,580
Total liabilities	10,206,657	112,910	359,348	6,619,444	4,636,396	(4,630,068)	17,304,687
Equity							
Share capital	2,389,384	1,901,275	185,228	1,979,282	1,458,941	(5,524,726)	2,389,384
Retained earnings	795,303	(2,019,778)	(155,617)	(1,836,203)	120,241	3,891,357	795,303
Share premium	—	31,993	—	—	432,880	(464,873)	—
Treasury shares	(178)	—	—	—	—	—	(178)
Other reserves	2,054,312	514,530	—	142,006	347,058	(1,003,594)	2,054,312
Parent's ownership interest	5,238,821	428,020	29,611	285,085	2,359,120	(3,101,836)	5,238,821
Non-controlling interest	—	—	—	—	—	87,638	87,638
Total non-current liabilities	5,238,821	428,020	29,611	285,085	2,359,120	(3,014,198)	5,326,459
Total liabilities	15,445,478	540,930	388,959	6,904,529	6,995,516	(7,644,266)	22,631,146

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$
Assets							
Current assets							
Cash and cash equivalents	231,930	69	3,797	166,755	169,686	78,026	650,263
Other financial assets	77,796	2,588	—	115,966	963,537	(523,344)	636,543
Other non-financial assets	37,245	206	—	136,009	51,750	59,194	284,404
Trade and other accounts receivable	400,057	7,411	—	635,391	382,123	(7,451)	1,417,531
Accounts receivable from related entities	227,465	—	—	52,640	677,723	(942,641)	15,187
Inventories	93,788	—	—	72,635	10,395	—	176,818
Tax assets	16,698	19,786	—	82,383	41,964	(65,046)	95,785
Total current assets other than non-current assets (or disposal groups) classified as held for sale	1,084,979	30,060	3,797	1,261,779	2,297,178	(1,401,262)	3,276,531
Non-current assets and disposal groups held for sale	35,874	—	—	1,155	10,626	—	47,655
Total current assets	1,120,853	30,060	3,797	1,262,934	2,307,804	(1,401,262)	3,324,186
Non-current assets							
Other financial assets	15,499	—	—	30,860	33,771	(6,035)	74,095
Other non-financial assets	59,756	445	—	199,666	2,219	45,901	307,987
Accounts receivable	16,485	—	—	5,989	28,138	—	50,612
Accounts receivable from related parties	122,219	89	141,667	73,044	1,169,225	(1,506,244)	—
Equity accounted investments	1,258,347	116,713	—	54,677	356,969	(1,782,949)	3,757
Intangible assets other than goodwill	83,036	—	—	1,663,841	635,522	—	2,382,399
Goodwill	4,078,562	—	—	—	134,598	—	4,213,160
Property, plant and equipment	6,560,859	57	—	4,109,712	1,136,448	—	11,807,076
Current tax assets, long term portion	—	—	—	—	45,900	(45,900)	—
Deferred tax assets	—	36,639	—	466,384	129,372	(469,328)	163,067
Total non-current assets	12,194,763	153,943	141,667	6,604,173	3,672,162	(3,764,555)	19,002,153
Total assets	13,315,616	184,003	145,464	7,867,107	5,979,966	(5,165,817)	22,326,339

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$
Liabilities and shareholder's equity							
Current liabilities							
Other financial liabilities	746,536	—	3,318	1,096,140	199,499	1,837	2,047,330
Trade and other accounts payable	288,068	2,689	—	785,817	613,437	(21)	1,689,990
Accounts payable to related parties	221,788	690	—	48,619	670,238	(941,061)	274
Other provisions	6,814	—	—	52,175	585	—	59,574
Tax liabilities	2,209	8,222	—	44,970	26,484	(67,373)	14,512
Other non-financial liabilities	989,923	424	—	813,563	627,832	54,145	2,485,887
Total current liabilities	2,255,338	12,025	3,318	2,841,284	2,138,075	(952,473)	6,297,567
Non-current liabilities							
Other financial liabilities	3,755,622	—	297,746	2,214,639	1,432,688	(1,838)	7,698,857
Accounts payable	40,680	—	—	831,470	213,451	—	1,085,601
Accounts payable to related parties	345,790	—	—	803,970	344,255	(1,494,015)	—
Provision for losses on investments	1,347,639	1,166,989	—	315,032	11,294	(2,840,954)	—
Other provisions	15,320	140	—	1,215,256	76,156	—	1,306,872
Deferred tax liabilities	437,399	—	—	341,871	269,400	(469,331)	579,339
Employee benefits	5,777	—	—	19,729	12,589	—	38,095
Other non-financial liabilities	—	—	—	99,022	301	—	99,323
Total non-current liabilities	5,948,227	1,167,129	297,746	5,840,989	2,360,134	(4,806,138)	10,808,087
Total liabilities	8,203,565	1,179,154	301,064	8,682,273	4,498,209	(5,758,611)	17,105,654
Equity							
Share capital	1,501,018	406,542	43	493,821	735,302	(1,635,708)	1,501,018
Retained earnings	1,076,136	(1,750,126)	(155,643)	(1,778,337)	78,480	3,605,626	1,076,136
Share premium	—	36,676	—	—	299,692	(336,368)	—
Treasury shares	(203)	—	—	—	—	—	(203)
Other reserves	2,535,100	311,757	—	469,350	368,283	(1,149,390)	2,535,100
Parent's ownership interest	5,112,051	(995,151)	(155,600)	(815,166)	1,481,757	484,160	5,112,051
Non-controlling interest	—	—	—	—	—	108,634	108,634
Total non-current liabilities	5,112,051	(995,151)	(155,600)	(815,166)	1,481,757	592,794	5,220,685
Total liabilities	13,315,616	184,003	145,464	7,867,107	5,979,966	(5,165,817)	22,326,339

CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$
Revenue	3.293.992	—	—	6.608.718	3.853.047	(831.220)	12.924.537
Cost of sales	(2.945.869)	(3.957)	—	(5.370.821)	(3.493.775)	1.760.258	(10.054.164)
Gross margin	348.123	(3.957)	—	1.237.897	359.272	929.038	2.870.373
Other income	900.146	—	—	41.769	1.249.990	(1.850.340)	341.565
Distribution costs	(328.116)	—	—	(438.251)	(389.931)	130.402	(1.025.896)
Administrative expenses	(297.140)	(19.015)	—	(605.346)	(917.953)	703.339	(1.136.115)
Other expenses	(173.866)	(7.634)	(27)	(93.314)	(142.092)	8.230	(408.703)
Other gains/(losses)	(42.122)	(1.216)	—	(180.872)	(21.810)	190.610	(55.410)
Gains (losses) from operating activities	407.025	(31.822)	(27)	(38.117)	137.476	111.279	585.814
Financial income	1.966	1.668	7.150	38.284	91.106	(67.346)	72.828
Financial costs	(243.084)	(449)	(23.409)	(142.500)	(118.613)	65.531	(462.524)
Equity accounted investments	(358.929)	(430.613)	—	48.226	—	741.316	—
Revenue and losses from associated companies	(8.229)	—	—	—	(3.599)	13.782	1.954
Exchange differences	(56.159)	88	(5.006)	(421.117)	19	1	(482.174)
Result for readjustable units	21	—	—	—	193	—	214
Income before taxes	(257.389)	(461.128)	(21.292)	(515.224)	106.582	864.563	(283.888)
Income tax expense	(23.725)	2.689	—	105.903	(35.786)	(29.012)	20.069
NET INCOME FOR THE PERIOD	(281.114)	(458.439)	(21.292)	(409.321)	70.796	835.551	(263.819)
Income attributable to owners of the parent	(281.114)	(458.439)	(21.292)	(409.321)	53.461	835.591	(281.114)
Income attributable to non-controlling	—	—	—	—	17.335	(40)	17.295
NET INCOME	(281.114)	(458.439)	(21.292)	(409.321)	70.796	835.551	(263.819)
Total comprehensive income	(768.457)	(446.447)	(21.292)	(398.419)	(14.050)	863.809	(784.856)
Comprehensive income attributable to owners of the parent	(768.457)	(446.447)	(21.292)	(398.419)	2.309	863.849	(768.457)
Comprehensive income attributable to non-controlling interest	—	—	—	—	(16.359)	(40)	(16.399)
Total comprehensive income	(768.457)	(446.447)	(21.292)	(398.419)	(14.050)	863.809	(784.856)

CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$
Revenue	3.209.219	—	—	3.539.002	3.592.188	(630.037)	9.710.372
Cost of sales	(2.767.417)	14	—	(2.967.003)	(3.138.077)	1.238.030	(7.634.453)
Gross margin	441.802	14	—	571.999	454.111	607.993	2.075.919
Other income	654.901	—	—	18.560	621.300	(1.074.605)	220.156
Distribution costs	(345.730)	—	—	(221.468)	(338.137)	101.716	(803.619)
Administrative expenses	(266.781)	(26.300)	—	(412.278)	(595.504)	412.209	(888.654)
Other expenses	(85.788)	(1.095)	(3)	(46.967)	(126.532)	(51.368)	(311.753)
Other gains/(losses)	(27.026)	9	—	9.938	(32.713)	3.961	(45.831)
Gains (losses) from operating activities	371.378	(27.372)	(3)	(80.216)	(17.475)	(94)	246.218
Financial income	16.144	1.939	510	34.977	34.258	(10.339)	77.489
Financial costs	(128.586)	(245)	(11.401)	(88.609)	(76.522)	10.765	(294.598)
Equity accounted investments	(177.545)	(67.312)	—	22.719	—	222.138	—
Revenue and losses from associated companies	972	—	—	—	—	—	972
Exchange differences	11.233	—	(1.259)	50.671	6.040	—	66.685
Result for readjustable units	15	—	—	—	294	(331)	(22)
Income before taxes	93.611	(92.990)	(12.153)	(60.458)	(53.405)	222.045	96.744
Income tax expense	(112.687)	17.796	—	5.299	(12.794)	—	(102.386)
NET INCOME FOR THE PERIOD	(19.076)	(75.194)	(12.153)	(55.159)	(66.199)	222.045	(5.642)
Income attributable to owners of the parent	(19.076)	(75.194)	(12.153)	(55.159)	(79.633)	222.139	(19.076)
Income attributable to non – controlling	—	—	—	—	13.434	—	13.434
NET INCOME	(19.076)	(75.194)	(12.153)	(55.159)	(66.199)	222.139	(5.642)
Total comprehensive income	(2.359)	(87.172)	(12.154)	(61.166)	(68.590)	237.102	5.661
Comprehensive income attributable to owners of the parent	(2.359)	(87.172)	(12.154)	(61.166)	(76.610)	237.102	(2.359)
Comprehensive income attributable to non-controlling interest	—	—	—	—	8.020	—	8.020
Total comprehensive income	(2.359)	(87.172)	(12.154)	(61.166)	(68.590)	237.102	5.661

CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT – METHOD

	LATAM S.A. (parent company)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$	As of December 31, 2013 ThUS\$
Cash flows from operating activities							
Receipts from sales of goods and services	5,975,782	—	—	6,242,979	6,031,715	(4,844,201)	13,406,275
Other receipts from operating activities	12,067	—	—	—	2,918	(10,347)	4,638
Payments to suppliers for the supply of goods and services	(4,291,945)	(20,795)	(377)	(4,664,071)	(4,417,013)	3,823,478	(9,570,723)
Payments to and on behalf of employees	(423,688)	(1,332)	—	(1,572,939)	(1,340,071)	932,715	(2,405,315)
Other payments for operating activities	—	—	—	—	(64,025)	32,810	(31,215)
Dividends paid	—	—	—	—	(800)	800	—
Dividends received	—	70,950	—	—	—	(70,950)	—
Interest paid	—	—	(19,950)	—	—	19,950	—
Interest received	8,621	—	—	52,878	83,964	(134,153)	11,310
Income taxes refunded (paid)	(11,558)	4,256	—	40,393	(94,185)	(21,939)	(83,033)
Other inflows (outflows) of cash	38,011	(7,539)	(27)	(24,540)	16,575	54,281	76,761
Net cash flows from operating activities	1,307,290	45,540	(20,354)	74,700	219,078	(217,556)	1,408,698
Cash flows from (used in) investing activities							
Cash flows from losing control of subsidiaries or other businesses							
Cash flows used to obtain control of subsidiaries or other businesses	(1,650,000)	(1,644,953)	—	(616,911)	(182,531)	4,088,878	(5,517)
Cash flows used in the purchase of non-controlling							
Other cash receipts from sales of equity or debt instruments of other entities	—	409	—	(208,776)	(51,409)	530,261	270,485
Other payments to acquire equity or debt instruments of other entities	—	—	—	(29,101)	(93,526)	(318,174)	(440,801)
Loans to related parties	(288,957)	—	(218,026)	—	(86,282)	593,265	—
Proceeds from sale of property, plant and equipment	6,281	—	—	—	189,445	29,470	225,196
Purchases of property, plant and equipment	(1,523,440)	—	—	(68,471)	109,632	100,493	(1,381,786)
Amounts raised from sale of intangible assets	(12,539)	—	—	(20,529)	(14,021)	3,605	(43,484)
Proceeds from other long-term assets	—	—	—	—	14,999	7,145	22,144
Other cash receipts from related parties	—	—	—	(269,622)	30,260	239,362	—
Income taxes refunded (paid)	—	—	—	—	(77,902)	77,902	—
Other inflows (outflows) of cash	—	—	—	61,188	18,435	(4,175)	75,448
Net cash flows from investing activities	(3,468,655)	(1,644,544)	(218,026)	(1,152,222)	(142,700)	5,347,335	(1,278,812)
Cash flows from (used in) financing activities							
Proceeds from issue of shares	888,570	1,650,000	185,190	1,577,613	182,897	(3,595,321)	888,949
Payments to acquire or redeem the entity's shares	—	(900)	—	—	(200)	1,100	—
Proceeds from term loans	1,924,260	—	—	114,768	65,815	(61,325)	2,043,518
Proceeds from short term loans	963,800	—	—	145,285	51,984	(59,910)	1,101,159
Loans from related parties	1,134,875	—	—	—	315,183	(1,450,058)	—
Repayment of loans	(1,223,409)	—	—	(330,584)	(332,092)	(65,928)	(1,952,013)
Payments of finance lease liabilities	(83,088)	—	—	(281,648)	(41,234)	(17,135)	(423,105)
Repayment of loans to related parties	(87,679)	—	54,594	—	(21,874)	54,959	—
Dividends Paid	(3,288)	—	—	—	(1,053)	(25,353)	(29,694)
Interest paid	(164,186)	—	(2,294)	(329,617)	(116,762)	251,853	(361,006)
Other inflows (outflows) of cash	(51,701)	—	—	—	(59,400)	49,088	(62,013)
Net cash flows from (used in) financing activities	3,298,154	1,649,100	237,490	895,817	43,264	(4,918,030)	1,205,795
Net increase (decrease) in, cash and cash equivalents before effect of exchange rate	1,136,789	50,096	(890)	(181,705)	119,642	211,749	1,335,681
Effects of variation in the exchange rate on cash and cash equivalents	—	(50,061)	(2,819)	137,052	50,398	(135,607)	(1,041)
Net increase (decrease) in cash and cash equivalents	1,136,789	35	(3,709)	(44,653)	170,040	76,142	1,334,640
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	231,930	73	3,797	166,755	169,675	78,037	650,263

CASH AND CASH EQUIVALENTS AT
END OF PERIOD

<u>1,368,719</u>	<u>108</u>	<u>88</u>	<u>122,102</u>	<u>339,715</u>	<u>154,179</u>	<u>1,984,903</u>
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CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT – METHOD

	LATAM S.A. (parent company and guarantor)	TAM S.A. (guarantor)	TAM Capital (subsidiary issuer)	TAM Linhas Aéreas S.A. (guarantor)	Other (non-guarantor)	Consolidating adjustments	Consolidated
	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$	As of December 31, 2012 ThUS\$
Cash flows from operating activities							
Receipts from sales of goods and services	5,104,044	—	—	3,820,407	5,145,942	(3,811,920)	10,258,473
Other receipts from operating activities	60,484	—	—	—	7,615	(10,336)	57,763
Payments to suppliers for the supply of goods and services	(3,998,995)	(53,113)	—	(2,517,274)	(4,389,390)	3,804,907	(7,153,865)
Payments to and on behalf of employees	(407,991)	(5,720)	—	(798,466)	(726,623)	31	(1,938,769)
Other payments for operating activities	—	—	—	—	(29,732)	10,407	(19,325)
Interest paid	(2,371)	—	(10,969)	—	(907)	14,247	—
Interest received	11,772	1,953	—	6,812	25,856	6,593	52,986
Income taxes refunded (paid)	(3,641)	2,360	—	61,564	(46,268)	(17,033)	(3,018)
Other inflows (outflows) of cash	19,823	7,171	(4)	(76,384)	(17,303)	16,264	(50,433)
Net cash flows from operating activities	783,125	(47,349)	(10,973)	496,659	(30,810)	13,160	1,203,812
Cash flows from (used in) investing activities							
Cash flows from losing control of subsidiaries or other businesses	—	—	—	—	400	(400)	—
Cash flows used to obtain control of subsidiaries or other businesses	—	—	—	—	(176,238)	173,015	(3,223)
Cash flows used in the purchase of non-controlling	—	—	—	—	(89)	89	—
Other cash receipts from sales of equity or debt instruments of other entities	30,928	153,179	—	132,738	69,533	1	386,379
Loans to related parties	(234,535)	—	—	(55,000)	(50,701)	340,236	—
Proceeds from sale of property, plant and equipment	29,134	—	—	23,035	21,237	24	73,429
Purchases of property, plant and equipment	(2,310,381)	(2,916)	—	(97,905)	16,081	5,757	(2,389,364)
Purchases of intangible assets	(25,275)	—	—	(22,034)	(11,857)	—	(59,166)
Proceeds from other long-term assets	13,940	—	—	—	24,095	—	38,035
Cash receipts from futures contracts, forward, options and swap	—	—	—	606	—	(606)	—
Proceeds from related parties	65,969	—	—	—	33,611	(99,580)	—
Dividends received	34,848	114,433	—	—	8,742	(157,672)	351
Interest received	6,031	—	—	—	20,368	(26,399)	—
Other inflows (outflows) of cash	—	—	—	(69,761)	507	96,397	27,143
Net cash flows from investing activities	(2,389,341)	264,696	—	(88,321)	(44,311)	330,862	(1,926,416)
Cash flows from (used in) financing activities							
Proceeds from issue of shares	79,212	—	—	—	192,406	(188,106)	83,512
Proceeds from issuance of other equity instruments	—	—	—	—	—	—	—
Payments to acquire or redeem the entity's shares	(203)	(167,589)	—	—	(11,900)	179,489	(203)
Payments for other equity interests	—	(54,808)	—	—	—	54,808	—
Proceeds from term loans	2,044,463	—	—	—	141,200	—	2,185,663
Proceeds from short term loans	152,000	—	—	—	—	—	152,000
Loans from related parties	55,000	—	—	18,930	256,867	(330,797)	—
Repayment of loans	(260,737)	—	—	(38,749)	(239,846)	—	(539,332)
Payments of finance lease liabilities	(58,177)	—	—	(194,634)	(40,120)	—	(292,931)
Repayment of loans to related parties	(30,925)	—	—	—	(68,654)	99,579	—
Proceeds from government grants	—	—	—	—	—	—	—
Dividends Paid	(103,503)	—	—	(60,720)	(118,266)	157,662	(124,827)
Interest paid	(102,005)	—	—	(53,224)	(69,798)	(2,580)	(227,607)
Income taxes refunded (paid)	—	—	—	—	—	—	—
Other inflows (outflows) of cash	(181,985)	—	—	44,778	(32,739)	(61,133)	(231,079)
Net cash flows from (used in) financing activities	1,593,140	(222,397)	—	(283,619)	9,150	(91,078)	1,005,196
Net increase (decrease) in, cash and cash equivalents before effect of exchange rate	(13,076)	(5,050)	(10,973)	124,719	(65,971)	252,944	282,592
Effects of variation in the exchange rate on cash and cash equivalents	—	750	198	(18,507)	18,000	(7,173)	(6,736)
Net increase (decrease) in cash and cash equivalents	(13,076)	(4,300)	(10,775)	106,212	(47,971)	245,771	275,856
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	245,006	4,369	14,572	60,543	217,657	(167,740)	374,407
CASH AND CASH EQUIVALENTS AT							

END OF PERIOD	<u>231,930</u>	<u>69</u>	<u>3,797</u>	<u>166,755</u>	<u>169,686</u>	<u>78,031</u>	<u>650,263</u>
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Latam Airlines Group S.A.

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Latam Airlines Group S.A. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under item 15 of this annual report. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers

Santiago, Chile
April 30, 2014

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SIGNATURES

The registrant hereby certifies that it meets all the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

April 30, 2014

LATAM Airlines Group S.A.

By /s/ Andrés Osorio Hermansen

Name: Andrés Osorio Hermansen

Title: Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
1.1*	Amended By-laws of LATAM Airlines Group S.A.
2.1	Second Amended and Restated Deposit Agreement, dated as of October 28, 2011, between the Company and JPMorgan Chase Bank, N.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984) filed on November 15, 2011).
2.3	Indenture, dated as of April 25, 2007, among TAM Capital Inc., Tam S.A., TAM Linhas Aéreas S.A., The Bank of New York and The Bank of New York (Luxembourg) S.A., incorporated herein by reference from our second pre-effective amendment to our Registration Statement on Form F-4, File No. 333-131938.
2.4	Indenture, dated as of October 29, 2009, among TAM Capital 2 Inc., TAM S.A., TAM Linhas Aéreas S.A., The Bank of New York Mellon and The Bank of New York Mellon (Luxembourg) S.A., incorporated herein by reference from our Annual Report for the fiscal year ended December 31, 2009 on Form 20-F, filed June 30, 2010, File. No. 333-131938.
4.1	Second A320-Family Purchase Agreement, dated March 20, 1998, between the Company and Airbus Industry relating to Airbus A320-Family Aircraft (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on June 24, 2001 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.1	Amendment No. 1 dated as of November 14, 2003 and Amendment No. 2 dated as of October 4, 2005, to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (as successor to Airbus Industry) (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on June 30, 2006 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.2	Amendment No. 3 dated as of March 6, 2007, to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on June 30, 2006 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.3	Amendment No. 5 dated as of December 23, 2009, to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on June 29, 2010 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.4	Amendments No. 6, 7, 8 and 9 (dated as of May 10, 2010, May 19, 2010, September 23, 2010 and December 21, 2010, respectively), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.5	Amendments No. 10 and 11 (dated as of June 10, 2011 and November 8, 2011, respectively), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.6	Amendment No. 12 (dated as of November 19, 2012), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.1.7*	Amendment No. 13 (dated as of August 19, 2013), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. Portions of these documents have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
4.2	Purchase Agreement No. 2126 dated as of January 30, 1998, between the Company and The Boeing Company as amended and supplemented, relating to Model 767-316ER, Model 767-38EF, and Model 767-316F Aircraft (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on December 21, 2004 and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.1	Supplemental Agreements No. 16, 19, 20, 21 and 22 (dated as of November 11, 2004, January 21, March 10, April 1, April 28, and July 20, 2005, and March 31, 2006, respectively) to the Purchase Agreement No. 2126 dated January 30, 1998, between the Company and The Boeing Company, relating to Model 767-316ER, Model 767-38EF, and Model 767-316F Aircraft (incorporated by reference to our amended annual report filed on Form 20-F (File No. 001-14728) filed on May 7, 2007 and portions of which have been omitted pursuant to a request for confidential treatment).

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<u>Exhibit No.</u>	<u>Description</u>
4.2.1	Supplemental Agreements No. 16, 19, 20, 21 and 22 (dated as of November 11, 2004, January 21, March 10, April 1, April 28, and July 20, 2005, and March 31, 2006, respectively) to the Purchase Agreement No. 2126 dated January 30, 1998, between the Company and The Boeing Company, relating to Model 767-316ER, Model 767-38EF, and Model 767-316F Aircraft (incorporated by reference to our amended annual report filed on Form 20-F (File No. 001-14728) filed on May 7, 2007 and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.2	Supplemental Agreement No. 23 dated as of March 6, 2007, to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on April 23, 2007 and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.3	Supplemental Agreement No. 24 dated as of November 10, 2008, to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on June 25, 2009 and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.4	Supplemental Agreements No. 28 and 29 (dated as of March 22, 2010 and November 10, 2010, respectively), to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company. Portions of these documents have been omitted pursuant to a request for confidential treatment (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.2.5	Supplemental Agreements No. 30, 31 and 32 (dated as of February 15, 2011, May 10, 2011 and December 22, 2011, respectively), to the Purchase Agreement No. 2126, dated as of January 30, 1998, between the Company and The Boeing Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.3	Aircraft Lease Common Terms Agreement between GE Commercial Aviation Services Limited and LAN Cargo S.A., dated as of April 30, 2007, and Aircraft Lease Agreements between Wells Fargo Bank Northwest N.A., as owner trustee, and LAN Cargo S.A., dated as of April 30, 2007 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 7, 2007 and portions of which have been omitted pursuant to a request for confidential treatment).
4.4	Purchase Agreement No. 3194 between the Company and The Boeing Company relating to Boeing Model 777-Freighter aircraft dated as of July 3, 2007 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on June 25, 2008 and portions of which have been omitted pursuant to a request for confidential treatment).
4.4.1	Supplemental Agreement No. 2 dated as of November 2, 2010, to the Purchase Agreement No. 3194 between the Company and The Boeing Company, dated as of July 3, 2007 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.4.2	Supplemental Agreement No. 3 dated as of September 24, 2011, to the Purchase Agreement No. 3194 between the Company and The Boeing Company, dated as of July 3, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.4.3	Supplemental Agreement No. 4 dated as of August 9, 2012, to the Purchase Agreement No. 3194 between the Company and The Boeing Company, dated as of July 3, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.5	Purchase Agreement No. 3256 between the Company and The Boeing Company relating to Boeing Model 787-8 and 787-9 aircraft dated as of October 29, 2007 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on June 25, 2008 and portions of which have been omitted pursuant to a request for confidential treatment).
4.5.1	Supplemental Agreements No. 1 and 2 (dated March 22, 2010 and July 8, 2010, respectively) to the Purchase Agreement No. 3256 dated October 29, 2007, as amended, between the Company and The Boeing Company (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.5.2	Supplemental Agreement No. 3 dated as of August 24, 2012, to the Purchase Agreement No. 3256, as amended, between the Company and The Boeing Company, dated as of October 29, 2007 (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).

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<u>Exhibit No.</u>	<u>Description</u>
4.5.3*	Delay Settlement Agreement, dated as of September 16, 2013, to the Purchase Agreement No. 3256, as amended, between the Company and The Boeing Company, dated as of October 29, 2007. Portions of this document have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
4.6	General Terms Agreement No. CFM-1-2377460475 and Letter Agreement No. 1 to General Terms Agreement No. CFM-1-2377460475 between the Company and CFM International, Inc., both dated December 17, 2010 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.7	Rate Per Flight Hour Engine Shop Maintenance Services Agreement between the Company and CFM International, Inc., dated December 17, 2010 (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.8	Digital Services Agreement, dated December 17, 2010 between the Company and GE Engine Services, LLC (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011 and portions of which have been omitted pursuant to a request for confidential treatment).
4.9	Implementation Agreement, dated as of January 18, 2011, among the Company, Costa Verde Aeronáutica S.A., InversionesMineras del Cantábrico S.A., TAM S.A., TAM Empreendimentos e Participações S.A. and Maria Cláudia Oliveira Amaro, MaurícioRolimAmaro, Noemy Almeida Oliveira Amaro and João Francisco Amaro (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011).
4.9.1	Extension Letter to the Implementation Agreement and Exchange Offer Agreement dated January 12, 2012 among the Company, Costa Verde Aeronáutica S.A., InversionesMineras del Cantábrico S.A., TAM S.A., TAM Empreendimentos e Participações S.A. and Maria Cláudia Oliveira Amaro, MaurícioRolimAmaro, Noemy Almeida Oliveira Amaro and João Francisco Amaro (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984) filed on November 15, 2011).
4.10	Exchange Offer Agreement, dated as of January 18, 2011, among LAN Airlines S.A., Costa Verde Aeronáutica S.A., InversionesMineras del Cantábrico S.A., TAM S.A., TAM Empreendimentos e Participações S.A. and Maria Cláudia Oliveira Amaro, MaurícioRolimAmaro, Noemy Almeida Oliveira Amaro and João Francisco Amaro (incorporated by reference to our amended annual report on Form 20-F (File No. 001-14728) filed on May 5, 2011).
4.11	Shareholders Agreement, dated as of January 25, 2012, among Costa Verde Aeronáutica S.A., InversionesMineras del Cantábrico S.A. and TEP Chile S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984) filed on November 15, 2011).
4.12	Shareholders Agreement, dated as of January 25, 2012, between the Company and TEP Chile S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984) filed on November 15, 2011).
4.13	Shareholders Agreement, dated as of January 25, 2012, among the Company, TEP Chile S.A. and Holdco I S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984) filed on November 15, 2011).
4.14	Shareholders Agreement, dated as of January 25, 2012, among the Company, TEP Chile S.A., Holdco I S.A. and TAM S.A. (incorporated by reference to our amended registration statement on Form F-4 (File No. 333-177984) filed on November 15, 2011).
4.15	Letter Agreement No. 12 (GTA No. 6-9576), dated July 11, 2011, between the Company and the General Electric Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.16	Used PW6122A Five Engine Purchase Agreement, dated July 21, 2011, between the Company and Pratt & Whitney Engine Leasing, LLC (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.17	Promise to Sell dated as of January 25, 2011, among LAN Cargo S.A., InversionesLAN S.A. and Bethia S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012).
4.18	Assignment of Social Rights, dated as of April 6, 2011, between LAN Cargo S.A., InversionesLAN S.A., Servicios de TransportesLimitada and InversionesBetminSpA (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012).
4.19	Share Purchase Agreement, dated as of April 6, 2011, between LAN Cargo S.A. and InversionesBetminSpA (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012).

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<u>Exhibit No.</u>	<u>Description</u>
4.20	A320 NEO Purchase Agreement, dated as of June 22, 2011, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.21	Buyback Agreement No. 3001 relating to One (1) Airbus A318-100 Aircraft MSN 3001, dated as of April 14, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.22	Buyback Agreement No. 3030 relating to One (1) Airbus A318-100 Aircraft MSN 3003, dated as of August 10, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.23	Buyback Agreement No. 3062, to One (1) Airbus A318-100 Aircraft MSN 3062, dated as of May 13, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.24	Buyback Agreement No. 3214, to One (1) Airbus A318-100 Aircraft MSN 3214, dated as of June 9, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.25	Buyback Agreement No. 3216, to One (1) Airbus A318-100 Aircraft MSN 3216, dated as of July 13, 2011, between the Company and Airbus Financial Services (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.26	Aircraft General Terms Agreement Number AGTA-LAN, dated May 9, 1997, between the Company and The Boeing Company (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 2, 2012 and portions of which have been omitted pursuant to a request for confidential treatment).
4.27	Buyback Agreement No. 3371 dated as of July 25, 2012, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.28	Buyback Agreement No. 3390, dated as of October 26, 2012, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.29	Buyback Agreement No. 3438, dated as of December 5, 2012, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.30	Buyback Agreement No. 3469, dated as of January 4, 2013, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.31	Buyback Agreement No. 3509, dated as of February 20, 2013, between the Company and Airbus Financial Services. Portions of this document have been omitted pursuant to a request for confidential treatment (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).
4.32	A320 Family Purchase Agreement, dated March 19, 1998, between Airbus S.A.S. (formerly known as Airbus Industrie GIE) and TAM Linhas Aéreas S.A. (formerly known as TAM Transportes Aéreos Meridionais S.A. and as successor in interest in TAM-Transportes Aéreos Regionais S.A.), incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.
4.32.1	Amendments No. 12, 13 and 14 (dated as of January 27, 2012 and November 30, 2012 and December 14, 2012, respectively), to the Second A320-Family Purchase Agreement dated as of March 20, 1998, as amended and restated, between the Company and Airbus S.A.S. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on April 30, 2013 and portions of which have been omitted pursuant to a request for confidential treatment).

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Exhibit No.	Description
4.33	A350 Family Purchase Agreement, dated December 20, 2005, between Airbus S.A.S. and TAM Linhas Aéreas S.A., incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.
4.34	V2500 Maintenance Agreement, dated September 14, 2000, between TAM Transportes Aéreos Regionais S.A. (incorporated by TAM Linhas Aéreas S.A.) and MTU Maintenance Hannover GmbH (MTU), incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.
4.35	PW4168A Maintenance Service Agreement, dated September 14, 2000, between TAM Linhas Aéreas S.A. and United Technologies International, Inc., Pratt & Whitney Division, incorporated herein by reference from our sixth pre-effective amendment to our Registration Statement on Form F-1, filed March 2, 2006, File No. 333-131938.
4.36*	PW1100G-JM Engine Support and Maintenance Agreement, dated February 26, 2014, between LATAM Airlines Group S.A. and Pratt & Whitney Division. Portions of this document have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
4.37*	Framework Deed, dated May 28, 2013, between LATAM Airlines Group S.A. and AerCap Holdings N.V. Portions of this document have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.
8.1*	List of subsidiaries of the Company.
12.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1*	Certifications of Chief Financial Officer and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.



BY-LAWS

LATAM AIRLINES GROUP S.A.

SECTION ONE: Name, Registered Office and Purpose

Article 1: An open corporation is incorporated that will be called Latam Airlines Group S.A., although it may also indistinctively use the fictitious names of "Latam Airlines," "Latam Airlines Group," "Latam Group," "LAN Airlines," "Lan Group" and/or "LAN."

Article 2: The company will have its registered offices in the city of Santiago, borough of the same name, although it may establish agencies, branches, offices or establishments in other places in the country or abroad.

Article 3: The duration of the Company will be indefinite.

Article 4: The Company shall engage in:

- (a) the trade of any form of air and/or ground transportation, whether passenger, cargo, or mail, and of everything relating directly or indirectly to that activity, in the country or abroad, for its own account or others;
- (b) the rendering of services relating to the maintenance and repair of aircraft, whether own or of third parties;
- (c) the development and exploitation of other activities derived from the business purpose and/or linked, related, cooperative or complementary thereto;
- (d) the trade and development of activities relating to travel, tourism and lodging; and
- (e) holding interests in companies of any type or kind that facilitate the business of the Company.



SECTION TWO: Capital, Shares and Shareholders

Article 5: The capital of the Company is US\$2,652,898,072.25, divided into 551,847,819 shares in one single series, with no par value. There are no special series of shares or privileges. The form of share certificates, their issuance, exchange, ruin, misplacement, replacement and other circumstances thereof as well as the transfer of shares shall be governed by the provisions in the Companies Law and its Regulations.

Article 6: Shareholders may stipulate agreements limiting the free transfer of shares, but those agreements shall be deposited with the Company and be available to other shareholders and interested third parties, and they shall be annotated in the shareholders registry in order to be valid.

SECTION THREE: Management

Article 7: The Company will be managed by the Board of Directors that will be elected by the Shareholders Meeting.

Article 8: The Board will be comprised of 9 members and will hold office for two years. Members may be reelected. There will be no need to be a shareholder in order to be a director. The Board will appoint a Chairman and a Vice Chairman from among its members. The Vice Chairman shall substitute for the Chairman in the event of the latter's absence or impediment. The Board of Directors may appoint an Interim Chairman whenever the Chairman and Vice Chairman are absent or suffer from an impediment. The absences or impediments behind such substitution shall not have to be proven to third parties.



Article 9: The entire Board of Directors shall be elected at the next Regular Shareholders Meeting to be held by the Company whenever there is a vacancy in a Directorship. The Board may appoint a replacement in the interim.

Article 10. Directors will be compensated for their office. Whether they will be compensated and the amount thereof will be determined annually by the Regular Shareholders Meeting.

Article 11: Board meetings shall be installed by the presence of a majority of Directors. Resolutions will be adopted by an absolute majority of the Directors present, save resolutions that require a higher majority according to the law or these by-laws.

Any tie shall be decided by the vote of the Chairman of the Meeting. The Chief Executive Officer of the Company shall act as Secretary or the person expressly appointed by the Board of Directors to that position.

Article 12: The Board shall hold regular meetings on the days and at the times it determines. In any case, it shall meet at least once a month. Special meetings may be held when they are convened specially by the Chairman together with two directors and/or at the request of an absolute majority of directors, in which case the meeting must necessarily be held.

Article 13: The Board represents the Company judicially and extrajudicially and shall be vested, in order to fulfill the business purpose, which shall not be necessary to prove to third parties, with all powers of administration and disposition that the Law, Regulations and these by-laws do not reserve for the shareholders meeting. There will be no need to grant any special power of attorney, including for those acts or contracts regarding which the laws require such an event, as provided in article 40 of the Law. The foregoing is without prejudice to the judicial representation pertaining to the Chief Executive Officer of the Company.



The Board of Directors may delegate part of its authority to the General Manager, Managers, attorneys of the Company, to one director or a committee of directors, and to other people for certain special purposes.

Article 14. The deliberations and resolutions of the Board of Directors shall be written down in a minutes book that will be signed on each occasion by the directors who attended the meeting and by the Secretary.

A director who wishes to circumvent his liability for any act or resolution of the Board shall have his opposition recorded in the minutes and that opposition shall be disclosed by the Chairman at the next Regular Shareholders Meeting.

Should a director die or be unable for any reason to sign the corresponding minutes, a record of that fact shall be left at the foot of the minutes.

The minutes shall be deemed approved as from the time they have been signed by the aforesaid persons, and from that moment the resolutions indicated therein may be implemented.

Article 15: The Company will have an Executive Vice President and a Manager, who will be the legal representative of the Company. Both positions will be appointed by the Board of Directors and may be held by one same person. The Executive Vice President shall have the powers conferred thereupon by the Board of Directors. The Manager shall have the powers delegated thereto by the Board of Directors, notwithstanding those corresponding thereto by the Law and in particular:

(i) he shall represent the Company judicially with the powers listed in both subparagraphs of article seventh of the Code of Civil Procedure, which are deemed expressly set out.



(ii) he shall execute and enter into all acts and contracts, whether civil, commercial, administrative or otherwise, conducive to the purposes of the Company within the limits on amount set by the Board; and

(iii) generally, he shall implement resolutions of the Board and execute all acts for which he has been expressly delegated authority, in the form, amount and conditions that are determined. The Board shall appoint one or more persons who may individually validly represent the company in all notifications made thereto in absence of the Manager, which the interested party shall not have to evidence.

SECTION FOUR: Shareholders Meetings

Article 16: Shareholders shall meet in a regular meeting once a year between February 1 and April 30.

Article 17: Matters for a regular meeting are:

1. the annual appointment of the independent external auditors to examine the accounting, inventory, balance sheet and other financial statements of the Company;
2. the examination of the situation of the Company and of the reports by the external auditors and approval, amendment or rejection of the annual report, balance sheet and financial statements and exhibits;
3. the approval of the distribution of fiscal year profits and the payment of dividends;
4. the election or revocation of the board, liquidators and auditors of management;



5. the determination of the annual compensation of directors;
6. acknowledgement of the resolutions adopted by the Board in which there was opposition of one or more directors.
7. acknowledgement of the resolutions approving acts or contracts in which one or more directors had or have an interest personally or as the representative of another person; and
8. generally, any matter of corporate interest not reserved for a Special Shareholders Meeting.

Article 18: Matters for a Special Shareholders Meeting are:

1. a reform to the Company's by-laws;
2. the issuance of bonds or debentures convertible to shares;
3. the grant of real or personal guarantees to secure third-party obligations when those third parties are not subsidiaries; and
4. the other matters surrendered to the debate thereof by the by-laws and the law.

Article 19: Notices of meetings shall be given by a prominent advertisement that will be published at least 3 times on different days in a newspaper in the corporate domicile determined by the meeting or, failing agreement, or when compliance therewith is impossible, in the Official Gazette, in the time, form and conditions determined by the Companies Regulations.



In addition to the preceding notice, a notice should be sent by mail to each shareholder a minimum of 15 days in advance of the date of the meeting, which shall contain a reference to the matters to be discussed thereat.

The notice shall mention the resolutions of the Board that the Meeting must study according to Article 44 of the Law. Meetings attended by all issued shares may be validly held even though the formalities required for notice have not been completed.

Article 20: Regular and Special Shareholders Meeting shall be validly installed by representatives of a majority of the issued shares. If that number is not present, a new notice will be given and the Regular or Special Shareholders Meeting will be validly installed by the shareholders attending.

Special Shareholders Meetings shall be held before a notary. Second notices may only be published once the meeting has failed under a first notice or second notice, as the case may be, and a new shareholders meeting shall be convened, regardless, within 45 days after the date set for the meeting that was not held under a first notice.

Notices shall be published in the same period indicated above.

Article 21: Resolutions of both Regular and Special Shareholders Meeting shall be adopted by the affirmative vote of at least an absolute majority of the shares represented at the meeting. In any case, the resolutions indicated in the second subparagraph of article 67 of the Companies Law shall require the affirmative vote of two-thirds of the issued and voting shares. Only shareholders registered in the Shareholders Registry five days in advance of the date of the respective meeting may attend meetings and exercise their right to speak and vote. Directors shall be elected in one single voting, and the persons who earn the nine highest majorities shall be deemed elected. Shareholders may distribute their votes among candidates in the manner they deem convenient. In order to proceed with voting, save unanimously resolution otherwise, the Chairman and Secretary,



together with the persons previously designated by the meeting to sign the minutes thereof, shall record in a document the votes that are cast out loud by the shareholders present, in the order of the attendance list. Any shareholder shall have the right, however, to vote on a ballot signed thereby, stating whether he signs personally or on behalf of another.

Notwithstanding the foregoing, in order to facilitate the conduct or quickness of the voting, the Chairman or the Superintendency, as the case maybe, may order that voting be taken alternatively and indistinctively out loud or by ballot. When counting votes from the annotations made by the aforesaid persons, the Chairman may read the votes out loud in order for all those present to calculate the votes themselves or to confirm the true outcome through such annotation and ballots.

The Secretary shall add up the votes and the Chairman shall proclaim the top majorities until completing the number to be elected.

The Secretary will put all papers in an envelope that he will close and seal by the company seal, which will be filed with the Company for at least two years.

Article 22: Shareholders may be represented at meetings by other shareholders or by third parties in the form and conditions set down in the Regulations. The proxy granted for the meeting not held shall be deemed valid for the new meeting held instead provided the first meeting was not held due to a lack of quorum.

Article 23: Attendees at meetings shall sign an attendance sheet that will indicate after their signature the number of shares held by the signatory, the number of shares represented by the signatory and the name of the principal.

Article 24: Deliberations and resolutions of Shareholders Meetings shall be set down in a Special Minutes Book that will be kept by the Secretary. Minutes will be signed by the Chairman or by his substitute, by the Secretary and by three Shareholders on behalf of attendees, elected by the meeting.



An abstract of the events of the meeting shall be written in minutes and the following data necessarily recorded: the name of the shareholders present, the number of shares owned or represented by each, a succinct account of any observations, an account of the motions submitted to discussion and the outcome of voting, and the list of shareholders who have voted against those motions, if anyone has requested nominal voting.

Only under the unanimous consent of attendees may the record of some event occurring at the meeting be eliminated from the minutes, provided it relates to corporate interests.

The minutes containing the election of directors shall indicate the names of all shareholders present and specify the number of shares voted by each, personally or on behalf of another, and the general outcome of the voting.

A copy of these minutes will be sent to the Superintendency of Securities and Insurance. The Company shall notify the Superintendency of the appointment of directors who are replaced within three business days.

SECTION FIVE: Annual Report, Balance Sheet and Profits

Article 25: A General Balance Sheet of the Company's assets and liabilities shall be prepared as of December 31st of each year, which will contain the indications required by the laws and regulations.

Article 26: At the Regular Shareholders Meeting, the Board of Directors shall advise shareholders of the status of the Company's business and present an annual report containing explanatory and analytical information on the transactions performed in the most recent fiscal year, accompanied by the general balance sheet, profit and loss statement and report presented by the external auditors.



All sums earned during the fiscal year by the Chairman and Director shall be placed in separate lines within the profit and loss accounts in such balance sheet.

Article 27: Dividends shall be paid exclusively against net profits from the fiscal year or retained earnings in balance sheets approved by the Shareholders Meeting. Should the Company have accumulated losses, profits earned in the fiscal year shall be first allocated to absorbing those losses. A cash dividend shall be paid annually to shareholders in proportion to their shares, amounting to at least 30% of the net profits from each fiscal year, save resolution otherwise adopted unanimously by the respective meeting.

Article 28. The annual report, balance sheet and inventory, minutes, books and other items supporting them and the report that the external auditors must present shall be available to shareholders for examination at the management's offices for 15 days prior to the date set for the Regular Shareholders Meeting. For this purpose, the Company shall keep printed or typed copies of those documents in that office. The Company shall send each of the shareholders registered in the respective Registry a copy of the balance sheet and of the annual report of the Company on a date that is no later than the date of the first notice convening a Regular Shareholders Meeting, including the opinion of the auditors and the respective notes, all without prejudice to the provisions in the second and third subparagraphs of article 75 of the law.

Article 29: The Company shall publish the information determined by the Superintendency of Securities and Insurance on its duly audited general balance sheets and profit and loss statements in a widely circulated newspaper in the corporate domicile no less than 10 nor more than 20 days in advance of the date of the Regular Shareholders Meeting that will decide on them. In that same period, the Company shall submit the number of counterparts of such documents to the Superintendency of Securities and



Insurance as determined thereby. If the balance sheet and profit and loss statements are modified by the meeting, the changes will be published in the same newspaper within 15 days following the date of the meeting, notwithstanding that they must also be sent to the Shareholders registered in the Registry. The balance sheet shall contain the name of the Chairman, directors, managers and indicate the share transactions performed by such individuals during the fiscal year.

Article 30: When the condition of corporate funds allow and the Board deems it convenient, interim dividends may be paid to Shareholders during the fiscal year on account of profits from that year, under the personal liability of directors approving the resolution, provided there are no cumulative losses.

SECTION SIX: Audit of Management

Article 31: The Regular Shareholders Meeting shall appoint independent external auditors annually to examine the accounting, inventories, balance sheets and other financial statements of the Company, under the obligation to report in writing on fulfillment of their mandate to the next Regular Shareholders Meeting.

SECTION SEVEN: Arbitration

Article 32: Any matter arising among shareholders as such or among them and the company or its managers shall be resolved without form of trial or further remedy by an arbitrator *ex aequo et bono* appointed by mutual consent of the parties involved, and failing consent, by the ordinary courts, in which case the arbitrator shall be a conciliator in regard to procedure and an arbiter in regard to the ruling. The appointment shall fall upon an attorney who is or has been a deputy justice of the Supreme Court of Justice for at least one year. Notwithstanding the foregoing, the plaintiff in any dispute may remove the hearing thereof from the venue of arbitrators and submit to the decision of the Ordinary Courts.



TRANSITORY ARTICLES

Sole Transitory Article: The capital of the Company is US\$2,652,898,072.25, divided into 551,847,819 shares in one single series, with no par value, which has been and will be subscribed and paid as follows:

- (One) The sum of US\$1,605,164,719.76, divided into 483,547,819 shares, fully subscribed and paid in prior to this date.
- (Two) The sum of US\$47,733,352.49, represented by 4,800,000 shares, to be allocated to compensation plans for the employees of the Company and its subsidiaries, as provided in Article 24 of the Companies Law, and to be subscribed and paid no later than December 21, 2016. The Board has full authority to create, implement and modify these stock option plans in one or several stages and to make the relevant changes to the registration of such shares in the Securities Registry kept by the Securities and Insurance Commission. It is also empowered to execute and amend stock option agreements and to set and change the subscription price of these shares according to the resolutions of the Special Shareholders Meeting delegating that authority and to the Companies Regulations. The shareholders do not enjoy a right of first refusal in regard to these shares, as provided in the third subparagraph of said Article 24. The price of these shares shall be paid at once, in the act of subscription, in cash, by check, bank check, wire transfer or any other instrument or effect representing money payable upon demand; and
- (Three) The sum of US\$1,000,000,000, divided into 63,500,000 shares to be subscribed and paid on account of the capital increase approved at the Special Shareholders Meeting of the Company held June 11, 2013.



In regard to this capital increase for an aggregate of US\$1,000,000,000, represented by said 63,500,000 shares:

- (A) a part, totaling US\$976,377,952.75, represented by 62,000,000 shares, will be preemptively offered to shareholders in LATAM Airlines Group S.A. according to Article 25 of the Companies Law. The unsubscribed balance will be offered and placed on the market in general. The price of these shares must be paid at once, at the time of subscription, in cash, by check, bank check, electronic money transfer or by any other means or instrument representing money payable on demand. The Board was authorized by the Special Shareholders Meeting held June 11, 2013 to set the placement price of the cash shares according to the second paragraph of Article 23 of the Companies Regulations, in which case placement must be made within 180 days following the date of that Meeting. That authority of the Board can be extended only once for no more than an additional 180 days by a new Shareholders Meeting. The deadline for issuance, subscription and payment shall expire, for all pertinent purposes, on June 11, 2016. These 62,000,000 shares will be preemptively offered to shareholders registered in the Shareholders Registry at midnight on the fifth business day prior to the date of publication of the right-of-first-refusal notice, for the period of 30 days after publication of said right-of-first-refusal notice, and the offer will be proportional to the shares registered in the shareholder's name. Shareholders may waive or assign their right to subscribe all or part of the shares according to the Companies Regulations. Any shareholder or option transferee who says nothing during the right-of-first-refusal period shall be deemed to have waived the right to subscribe the shares. Any remainder of shares not placed after following the above procedure, either because the shares were not subscribed by shareholders in exercise of their right of first refusal or those rights were waived in whole or in part, or any fractions of shares occurring in the proration among shareholders, may be offered



freely to shareholders and/or third parties in Chile or abroad, on the dates and in the amounts deemed pertinent by the Board, which shall be amply empowered to determine the relevant procedures. Furthermore, save resolution otherwise by the Board, the shares regarding which rights of first refusal are waived in whole or in part by the entitled shareholders may be offered by the Board in the aforesaid terms from the moment when such waiver is notified, or becomes known, to the Company, without having to await the end of the legal right-of-refusal period of 30 days. Regardless, no shares may be transferred to third parties at prices and under conditions that are more favorable than those of the preemptive offer to entitled shareholders, notwithstanding the provisions in the last subparagraph of Article 29 of the Companies Regulations; and

- (B) the remainder of the increase for US\$23,622,047.25, represented by 1,500,000 shares, shall be allocated to compensation plans for the employees of the Company and its subsidiaries, as provided in Article 24 of the Companies Law. The Board was fully authorized to create and implement these stock option plans in one or several stages. The shareholders do not enjoy a right of first refusal in regard to these shares, as provided in the third subparagraph of said Article 24. The price of these shares must be paid at once, at the time of subscription, in cash, by check, bank check, wire transfer or any other instrument or effect representing money payable upon demand. The Board was authorized by the Special Shareholders Meeting held June 11, 2013 to set the placement price for the cash shares according to the rule in the third subparagraph of Article 23 of the Companies Regulations. It must set the price by June 11, 2018. The deadline for issuance, subscription and payment of these shares expires June 11, 2018; and



- (C) The Company's Board of Directors was amply empowered, within the framework of the resolutions adopted by the Special Shareholders Meeting held June 11, 2013, to proceed to issue said capital increase all at once and for all of the shares, or in parts, at the Board's discretion; to conduct or order all proceedings necessary to register the shares in the increase in the Securities Registry of the Securities and Insurance Commission of Chile, including all types of requests, measures, procedures, presentations, declarations and other measures relating to the registration and placement of the shares; and once the share issue has been registered that was approved for this capital increase, to decide on the exchange and placement thereof all at once or in parts and listing thereof on one or more stock exchanges; to represent the Company or order that it be represented before any type of authority, entity or person, including, but not limited to, government, regulatory or oversight entities, stock exchanges or others related to the securities market; to determine all matters relating to the options forming part of the compensation plans, including, but not limited to, the periods during which the options will be valid, the periods, opportunities, form and other conditions for acceptance or exercise thereof, the employees that will be benefitted thereby, the number of shares in the options offered and all other matters relating to the foregoing; to grant the powers of attorney necessary or convenient to implement all or part of the foregoing; and, in general, to resolve all situations, modalities, supplements, amendments and details that may arise or be required in relation to this bylaw reform and related matters approved by the Special Shareholders Meeting held June 11, 2013.

AMENDMENT No.13
TO THE
SECOND A320 FAMILY PURCHASE AGREEMENT
BETWEEN
LATAM AIRLINES GROUP S.A.
(formerly known as LAN AIRLINES S.A.)
AND
AIRBUS S.A.S.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.
A320F- LAN- AMDT 13- Second A320 Family PA
Ref: CT1202039

This amendment No.13 to the Second A320 Family Purchase Agreement (as defined below) is entered into as of 191 August, 2013, by and between

AIRBUS S.A.S., having its principal office at
1 Rond-Point Maurice Bellante
31707 BLAGNAC-CEDEX
FRANCE

(hereinafter referred to as the “**Seller**”) of the one part

AND

LATAM AIRLINES GROUP S.A. (formerly known as LAN AIRLINES S.A.) having its principal office at:
Edificio Huidobro
Avenida Presidente Riesco 5711- 20th Floor
Las Condes
SANTIAGO
CHILE

(hereinafter referred to as the “**Buyer**”) of the other part.

The Buyer and the Seller being collectively referred to as the “Parties” and individually as a “Party”

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.
A320F- LAN- AMDT 13- Second A320 Family PA
Ref: CT1202039

WHEREAS

- A. The Buyer and the Seller entered into an A320 family purchase agreement dated March 20th, 1998 covering the purchase by the Buyer and the sale by the Seller of twenty (20) A320 family aircraft bearing rank numbers 1 to 20. By an amendment No.1 to such purchase agreement, entered into by the Buyer and the Seller on February 24th, 2000 the number of A320 family aircraft to be purchased by the Buyer pursuant to such purchase agreement was increased to twenty five (25), with the additional five (5) A320 family aircraft bearing rank numbers 21 to 25. Such twenty five (25) A320 family aircraft are hereinafter referred to as the "Original A320 Family Aircraft", and such purchase agreement, amendment No.1, and all exhibits, appendices and letter agreements thereto are together referred to as the "Original A320 Family Purchase Agreement".
- B. The Buyer and the Seller entered into a deed of amendment and restatement of the Original A320 Family Purchase Agreement, dated August 2nd, 2000, dividing the Original A320 Family Purchase Agreement into two (2) separate purchase agreements, the first agreement concerning the Original A320 Family Aircraft bearing rank numbers 1 to 20, and the second agreement concerning the Original A320 Family Aircraft bearing rank numbers 21 to 25. The second agreement as supplemented with all exhibits and appendices thereto is hereinafter referred to as the "Second A320 Family Purchase Agreement".
- C. The Buyer and the Seller entered into an amendment No.1 to the Second A320 Family Purchase Agreement dated November 14th 2003 (the "Amendment No.1") modifying certain provisions of the Second A320 Family Purchase Agreement.
- D. The Buyer and the Seller entered into an amendment No.2 to the Second A320 Family Purchase Agreement dated October 4th, 2005 (the "Amendment No.2") covering the purchase by the Buyer and the safe by the Seller of twenty five (25) additional firm A320 family aircraft comprising twenty (20) A318-100, one (1) A319-100 and four (4) A320-200 aircraft type (the "Additional Aircraft").
- E. The Buyer and the Seller entered into an amendment No.3 to the Second A320 Family Purchase Agreement dated March 6th, 2007 (the "Amendment No.3") covering the conversion of fifteen (15) Option Aircraft (as defined in the Amendment No.2) into firmly ordered Converted Aircraft (as defined in Amendment No.3).
- F. The Buyer and the Seller entered into an amendment No. 4 to the Second A320 Family Purchase Agreement dated June 11th, 2008 (the "Amendment No.4") covering the conversion of five (5) A318100 Additional Aircraft bearing rank Nos. 26 to 30 as set forth in Amendment No.2 and three (3) A318-100 Converted Aircraft bearing rank Nos. 37, 40 and 43 as set forth in Amendment No.3, into A319 aircraft type.
- G. The Buyer and the Seller entered into an amendment No. 5 to the Second A320 Family Purchase Agreement dated December 23rct 2009 (the "Amendment No.5") covering the order of thirty (30) incremental A319-100 and A320*200 aircraft {the "Incremental Aircraft") and amending certain provisions of the Second A320 Family Purchase Agreement.

["* * *"] This information is subject to confidential treatment and has been omitted and filed separately with the commission.

A320F- LAN- AMDT 13- Second A320 Family PA

Ref: CT1202039

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- H. [* * *].
- I. The Buyer and the Seller entered into an amendment No. 6 to the Second A320 Family Purchase Agreement dated May 10th, 2010 (the “Amendment No.6”) covering the conversion of the aircraft type of three (3) A319-100 First Batch of Incremental Aircraft (as defined in the Amendment No.5) into firmly ordered A320-200 First Batch Incremental Aircraft and the advancement of the scheduled delivery positions of Two (2) Aircraft from the First Batch of Incremental Aircraft and Eleven (11) Aircraft from the Second Batch of Incremental Aircraft (as defined in the Amendment No.5).
- J. The Buyer and the Seller entered into an amendment No. 7 to the Second A320 Family Purchase Agreement dated May 19th, 2010 (the “Amendment No.7”) covering the advancement of the scheduled delivery positions of Three (3) Converted Aircraft.
- K. The Buyer and the Seller entered into an amendment No. 8 to the Second A320 Family Purchase Agreement dated September 23rd, 2010 (the “Amendment No.8”) covering (i) the advancement of the scheduled delivery positions of Two (2) Aircraft from the First Batch of Incremental Aircraft and Two (2) Aircraft from the Second Batch of Incremental Aircraft and (ii) the conversion of the aircraft type of one (1) A319-100 from the Second Batch of Incremental Aircraft into firmly ordered A320-200 from the Second Batch Incremental Aircraft.
- L. The Buyer and the Seller entered into an amendment No. 9 to the Second A320 Family Purchase Agreement dated December 21st 2010 (the “Amendment No.9”) covering the order of fifty (50) incremental A319-100, A320-200 and A321-200 aircraft, and, amending certain provisions of the Second A320 Family Purchase Agreement.
- M. [* * *].
- N. The Buyer and the Seller entered into an amendment No. 10 to the Second A320 Family Purchase Agreement dated June 10th 2011 (the “Amendment No.10”) covering (i) the conversion of certain Aircraft type, (ii) the Sharklets selection for certain Aircraft, and (iii) the notification of the scheduled delivery months for the Aircraft scheduled to be delivered in the fourth quarter 2012 and the first quarter 2013.
- O. The Buyer and the Seller entered into an amendment No. 11 to the Second A320 Family Purchase Agreement (the “Amendment No.11”) covering (i) the postponement of certain Aircraft scheduled delivery position, and (ii) the conversion of certain Aircraft type.
- P. The Buyer and the Seller entered into amendment No. 12 to the Second A320 Family Purchase Agreement (the “Amendment No.12”) covering (i) the conversion of three (3) Aircraft type with rank number 61, rank number 63 and rank number 89, (ii) the identification of certain Aircraft as Sharklet Installed Aircraft and others as Sharklet Capable Aircraft, and (iii) the notification of the Scheduled Delivery Month for certain Aircraft.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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Q. The Buyer and the Seller wish to enter into this amendment No. 13 to the Second A320 Family Purchase Agreement (the "Amendment No. 13") covering, among other related commercial matters, (i) the conversion of certain Aircraft type and (ii) the postponement of certain Aircraft scheduled delivery months/quarters.

NOW IT IS HEREBY AGREED AS FOLLOWS:

0. DEFINITIONS

- 0.1. The terms "herein," "hereof," and "hereunder" and words of similar import refer to this Amendment No.13 and capitalized terms used herein and not otherwise defined in this Amendment No.13 will have the meanings assigned to them in the Purchase Agreement (as defined below).
- 0.2. Purchase Agreement means the Second A320 Family Purchase Agreement together with Amendments Nos.1 to 12 thereto.

1. SCOPE

- 1.1 The Buyer has requested and the Seller has agreed to hereby convert nine (9) Aircraft as set forth in Clause 2 below. The Seller has requested and the Buyer has agreed to hereby postpone the Scheduled Delivery Month of certain Aircraft as set forth in Clause 2 below.
- 1.2 [* * *].

2 AIRCRAFT TYPE CONVERSION

- 2.1 The Seller hereby grants and the Buyer hereby exercises its right to convert one Aircraft, corresponding to Aircraft rank 72 and being a Second Batch of Incremental Aircraft, from an A320-200 type into an A321-200 type Aircraft (such converted A321 aircraft hereinafter referred to as "Aircraft Rank 72") and reschedule the Scheduled Delivery Month of this Aircraft Rank 72.
- 2.2 The Buyer has requested and the Seller has agreed to convert eight (8) A320-200 corresponding to Aircraft Rank 92, 93, 95, 96, 97, 99, 100 and 103 (the "Amendment 13 Converted A321 Aircraft") into A321-200 Aircraft and reschedule the Scheduled Delivery Month of these converted Aircraft. The Seller has requested and the Buyer has agreed to reschedule the Scheduled Delivery Month of Aircraft rank 88 and 94.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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2.3 The following table sets out the conversion and rescheduling described in clause 2.1 and 2.2 above here below:

<u>Rank number</u>	<u>Original Scheduled Delivery Month</u>	<u>Revised Scheduled Delivery Month</u>	<u>Original Aircraft Type</u>	<u>Revised Aircraft Type</u>	<u>Aircraft Batch</u>
88	March 2014	[* * *]	A321 200	A321-200	2010 Incremental Aircraft
92	[* * *]	[* * *]	A320-200	A321-200	2010 Incremental Aircraft
93	[* * *]	[* * *]	A320-200	A321-200	2010 Incremental Aircraft
94	[* * *]	[* * *]	A321-200	A321-200	2010 Incremental Aircraft
72	[* * *]	[* * *]	A320-200	A321-200	Second Batch of Incremental Aircraft
95	[* * *]	[* * *]	A320-200	A321-200	2010 Incremental Aircraft
96	[* * *]	[* * *]	A320-200	A321-200	2010 Incremental Aircraft
97	[* * *]	[* * *]	A320-200	A321-200	2010 Incremental Aircraft
99	[* * *]	[* * *]	A320-200	A321-200	2010 Incremental Aircraft
100	[* * *]	[* * *]	A320-200	A321-200	2010 Incremental Aircraft
103	[* * *]	[* * *]	A320-200	A321-200	2010 Incremental Aircraft

2.4 As a result of the Aircraft conversion set forth in clause 2.1 and 2.2 above the Parties agree to delete in its entirety clause 1.1 of Amendment No.5 as amended and replace it as follows:

QUOTE

1.1. “The Seller shall sell and deliver and the Buyer shall buy and take delivery of two (2) A319-100 aircraft, twenty seven (27) A320-200 aircraft and one (1) A321-200 aircraft (respectively the “A319 Aircraft”, the “A320 Aircraft” and the “A321 Aircraft”) upon the terms and conditions contained in this Amendment No.5 (hereinafter for the purposes of this Amendment No.5 collectively the “Incremental Aircraft.”)

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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Ref: CT1202039

UNQUOTE

The Parties also agree to delete in its entirety clause 1.1 of Amendment No.9, and replace it as follows:

QUOTE

1.1. The Seller shall sell and deliver and the Buyer shall buy and take delivery of four (4) A319-100 aircraft, twenty eight (28) A320-200 aircraft and eighteen (18) A321-200 aircraft (respectively the “2010 A319 Aircraft”, the “2010 A320 Aircraft” and the “2010 A321 Aircraft”) upon the terms and conditions contained in this Amendment No.9 (hereinafter for the purposes of this Amendment No.9 collectively the “2010 Incremental Aircraft.”)

UNQUOTE

2.5 PREDELIVERY PAYMENT

As a result of the Aircraft conversion and rescheduling set forth in Clause 2.1 and Clause 2.2 above, the Parties hereby agree, that upon signature of this Amendment No.13, [* * *], being the amount previously paid by the Buyer in respect of the Amendment 13 Converted Aircraft and Aircraft Rank 72, and no longer due in accordance with the Predelivery Payment schedule and this amount will be applied to the next pre-delivery payment becoming due under the Agreement.

2.6 PROPULSION SYSTEMS SELECTION

Notwithstanding Clause 2.4 of Amendment No. 12, the Buyer hereby selects the following Propulsion System for Aircraft rank 94 and Aircraft rank 98:

for each A321 Aircraft: CFM INTERNATIONAL 56-5B3/3.

3. AIRCRAFT RANK 72

3.1 Specification

3.1.1 With respect to Aircraft Rank 72 (as defined in Clause 2.1 above), the Parties hereby agree the definition of Standard Specification for A321 Aircraft, as defined in Clause 0 of Amendment No. 9, shall apply, as such Standard Specification is modified or varied after the date of Amendment No. 9 by the Specification Change Notices listed in Exhibit C of Appendix 1 to Amendment No. 9.

3.1.2 With respect to Aircraft Rank 72, the Parties hereby agree to add the following quoted text to the end of Clause 1.3 of the Purchase Agreement:

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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QUOTE

For the Aircraft Rank 72:

CFM INTERNATIONAL 56-583/3 (33,000 lb)

Or

INTERNATIONAL AERO ENGINE V2533 (33,000 lb)

UNQUOTE

3.2 Price

With respect to the Aircraft Rank 72, the Parties hereby agree the provision contained in Clauses 3.1 and 3.2 of the Purchase Agreement are cancelled and replaced by the following quoted provisions:

QUOTE

3.1 PRICE OF AIRCRAFT

The base price of Aircraft Rank 72 (the "Aircraft Base Price") is the sum of:

- the Airframe Base Price as defined in Clause 3.1.1 below and
- the Propulsion Systems Price as defined in Clause 3.1.2 below.

and is exclusive of any variation resulting from price revision provisions.

3.1.1 Airframe Base Price

The base price of the Airframe (the "Airframe Base Price") is the sum of:

- (i) the base price of the Airframe corresponding to the Standard Specification, including Nacelles and Thrust Reversers, and excluding Buyer Furnished Equipment, which is:

USD [* * *] for A321 Aircraft Rank 72

- (ii) the base price of the preliminary SCN's, a list of which for budgetary purposes here from can be estimated to be:

USD [* * *] for A321 Aircraft Rank 72

All base price is expressed in United States Dollars (USD) at [* * *] and is subject to adjustment in accordance with the Seller's Price Revision Formula set out in Exhibit D of Appendix 3 to Amendment No.5.

3.1.2 Propulsion Systems Base Price

"[* * *]" This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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The base price of the Propulsion Systems (the "Propulsion Systems Base Price") shall be, as applicable pursuant to Clauses 3.1.2.1 or 3.1.2.2, the base price of the Propulsion Systems selected by the Buyer.

3.1.2.1 The base price of a set of two (2) CFM INTERNATIONAL Propulsion Systems

CFM56 5B3/3: USD [* * *] for A321 Aircraft Rank 72

at economic conditions prevailing for a theoretical delivery in January 2008.

Such base price has been computed from the propulsion systems reference price (the "Propulsion System Reference Price") as defined in Exhibit B of Appendix 3 to Amendment No.9 for 2010 A321 Aircraft and equal to:

CFM56 583/3: USD [* * *] for Aircraft Rank 72

The CFM INTERNATIONAL Propulsion Systems Reference Price has been established in accordance with the [* * *] at Reference Composite Price Index of [* * *] and shall be subject to revision up to the Delivery Date of the Aircraft Rank 72 in accordance with the CFM INTERNATIONAL Price Revision Formula set out in Exhibit B of Appendix 3 of Amendment No.9.

3.1.2.2 The base price for a set of two (2) IAE Propulsion Systems is:

IAE V2533-A5 USD [* * *] for A321 Aircraft Rank 72

at economic conditions prevailing for a [* * *]. Such base price has been computed from the propulsion systems reference price (the "Propulsion System Reference Price") as defined in Exhibit C of Appendix 3 to Amendment No. 9 for 2010 A321 Aircraft and equal to:

IAE V2533-A5 USD [* * *] for A321 Aircraft Rank 72

The INTERNATIONAL AERO ENGINES Propulsion Systems Reference Price is expressed at [* * *] and shall be subject to revision up to the Delivery Date of Aircraft Rank 72 in accordance with the INTERNATIONAL AERO ENGINES Price Revision Formula set out in Exhibit C of Appendix 3 to Amendment No.9.

3.1.2.3 Seller confirms that the above-mentioned quotations as well as Propulsion Systems Manufacturer Price Revision Formulae (as set out in Clauses 4.2 and 4.3, as inserted by Exhibits B and C of Appendix 3 to Amendment No.9) are based upon information received from the respective Propulsion Systems Manufacturer and remain subject to any modification that might be imposed by the Propulsion Systems Manufacturer on the Seller. The Seller

"[* * *]" This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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hereby confirms that the said formulae shall have same effect and result as the corresponding formulae provided by the Propulsion Systems Manufacturer to the Seller and that such formulae do not in any way prevent from the Buyer agreeing on a different formula with such Propulsion Systems Manufacturer.

The Seller agrees to notify the Buyer within a reasonable leadtime of any modification on the standard Propulsion Systems Manufacturer Price Revision Formulae from the Propulsion Systems Manufacturer.

3.2 Final Aircraft Price

The final price of Aircraft Rank 72 (the uFinal Aircraft Price”) at Delivery shall be the sum of:

- (i) the Airframe Base Price as defined above and adjusted to the date of Delivery in accordance with the Seller Price Revision Formula as set forth in Clause 4.1 as inserted by Exhibit A of Appendix 3 to Amendment No.9.
- (ii) the base price of all SCNs mutually agreed upon before or after signature of the Amendment No.9 and adjusted to the Delivery Date of Aircraft Rank 72 in accordance with the Seller Price Revision Formula;
- (iii) the relevant Propulsion Systems Reference Price, as quoted by the Propulsion Systems Manufacturer to the Seller and adjusted to the Delivery Date in accordance with the relevant Propulsion Systems Price Revision Formula;
- (iv) and, as the case may be, any amount due resulting from any other provisions of the Agreement and/or any other written agreement between the Buyer and the Seller.

UNQUOTE

4. PROPULSION SYSTEM REFERENCE PRICE

In Exhibit B and Exhibit C of Appendix 3 to Amendment No. 9 and in Exhibit E and Exhibit F of Appendix 3 to Amendment No. 5 the words “Reference Price” are deleted and replaced with the words “Propulsion System Reference Price” in each and every instance.

5. DELIVERY SCHEDULE

With reference to Aircraft bearing rank numbers 46 to 125, the Parties hereby agree to delete clause 9.1 of the Second A320 Family Purchase Agreement, as substituted by clause 2.1.1 of Amendment No.5, clause 2 of Amendment No.7, clauses 2 and 3 of Amendment No.8, clause 2.1.1 of Amendment No.9, clause 5 of Amendment No.10, clause 4 of Amendment No.11 and clause 5 of Amendment No.12, in its entirety and replace it with the following:

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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QUOTE

9.1 Delivery schedule

9.1.1 Subject to the provisions of Clauses 2, 7, 8, 10 and 18 the Seller shall have the Aircraft ready for Delivery at the Delivery Location in accordance with the following schedule:

Scheduled Delivery Months or Scheduled Delivery Quarters		Rank number	Aircraft type	Aircraft defined as
2011	July	53	A320-200	First Batch of Incremental Aircraft
	July	55	A320-200	First Batch of Incremental Aircraft
	August	46	A320-200	First Batch of Incremental Aircraft
	September	47	A320-200	First Batch of Incremental Aircraft
	October	48	A320-200	First Batch of Incremental Aircraft
	November	49	A320-200	First Batch of Incremental Aircraft
	November	50	A320-200	First Batch of Incremental Aircraft
	October	51	A319-100	First Batch of Incremental Aircraft
	November	52	A320-200	First Batch of Incremental Aircraft
	December	62	A320-200	First Batch of Incremental Aircraft
2012	January	54	A319-100	Second Batch of Incremental Aircraft
	March	76	A319-100	2010 Incremental Aircraft
	April	64	A320-200	Second Batch of Incremental Aircraft
	May	66	A320-200	Second Batch of Incremental Aircraft
	June	77	A320-200	2010 Incremental Aircraft
	July	78	A320-200	2010 Incremental Aircraft
	July	65	A320-200	Second Batch of Incremental Aircraft
	August	67	A320-200	Second Batch of Incremental Aircraft
	September	79	A320-200	2010 Incremental Aircraft
	October	80	A320-200	2010 Incremental Aircraft
	November	68	A320-200	Second Batch of Incremental Aircraft
	December	69	A320-200	Second Batch of Incremental Aircraft
2013	January	82	A320-200	2010 Incremental Aircraft
	January	81	A320-200	2010 Incremental Aircraft
	February	56	A320-200	Second Batch of Incremental Aircraft
	February	71	A320-200	Second Batch of Incremental Aircraft
	April	83	A320-200	2010 Incremental Aircraft
	April	84	A320-200	2010 Incremental Aircraft
	May	73	A320-200	Second Batch of Incremental Aircraft
	May	85	A320-200	2010 Incremental Aircraft
	July	58	A320-200	Second Batch of Incremental Aircraft
	July	59	A320-200	Second Batch of Incremental Aircraft
	August	74	A320-200	Second Batch of Incremental Aircraft
October	60	A320-200	Second Batch of Incremental Aircraft	

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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	November	75	A320-200	Second Batch of Incremental Aircraft
	December	70	A320-200	Second Batch of Incremental Aircraft
2014	January	61	A320-200	Second Batch of Incremental Aircraft
	February	86	A320-200	2010 Incremental Aircraft
	February	87	A321-200	2010 Incremental Aircraft
	April	57	A320-200	Second Batch of Incremental Aircraft
	[* * *]	88	A321-200	2010 Incremental Aircraft
	[* * *]	89	A320-200	2010 Incremental Aircraft
	[* * *]	90	A321-200	2010 Incremental Aircraft
	[* * *]	91	A321-200	2010 Incremental Aircraft
	[* * *]	63	A320-200	Second Batch of Incremental Aircraft
	[* * *]	94	A321-200	2010 Incremental Aircraft
	[* * *]	98	A321-200	2010 Incremental Aircraft
[* * *]	[* * *]	101	A321-200	2010 Incremental Aircraft
	[* * *]	102	A320-200	2010 Incremental Aircraft
	[* * *]	104	A320-200	2010 Incremental Aircraft
	[* * *]	105	A321-200	2010 Incremental Aircraft
	[* * *]	106	A320-200	2010 Incremental Aircraft
	[* * *]	107	A320-200	2010 Incremental Aircraft
	[* * *]	108	A320-200	2010 Incremental Aircraft
	[* * *]	109	A321-200	2010 Incremental Aircraft
	[* * *]	110	A320-200	2010 Incremental Aircraft
	[* * *]	111	A320-200	2010 Incremental Aircraft
	[* * *]	112	A320-200	2010 Incremental Aircraft
	[* * *]	113	A321-200	2010 Incremental Aircraft
[* * *]	[* * *]	114	A319-100	2010 Incremental Aircraft
	[* * *]	115	A319-100	2010 Incremental Aircraft
	[* * *]	116	A319-100	2010 Incremental Aircraft
	[* * *]	92	A321-200	2010 Incremental Aircraft
	[* * *]	117	A320-200	2010 Incremental Aircraft
	[* * *]	118	A320-200	2010 Incremental Aircraft
	[* * *]	119	A320-200	2010 Incremental Aircraft
	[* * *]	120	A320-200	2010 Incremental Aircraft
	[* * *]	121	A320-200	2010 Incremental Aircraft
	[* * *]	122	A320-200	2010 Incremental Aircraft
	[* * *]	123	A320-200	2010 Incremental Aircraft
	[* * *]	124	A320-200	2010 Incremental Aircraft
	[* * *]	125	A320-200	2010 Incremental Aircraft
	[* * *]	93	A321-200	2010 Incremental Aircraft
	[* * *]	72	A321-200	Second Batch of Incremental Aircraft
	[* * *]	95	A321-200	2010 Incremental Aircraft
[* * *]	[* * *]	96	A321-200	2010 Incremental Aircraft
	[* * *]	97	A321-200	2010 Incremental Aircraft
	[* * *]	99	A321-200	2010 Incremental Aircraft
	[* * *]	100	A321-200	2010 Incremental Aircraft
	[* * *]	103	A321-200	2010 Incremental Aircraft

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

A320F- LAN- AMDT 13- Second A320 Family PA

Ref: CT1202039

9.1.2 [* * *].

9.1.3 [* * *].

UNQUOTE

6. EFFECT OF THE AMENDMENT

- 6.1 This Amendment No.13 contains the entire agreement between the Parties with respect to the subject matter hereof and supersedes any previous understanding, commitments or representations whatsoever, whether oral or written.
- 6.2 The Purchase Agreement shall be deemed amended to the extent provided in this Amendment No.13 and, except as specifically amended hereby, shall continue in full force and effect in accordance with its original terms.
- 6.3 The Parties agree that this Amendment No.13 shall constitute an integral, non-severable part of the Purchase Agreement and be governed by all of its provisions.
- 6.4 In the event of any inconsistency between the terms and conditions of the Purchase Agreement and those of the present Amendment No.13, the latter shall prevail to the extent of such inconsistency, whereas the part not concerned by such inconsistency shall remain in full force and effect.
- 6.5 This Amendment No.13 will not be modified or varied except by an instrument in writing executed by both Parties.
- 6.6 Each of the Parties hereto agree that the provisions of this Amendment No.13 are personal to it and will not without the prior written consent of the other Parties disclose such information to any other Party. However, [* * *].
- 6.7 The Parties agree that clause 21 of the Second A320 Family Purchase Agreement shall govern the assignability and transferability of each Party's rights and obligations under this Amendment No.13.
- 6.8 This Amendment No.13 may be signed by the Parties hereto in separate counterparts, each of which when so signed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.
- 6.9 This Amendment No.13 shall be governed by and construed in accordance with the laws of England.

IN WITNESS WHEREOF this Amendment No.13 to the Second A320 Family Purchase Agreement was duly entered into the day and year first above written.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

A320F- LAN- AMDT 13- Second A320 Family PA

Ref: CT1202039

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

LATAM AIRLINES GROUP S.A.

AIRBUS S.A.S

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

A320F- LAN- AMDT 13- Second A320 Family PA

Ref: CT1202039

14/15

IN WITNESS WHEREOF this Amendment No.13 to the Second A320 Family Purchase Agreement was duly entered into the day and year first above written.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

LATAM AIRLINES GROUP S.A.

AIRBUS S.A.S

By: _____
Its: _____
Date: _____

By: _____
Its: _____
Date: _____

LATAM AIRLINES GROUP S.A.

By: _____
Its: _____

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.
A320F- LAN- AMDT 13- Second A320 Family PA
Ref: CT1202039

September 16, 2013
LAN-PB0-1300269

LATAM Airlines Group S.A.
Av. Presidente Riesco 5711
Las Condes
Santiago, Chile

Attention: Mr. Jose Zaidan Maluf, Vice President, Fleet Operations

Subject: Model 787 Aircraft Delivery Delay Settlement Agreement

Reference: (a) Purchase Agreement No. 3256 (Purchase Agreement) between The Boeing Company (Boeing) and LATAM Airlines Group S.A. (LATAM) relating to Model 787-8 and 787-9 aircraft (Aircraft)

(b) Aircraft General Terms Agreement AGTA-LATAM (AGTA), dated July 28, 1999, between Boeing and LATAM

For the purpose of resolving any and all claims referred to in paragraphs 2 (i) and (ii) below, relating to delay of the Aircraft, Boeing is prepared to offer LATAM the following inclusive delay settlement agreement ("Delay Settlement Agreement"). All capitalized terms which are not otherwise defined herein will have the definitions specified in the Purchase Agreement and AGTA.

This Delay Settlement Agreement supersedes all other Settlement Proposals made under LAN-PB0-1300269.

1. Revised Delivery of Aircraft. The revised delivery months are set forth in the Table 1 below (such revised delivery months, and as the same may be further revised, are referred to in this Delay Settlement Agreement as "Revised Delivery Months"):

Table 1

<u>Revised Delivery Months</u>	<u>Model</u>
August 2012	787-8
October 2012	787-8
December 2012	787-8
September 2013	787-8
September 2013	787-8
[* * *]	[* * *]

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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* [* * *].

2. Considerations.

[* * *]

3. Right of Termination

[* * *]

4. Exclusive Remedy.

[* * *]

5. [* * *]

[* * *]

6. Expiration of Offer.

Unless expressly withdrawn, this Delay Settlement Agreement will expire on September 16, 2013.

7. Assignment.

[* * *]

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

8. Supplemental to the Purchase Agreement and the AGTA.

This Delay Settlement Agreement supplements the Purchase Agreement and the AGTA. The provisions of the Purchase Agreement and the AGTA continue in full force and effect, as supplemented by this Delay Settlement Agreement.

9. Confidentiality.

Boeing and Customer understand that the commercial and financial information contained in this Delay Settlement Agreement is considered by the parties as confidential (“*Confidential Information*”) and both agree not to disclose such Confidential Information except as provided herein. In addition to the parties’ respective officers, directors and employees who need to know the Confidential Information and who understand the obligation to keep it confidential, the parties may disclose Confidential Information (1) to the extent required by law and (2) to its agents, auditors and advisors who need to know the Confidential Information for purposes of enabling each party to understand, perform its obligations under, or receive the benefits of, this Delay Settlement Agreement and who have agreed not to use or disclose the Confidential Information for any other purpose without the other party’s prior written consent. In the event that a party concludes that disclosure of Confidential Information contained in this Delay Settlement Agreement is required by applicable law, the party will so advise the other party promptly in writing and endeavor to protect the confidentiality of such Confidential Information to the widest extent possible. In the event of a legal dispute with Boeing, nothing herein will preclude Customer from sharing with its legal counsel information necessary for purposes of enabling counsel to advise or represent Customer provided that so long as Customer causes its legal counsel to maintain the confidentiality of information that is the subject of this Article. This provision shall not apply to any Confidential Information that is in the public domain except that a party will be liable to the other for breach of its obligations under this provision if the Confidential Information entered the public domain as a consequence of a wrongful act or omission on its part.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

Very truly yours,

THE BOEING COMPANY

D. J. Hilby
Aircraft Contracts
Boeing Commercial Airplanes

ACCEPTED AND AGREED TO this 16th day of September of 2013

LATAM AIRLINES GROUP S.A.

By: _____
Its: _____

LATAM AIRLINES GROUP S.A.

By: _____
Its: _____

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

Schedule 1

[* * *]

* [* * *]
** [* * *]
*** [* * *]

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

**PUREPOWER® PW1100G-JM ENGINE SUPPORT AND MAINTENANCE AGREEMENT
BY AND BETWEEN
UNITED TECHNOLOGIES INTERNATIONAL CORPORATION
PRATT & WHITNEY DIVISION
AND
LATAM AIRLINES GROUP S.A.
DATED AS OF FEBRUARY 26, 2014**

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This PurePower® PW1100G-JM ENGINE Support and Maintenance Agreement, dated as of February 26, 2014 (this "Agreement"), is entered into by and between Pratt & Whitney and LATAM.

WHEREAS:

LATAM has entered into a binding agreement with Airbus for the purchase of the forty two (42) Firm Aircraft and desires to purchase from Pratt & Whitney nine (9) Firm Spare Engines;

LATAM anticipates acquiring options from Airbus to purchase up to one hundred (100) Option Aircraft and, if it acquires such Option Aircraft and elects to have them powered by PW1100G-JM Engines, then LATAM will purchase from Pratt & Whitney up to fourteen (14) Option Spare Engines;

Pratt & Whitney desires to provide Engines, support and other assistance for such Engines to power the Firm and Option Aircraft and sell to LATAM the Firm and Option Spare Engines;

LATAM desires to have all off-wing Engine maintenance services performed exclusively by Pratt & Whitney under the FMP in order to lower LATAM's total maintenance costs for its fleet of PW1100G-JM Engine-powered A320neo Family Aircraft;

Pratt & Whitney is willing to become LATAM's exclusive maintenance provider for such fleet through the FMP; and

Pratt & Whitney and LATAM desire to express their complete understanding and agreement in connection with (i) LATAM's selection of the Engines to power the forty two (42) Firm Aircraft and, (ii) (if LATAM exercises its option to acquire up to one hundred (100) Option Aircraft) LATAM's right to select the Engines to power such Option Aircraft and (iii) LATAM's purchase of nine (9) Firm Spare Engines and, (iv) (should LATAM select the Engines to power the Option Aircraft) LATAM's purchase of up to fourteen (14) Option Spare Engines, and (v) the selection of the FMP for all off-wing Engine maintenance services.

NOW THEREFORE:

In consideration of the above recitals and the conditions, mutual covenants, and agreements contained in this Agreement and under the FMP, Pratt & Whitney and LATAM mutually agree as follows:

1. DEFINITIONS

Capitalized terms not otherwise defined in this Agreement have the respective meanings in Appendix 1.

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2. PURCHASE OBLIGATIONS

Upon mutual execution of this Agreement, the Parties agree as follows:

- 2.1 LATAM will place a firm purchase order with Airbus for all of the forty two (42) Firm Aircraft powered exclusively by the Engines and will take delivery of all of the Firm Aircraft pursuant to the Delivery Schedule;
- 2.2 Pratt & Whitney will sell, under separate agreements with Airbus, new Engines for installation on the Firm Aircraft.
- 2.3 LATAM will purchase and take delivery of, and Pratt & Whitney will sell and deliver to LATAM, nine (9) Firm Spare Engines pursuant to the Delivery Schedule and the other terms and conditions of this Agreement. This Agreement constitutes LATAM's firm purchase order with Pratt & Whitney for nine (9) Firm Spare Engines scheduled for delivery pursuant to the Delivery Schedule.
- 2.4 Notwithstanding the foregoing, if payments made by Pratt & Whitney to LATAM pursuant to the Guarantee Plans have reached the Cumulative Guarantee Remedy Cap, then LATAM may elect to terminate this Agreement with respect to undelivered new Engines on Firm Aircraft and undelivered Firm Spare Engines, in which event such termination shall be the sole and exclusive remedy of LATAM under this Agreement and neither Party shall have any further liability to each other under this Agreement with respect to the undelivered Aircraft or Engines as a result of the termination.
- 2.5 Pratt & Whitney will sell, under separate agreements with Airbus, new Engines for installation on any Option Aircraft powered by new Engines for which LATAM places a firm order with Airbus.

Pratt & Whitney's obligation to provide Engines for Option Aircraft or such additional purchased aircraft is subject to (a) LATAM providing Pratt & Whitney with written notice of LATAM's firm order(s) of the applicable option(s) no less than fourteen (14) months before the scheduled delivery date(s), and (b) Airbus providing Pratt & Whitney purchase order(s), and (c) the Parties amending Appendix 2 to reflect the scheduled delivery dates for such Option Aircraft (and both Parties hereby undertake to execute such amendment if the conditions in (a) and (b) above are satisfied).

- 2.6 Pratt & Whitney's financial assistance provided to LATAM under Article 4 for Firm Aircraft, Option Aircraft, Firm Spare Engines, and/or Option Spare Engines shall apply to those Aircraft and Spare Engines for which LATAM takes delivery pursuant to the Delivery Schedule, subject to deferral rights per Article 3.3, and, for Firm Aircraft, prior to December 31, 2023, and for Option Aircraft, prior to December 31, 2027.

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-
- 2.7 If LATAM purchases Option Aircraft powered by new Engines in addition to the Firm Aircraft, then LATAM will purchase and take delivery of, and Pratt & Whitney will sell and deliver to LATAM, the commensurate number of Option Spare Engines necessary to maintain the following Spare Engine Ratio:
 - 2.7.1 If LATAM purchases and continues to operate 1 to 67 Aircraft: ten percent (10%)
 - 2.7.2 If LATAM purchases and continues to operate 68 to 92 Aircraft: nine percent (9%)
 - 2.7.3 If LATAM purchases and continues to operate 93 to 142 Aircraft: eight percent (8%)
 - 2.8 LATAM agrees that all off-wing Engine maintenance for the Engines will be performed under the FMP, subject to Article 4.2 of Appendix 5.
 - 2.9 LATAM agrees that receipt of benefits under this Agreement is subject to and conditioned upon LATAM performing its material obligations under the FMP.
 - 2.10 This Agreement constitutes a legal, valid and binding contract by and between Pratt & Whitney and LATAM for the support of the Engines installed on the forty-two (42) Firm Aircraft and the purchase and sale of the nine (9) Firm Spare Engines, the support of the Engines which may be installed on the up to one hundred (100) Option Aircraft, and the up to fourteen (14) Option Spare Engines and the performance of the FMP, as each is described in this Agreement.
 - 2.11 If LATAM elects to purchase Option Aircraft powered by the Engines and, if applicable, purchases Option Spare Engines from Pratt & Whitney in accordance with Article 2.7, then, for the purposes of this Agreement, such Aircraft and Engine purchases shall be treated as Firm Aircraft and Firm Spare Engines for all purposes of this Agreement except as otherwise expressly provided.

3. [* * *]

- 3.1 [* * *]
- 3.2 [* * *].
- 3.3 [* * *].

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4. FINANCIAL ASSISTANCE

In consideration of LATAM fulfilling its obligations under Article 2 of this Agreement, Pratt & Whitney agrees to provide LATAM with the financial assistance identified in this Article 4.

Unless otherwise specified, each credit identified in this Article 4 will be issued in accordance with the applicable terms set forth in Article 4.5.

4.1 Introductory Assistance Credit

To assist LATAM with the introduction of the Firm Aircraft into LATAM’s fleet, Pratt & Whitney will credit LATAM’s account with Pratt & Whitney in the following amounts per Firm or Option Aircraft delivery. Each Introductory Assistance Credit will escalate from [* * *] in accordance with the provisions of Article 6.

PRATT & WHITNEY INTRODUCTORY ASSISTANCE CREDITS			
CREDIT TYPE	AMOUNT (JAN-13\$)	WHEN ISSUED	ESCALATION
PW1124G-JM Fleet Introductory Assistance Credit	[* * *]	Each PW1124G-JM powered Firm or Option Aircraft delivery	[* * *]
PW1127G-JM Fleet Introductory Assistance Credit	[* * *]	Each PW1127G-JM powered Firm or Option Aircraft delivery	[* * *]
PW1133G-JM Fleet Introductory Assistance Credit	[* * *]	Each PW1133G-JM powered Firm or Option Aircraft delivery	[* * *]

4.2 Spare Engine Credit

To assist LATAM with spare PW1100G-JM Engine provisioning, Pratt & Whitney will credit LATAM’s account with Pratt & Whitney in the following amounts for each Firm Spare Engine and Option Spare Engine, escalated [* * *] in accordance with the provisions of Article 6.

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PRATT & WHITNEY SPARE ENGINE FINANCIAL ASSISTANCE PACKAGE

<u>CREDIT TYPE</u>	<u>AMOUNT (JAN-13\$)</u>	<u>WHEN ISSUED</u>	<u>ESCALATION</u>
PW1124G-JM Spare Engine Credit	[* * *]	Each Firm or Option PW1124G-JM Spare Engine final invoice	Escalated
PW1127G-JM Spare Engine Credit	[* * *]	Each Firm or Option PW1127G-JM Spare Engine final invoice	Escalated
PW1133G-JM Spare Engine Credit	[* * *]	Each Firm or Option PW1133G-JM Spare Engine final invoice	Escalated

The Spare Engine Credits will be issued upon LATAM’s purchase of each Firm Spare Engine and Option Spare Engine and may be used, at LATAM’s option, toward the final invoice for the corresponding Spare Engine or to purchase PW1100G-JM spare parts, tooling and/or services from Pratt & Whitney.

4.3 Spare Parts and Tooling Credit

To assist LATAM with initial spare Parts provisioning, Pratt & Whitney will credit LATAM’s account with Pratt & Whitney in the fixed amount of [* * *] upon delivery of the first Firm Aircraft to LATAM. The Spare Parts and Tooling Credit is a firm, fixed amount, and not subject to escalation.

The PW1100G-JM Spare Parts and Tooling Credit will be used by LATAM to purchase PW1100G-JM initial provisioning spare parts and tooling from Pratt & Whitney. LATAM will purchase the PW1100G-JM initial provisioning spare parts and tooling by purchase order to Pratt & Whitney.

4.4 [* * *]

[* * *].

4.5 Credit Issuance and Application

Pratt & Whitney will issue all of the credits described in this Article 4 in accordance with the applicable terms set forth in this Article 4.5 except as otherwise provided in this Agreement, provided LATAM’s account with Pratt & Whitney is then-current (taking into account all permitted payment periods).

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- 4.5.1 Pratt & Whitney will issue all of the Introductory Assistance Credit directly to Airbus, to be applied toward payment for the corresponding Firm Aircraft and/or Option Aircraft.
- 4.5.2 At LATAM's election, upon written notice from LATAM at least thirty (30) days prior to delivery of the applicable Firm Aircraft and/or Option Aircraft, Pratt & Whitney will issue all or part of the applicable Introductory Assistance Credits to LATAM within five (5) Business Days after: (a) delivery to, and acceptance by, LATAM of the applicable Firm Aircraft or Option Aircraft in accordance with this Agreement, and (b) Pratt & Whitney's receipt of LATAM's written notice that confirms delivery and acceptance and indicates the serial number of each applicable Engine installed on a Firm Aircraft or Option Aircraft. Credits issued by Pratt & Whitney to LATAM's account with Pratt & Whitney will be applied toward goods and services purchased from Pratt & Whitney. Pratt & Whitney will apply any unused balance of unapplied Introductory Assistance Credit in accordance with Article 4.5.1.
- 4.5.3 Notwithstanding any other provision of this Agreement to the contrary, Pratt & Whitney reserves the right to apply any and all credits issuable to LATAM to any outstanding invoices or undisputed portion of such outstanding invoices issued by Pratt & Whitney and/or its subsidiaries or Affiliates to LATAM in relation to this Agreement.
- 4.6 LATAM will ensure LATAM's compliance with any and all requirements (including but not limited to reporting and approval requirements) of any applicable currency control or other law, rule, or regulation relating to any credits issued under this Agreement.
- 4.7 [* * *]
[* * *].

5. UNIT BASE PRICES

5.1 Engine Shipsets

The following table states the Deemed Shipset Price for Engines installed on the corresponding Aircraft model [* * *] in accordance with Article 6. The Deemed Shipset Price applies to Standard Equipment as described in the respective Engine Specification.

<u>AIRCRAFT MODEL</u>	<u>ENGINE MODEL</u>	<u>DEEMED SHIPSET PRICE JANUARY 2013 (UNITED STATES DOLLARS)</u>
A319neo	PW1124G-JM	[* * *]
A320neo	PW1127G-JM	[* * *]
A321neo	PW1133G-JM	[* * *]

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5.2 Spare Engine Price

The following table states the Unit Base Price for each Spare Engine, which includes the Standard Equipment and EBU 1 as described in the PW1100G-JM Engine Specifications set forth in Appendix 3.

UNIT BASE PRICE PER PW1100G-JM SPARE ENGINE JANUARY 2013 UNITED STATES DOLLARS		
SPARE PW1124G-JM ENGINE	SPARE PW1127G-JM ENGINE	SPARE PW1133G-JM ENGINE
US\$9,059,934	[* * *]	[* * *]

- 5.2.1 The Unit Base Prices for the Spare Engines are expressed in January 2013 United States Dollars and are subject to escalation in accordance with Article 6.
- 5.2.2 LATAM will purchase a P&W Shipping Stand and bag for each Spare Engine delivery. For those P&W Shipping Stands that LATAM purchases, Pratt & Whitney will invoice LATAM, and LATAM will pay to Pratt & Whitney, the applicable invoice prices for each Spare Engine and P&W Shipping Stands and bag in accordance with the Spare Engine Payment Schedule attached as Appendix 8.

6. ESCALATION

The Unit Base Price, the Deemed Shipset Price, the Introductory Assistance Credits and the Spare Engine Credits will escalate in accordance with this Article 6.

- 6.1 The Deemed Shipset Price and Introductory Assistance Credits shall be escalated from the Base Month to the earlier of (a) [* * *] or (b) [* * *] (the “Escalated Date”).

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6.2 The Unit Base Price and the Spare Engine Credits shall be escalated from the Base Month to the actual delivery date of each Spare Engine. Unless the Parties have mutually agreed to reschedule the delivery of a Spare Engine, in the event of Pratt & Whitney's inexcusable delay (which shall include delays due to Pratt & Whitney's and/or its suppliers labor disputes) which causes a delay with respect to the Delivery Schedule in the delivery of a Spare Engine to LATAM that is not caused by LATAM, escalation of the Unit Base Price and the related credit for such delayed Spare Engine will not apply for the period of any such delay.

6.3 [* * *].

6.4 [* * *].

6.5 [* * *].

7. PRATT & WHITNEY NETWORK EXCLUSIVITY

[* * *].

8. GUARANTEE PLANS AND TECHNICAL SUPPORT

8.1 Guarantee Plans

Pratt & Whitney will provide LATAM with the Guarantee Plans. The Guarantee Plans are subject to the terms and conditions set forth in the Guarantee Plan Definitions and Conditions attached as Appendix 9. Eligibility under the Guarantee Plans is conditioned upon all Engines installed on the Firm Aircraft and all the Firm Spare Engines being maintained exclusively in the Pratt & Whitney Network.

All the provisions of the Guarantee Plans (and the Attachment to Appendix 11) shall continue to apply in relation to any Engines which may, from time to time, be operated by a LATAM Operator. For the avoidance of doubt, LATAM shall remain responsible for the performance of any obligations which it may have under the Guarantee Plans, and shall (unless otherwise informed to Pratt & Whitney in writing) remain the entitled party to the benefits conferred by the Guarantee Plans, notwithstanding any such operation of an Engine by a LATAM Operator.

8.2 PurePower PW1100G-JM Engine Product Support Plan

Pratt & Whitney will provide LATAM the benefits of the Product Support Plan.

All the provisions of the Product Support Plan shall continue to apply in relation to any Engines which may, from time to time, be operated by a LATAM Operator. For the avoidance of doubt, LATAM shall remain responsible for the performance of any obligations which it may have under the Product Support Plan, and shall (unless otherwise informed to Pratt & Whitney in writing) remain the entitled party to the benefits conferred by the Product Support Plan, notwithstanding any such operation of an Engine by a LATAM Operator.

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8.2.1 [* * *].

8.2.2 [* * *].

8.2.3 [* * *].

8.2.4 [* * *].

8.3 Warranties and Service Policies for the PW1100G-JM Engine

Pratt & Whitney will provide LATAM the benefits of the Engine Warranties and Service Policies.

All the provisions of the Engine Warranty and Service Policy shall continue to apply in relation to any Engines which may, from time to time, be operated by a LATAM Operator. For the avoidance of doubt, LATAM shall remain responsible for the performance of any obligations which it may have under the Product Support Plan, and shall (unless otherwise informed to Pratt & Whitney in writing) remain the entitled party to the benefits conferred by the Engine Warranty and Service Policy, notwithstanding any such operation of an Engine by a LATAM Operator.

8.4 On-Site Customer Service Representative

Customer support representatives who will be fully trained on all facets of Engine line maintenance are stationed around the world to assist operators with the introduction of the Engine into their fleets. Pratt & Whitney will assign a customer support representative to a location either in Sao Paulo, Brazil or Santiago, Chile (such location to be confirmed by LATAM by means of written notice not less than nine (9) months prior to such representative placement at such location), to assist LATAM in preparing for Engine operation. [* * *].

[* * *].

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9. [* * *]

9.1 [* * *].

9.2 [* * *].

9.3 [* * *].

10. CERTIFICATION

Pratt & Whitney agrees that it will accomplish, at no expense to LATAM, the certification of the Engine, to the extent necessary, with the following countries' aviation regulatory authorities: Chile, Brazil, Colombia, Peru, Ecuador, Argentina, and Paraguay.

11. [* * *]

[* * *].

12. [* * *]

12.1 [* * *].

12.2 [* * *].

12.3 [* * *].

12.4 [* * *].

12.5 [* * *].

12.6 [* * *].

13. POST-FMP ENGINE HEALTH MONITORING COVERAGE

Pratt & Whitney agrees that LATAM may continue to access the ADEM or equivalent portal system for each FMP Eligible Engine free of charge following the FMP Period of Cover to the extent such portal system is available to ADEM (or equivalent) customers for the sole purpose of supporting LATAM's operation of the A320neo Family Aircraft. Such post-FMP ADEM coverage shall not include any Pratt & Whitney monitoring services related to the ADEM or equivalent portal system or data. Pratt & Whitney shall have no liability to LATAM for the ADEM system, data or software after the FMP Period of Cover, with the exception of Pratt & Whitney's commitment to provide LATAM with access to the ADEM portal system (or equivalent portal system) for the FMP Eligible Engines that LATAM continues to operate following the FMP Period of Cover as set forth in this Article 13.

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14. TERMS AND CONDITIONS

14.1 Terms and Conditions

The Terms and Conditions, govern all transactions under this Agreement including the FMP.

In the event of a conflict between any of the Terms and Conditions and any other provision in this Agreement, including any provision in its appendices (other than Appendix 22) and their attachments, the provision in this Agreement or its appendices and attachments shall prevail over the conflicting provision(s) of the Terms and Conditions. [* * *].

In the event of a conflict between a provision set forth in the main body of this Agreement (which for this purpose shall include Appendix 1) and a provision set forth in an appendix or attachment to this Agreement, or if a provision in the main body of this Agreement modifies a provision set forth in an appendix (other than Appendix 1) or attachment to this Agreement, the provision set forth in the main body of this Agreement shall prevail over the provision set forth in the appendix (other than Appendix 1) or attachment to this Agreement.

In the event of a conflict between any definition in Appendix 1 and any provision in the main body of this Agreement, the definition in Appendix 1 shall prevail.

14.2 Incorporation of Appendices

All appendices and attachments attached hereto and referred to in this Agreement form an integral part of this Agreement and are hereby incorporated and made a part of this Agreement for all purposes.

14.3 [* * *]

[* * *].

14.4 Counterparts

This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

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15. NOTICES

The Parties agree that all demands, notices, and other communications under this Agreement must be in writing and will be deemed to be duly given when (i) personally delivered or (ii) when sent via email with confirmed receipt or (iii) when deposited in the United States mail, confirmation of receipt requested, first-class postage prepaid or sent by facsimile with confirmation, addressed as follows:

To Seller: United Technologies International Corporation
Pratt & Whitney Division
400 Main Street, Mail Stop 132-21
East Hartford, Connecticut 06118
USA

Phone:(860) 565-5852
E-mail: gppwlegalcmonotices@pw.utc.com
Attention: Associate Counsel and Director

Contracts Management (Commercial)

To Buyer: LATAM AIRLINES GROUP S.A.
Av. Presidente Riesco 5711, Piso 20, Las Condes
Santiago Chile
Telephone: +562 2565 3932
Facsimile: +562 2565 3905
Email Paulo.Rimbano@lan.com
Attention: Engine Contracts Director

or at such other address as may hereafter be furnished in writing by either Party to the other.

16. SALE AND DISASSEMBLING OF ENGINES

If LATAM seeks to sell (excluding the sale of an Aircraft on which an Engine is installed) to an unaffiliated third party (a "Sale") any Engine, then, prior to consummating any such Sale, LATAM shall provide Pratt & Whitney with written notice (the "Written Notice") of its intent to effect such a Sale. The Written Notice shall contain a summary in reasonable detail of the Engine, price, terms and conditions that purport to govern the Sale. Within five (5) Business Days (the "Notice Period") of Pratt & Whitney's receipt of the Written Notice, Pratt & Whitney will have the opportunity to make a bid for the purchase of such Engine(s) that are the subject of the Written Notice. If Pratt & Whitney does not make such a bid within the Notice Period (as it may be extended by mutual consent of the Parties, which consent may not be unreasonably withheld, delayed, conditioned or denied) or Pratt & Whitney's bid is not acceptable to LATAM, then LATAM will be free to sell the subject Engine(s) to the third party. If such sale to the third party is not consummated, then LATAM shall be entitled to sell the Engine(s) to any other party without having to provide a further Written Notice to Pratt & Whitney.

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LATAM further agrees that during the FMP Period of Cover, the Engines are the for the sole purpose of supporting LATAM's fleet operations and LATAM will not disassemble any such Engine in order to sell the parts or use them to support LATAM's Engine fleet, unless as mutually agreed by the Parties.

17. DUPLICATION OF BENEFITS

The FMP and Engine Warranty and Service Policy contained in this Agreement are not intended to provide duplicate benefits or remedies to LATAM by Pratt & Whitney or another source for the same event or cause. In the event that duplicate benefits or remedies are provided to LATAM, then LATAM shall be entitled, at its sole discretion, to choose one of the benefits or remedies it wishes to avail itself of.

18. ENTIRE AGREEMENT

This Agreement, including its appendices and attachments, contains the entire understanding between the Parties with respect to the subject matter hereof and supersedes in their entirety all prior or contemporaneous oral or written communications, agreements or understandings between the Parties with respect to the subject matter hereof. This Agreement may be executed in one or more counterparts, each of which will be considered an original but all of which together constitute one and the same instrument. This Agreement shall not be amended or modified in any way other than by written agreement by the Parties.

19. PARTICIPATION OF PARTIES

The Parties hereto acknowledge that this Agreement and all matters contemplated herein have been negotiated among the Parties and that the Parties have, from the commencement of negotiations to the execution hereof, participated in the drafting and preparation of this Agreement.

This Agreement is available for LATAM's consideration until February 28, 2014. Should LATAM agree to the terms and conditions set forth in this Agreement, LATAM should so indicate by having an authorized official of LATAM sign both duplicate originals and return them to Leslie Lyte, Commercial Manager, at 400 Main Street, M/S 121-10, East Hartford, Connecticut 06118, USA, by February 28, 2014.

Upon execution, this Agreement will become a legal, valid and binding contract. After acceptance by Pratt & Whitney, Pratt & Whitney will return one (1) fully executed duplicate original Agreement to LATAM. The Parties agree that facsimile signatures will be deemed to be of the same force and effect as an original executed document. If executed by facsimile, the Parties agree to provide original signature pages upon request.

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IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and effective as of the latest date set forth below.

LATAM AIRLINES GROUP S.A.

By _____

Name _____

Title _____

LATAM AIRLINES GROUP S.A.

By _____

Name _____

Title _____

UNITED TECHNOLOGIES INTERNATIONAL CORPORATION,

Pratt & Whitney Division

By _____

Name _____

Title _____

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APPENDIX 1

PUREPOWER® PW1100G-JM ENGINE SUPPORT AND MAINTENANCE AGREEMENT

DEFINITIONS

For all purposes of this Agreement, the following capitalized terms have the meanings set forth below (and, wherever such terms are used in this Agreement the singular shall include the plural and vice versa):

“A320neo Family Aircraft” is a new aircraft sold by Airbus for commercial aviation use and designated as an A319neo, A320neo, or A321neo aircraft, each of which is capable of being powered by Pratt & Whitney’s PurePower PW1100G-JM Engines.

“Accepted Technical Data” is Pratt & Whitney data, recommendations, or information that has been provided by the Pratt & Whitney that is not “Approved Technical Data” (as defined herein). This includes but is not limited to all operator wires, special instructions, illustrated parts catalogs, and CACTUS wires.

“AD” means an Aviation Authority-issued Engine airworthiness directive.

“ADEM” means Pratt & Whitney’s Advanced Diagnostics and Engine Management service.

“Additional Equipment” is any item in the Engine Specification identified under the Additional Equipment section which is categorized as either Engine Build Up (EBU 1) which is provided by Pratt & Whitney with a Spare Engine, or Engine Build Up (EBU 2) which is provided separately by Airbus or its supplier.

“Airbus” means Airbus S.A.S.

“Aircraft” means, collectively, the Firm Aircraft and the Option Aircraft.

“Affiliate(s)” means any other person or entity that controls, is controlled by or is under common control with Pratt & Whitney (and for this purpose, the term **control** means the power to direct the management and policies of a person or entity (directly or indirectly), whether through ownership of voting securities, by contract.

“Alternative Climb Profile” means the climb profile equivalent to the A320ceo’s current climb profile as of the date of this Agreement.

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“AMM” means the published Airbus Aircraft Maintenance Manual applicable to the Aircraft.

“AOG Event” is a situation in which an Aircraft is unavailable for operational service (including any flight necessary for positioning of the Aircraft for revenue service) due to an unserviceable FMP Eligible Engine installed on such Aircraft which is incapable of continued operation after LATAM has performed reasonable on-wing Engine corrective action and no replacement engine is available.

“Approved Technical Data” is technical data that has been approved by the Aviation Authority or by a DER.

“Aviation Authority” means the FAA, EASA, or any other authorities, government departments, committees, or agencies which, under the laws of the State of Registration of the relevant Aircraft, may from time to time, have control or supervision of civil aviation in that state.

“Base Month” means January 2013.

“Beyond Economic Repair” or “BER” shall mean that the cost of the repair of a Part or Engine, exclusive of modification and transportation costs, is more than [* * *] of the Pratt & Whitney catalog list price of such Part or Engine at the time the repair is considered, or shall otherwise be reasonably determined by Pratt & Whitney.

“BFE” means “Buyer Furnished Equipment,” which is the aircraft manufacturer-supplied or buyer furnished engine-mounted accessories (typically including such items as integrated drive generator, quick accessory disconnect adapter, hydraulic pumps, shut-off valve, and pressure regulating valve).

“Build Group” means a portion of a FMP Eligible Engine that can be a non-serialized major assembly, as designated by the Air Transport Association.

“Business Day” means Monday through Friday, except for Pratt & Whitney scheduled holidays.

“Campaign Change” means a Pratt & Whitney declared program issued via an official written recommendation that requires corrective action or repetitive inspection on the worldwide PW1100G-JM fleet due to the safety, reliability, operability, and/or durability of the Engine and EBU1.

“CEMP” or “Customized Engine Maintenance Program” means the program for engine maintenance established by Pratt & Whitney for LATAM in accordance with Article [* * *] of the FMP.

“CMM” means Component Maintenance Manual.

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“Commencement Date” means the date on which LATAM accepts delivery of its first PW1100G-JM Engine-powered Firm Aircraft in accordance with Appendix 2.

“Components” shall have the meaning given to it in Attachment 6 of Appendix 5.

“Critical Parts” means fan blades, high pressure turbine airfoils (blades and vanes), LLPs, FDGS, main line bearings and main cases.

[* * *].

“Deemed Shipset Price” means the respective Engine Shipset price set forth in Article 5, expressed in United States Dollars for a January 2013 delivery.

“Delivery Schedule” means the delivery schedule attached as Appendix 2, which may be modified or supplemented pursuant to the terms of this Agreement.

“DER” means an FAA Designated Engineering Representative, or the equivalent office-holder appointed by any other applicable Aviation Authority.

“EASA” means the European Aviation Safety Agency.

“EIS” means either (a) the entry into revenue service of any or all Aircraft as identified in the context of this defined term’s use, or (b) the delivery of a Spare Engine.

[* * *].

[* * *].

[* * *].

“Engine” means a Pratt & Whitney PurePower® PW1100G-JM engine as more particularly described in the Engine Specification, containing those elements in Standard Equipment and not containing any Additional Equipment (as defined in the Engine Specification), sold by Pratt & Whitney for commercial aviation use, whether installed as new equipment on the Aircraft by Airbus or delivered to LATAM from Pratt & Whitney as new for use as a spare Engine.

“Engine Build Up” or “EBU” refers to either the EBU 1 or EBU 2, as applicable, comprised of parts and hardware as each is described in the Additional Equipment section of the Engine Specification.

“Engine Escalation Formula” means the PW1100G-JM Engine Price Escalation Formula attached to this Agreement as Appendix 4.

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“Engine Shipset” means two (2) new Engines delivered by Pratt & Whitney to Airbus for installation on an Aircraft.

“Engine Specification” means the applicable Engine specification number 6506 (PW1124G-JM), 6507 (PW1127G-JM), or 6508 (PW1133G-JM), current copies of which are attached as Appendix 3.

“Engine Warranty and Service Policy” means the Warranties and Service Policies for the PW1100G-JM Engine attached as Appendix 7.

“Ex works” has the meaning set forth in Incoterms 2010, as promulgated by the International Chamber of Commerce.

“Excusable Delay” has the meaning set forth in Article 10 of Appendix 22.

“External Equipment” means the (i) LRUs identified in Attachment 8 to Appendix 5, (ii) BFE, (iii) EBU 2, (iv) nacelle propulsion system components, (v) engine mounts and any related mounting hardware, (vi) wiring harnesses, plumbing, brackets, and kit and bin material associated with any such nacelle, EBU 2 and BFE components.

“Extreme Environmental Conditions” means [* * *].

“FAA” means the Federal Aviation Administration of the United States of America or any successor agency thereto.

“Failure” shall mean [* * *].

[* * *].

“Firm Aircraft”, individually or collectively, means the forty two (42) new firm-ordered PW1100G-JM engine-powered A320neo Family Aircraft identified in the Delivery Schedule as “Firm NEO Aircraft” to be delivered to LATAM pursuant to the Delivery Schedule, subject to the deferral rights set forth in Article 3.3.

“Firm Spare Engines” means the nine (9) new spare engines identified in the Delivery Schedule as “Firm PW1100G-JM Spare Engines” to be delivered to LATAM pursuant to the Delivery Schedule.

“Flight Cycle” or “EFC” shall mean for each Engine, a cycle commencing when the wheels of an aircraft on which the Engine is installed leave the ground on take-off, and ending when the wheels of such aircraft next touch the ground on landing.

“Flight Hour” or “EFH” shall mean for each Engine, the hour or part thereof (fractions thereof measured to two decimal places) elapsing from the moment the wheels of an aircraft, on which any Engine is installed, leave the ground on take-off to the moment when the wheels of such aircraft touch the ground on landing.

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“FMP” or “Fleet Management Program” means the PureSolutionSM Fleet Management Program attached as Appendix 5 to this Agreement.

“FMP Eligible Engines” means the Engines installed on the Firm Aircraft and the Firm Spare Engines.

“FMP Escalation Formula” is the escalation formula used to escalate the FMP Rate as set forth in Attachment 2 to Appendix 5.

“FMP Period of Cover” has the meaning as set forth in Article 2 of Appendix 5.

“FMP Rates” has the meaning as set forth in Appendix 5, Article 3.1.

“FOD” means [* * *].

“Guarantee Plan Specific Conditions” means the operating conditions set forth in Appendix 9, Article 2.

“Guarantee Plans” means the Guarantee Plans described in Article 8.1 of this Agreement and that are set forth in Appendix 10 through Appendix 21.

“Introductory Assistance Credit” means the credit provided by Pratt & Whitney to LATAM as described in Article 4.1 of this Agreement.

“LATAM” is LATAM Airlines Group S.A.

“LATAM Operators” means: (a) a Subsidiary of LATAM; or (b) an Affiliate of LATAM. For the purposes of this definition, the following definitions shall apply:

“Affiliate of LATAM” means any other Person directly or indirectly Controlling, Controlled by or under common Control with LATAM;

“Control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of more than twenty five percent (25%) of the voting share capital (or equivalent equity ownership) or by contract and the term “Controlled” shall be construed accordingly.

“Person” means an individual, group or entity that is allowed by law to take legal action.

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“Subsidiary of LATAM” means: (a) any company whose accounts are consolidated with the accounts of LATAM in accordance with the accounting principles of IFRS (or any successor thereto), or of any other accounting standards generally accepted in the State of Incorporation; and/or (b) an entity of which more than twenty five percent (25%) of the voting share capital (or equivalent equity ownership) of which is owned, directly or indirectly, by LATAM.

For the avoidance of doubt, the LATAM Operators currently include:

- LAN CARGO S.A.
- TRANSPORTE AEREO S.A.
- ABSA—AEROLINHAS BRASILEIRAS S.A., AGENCIA EN CHILE
- AEROTRANSPORTES MAS DE CARGA S.A. DE C.V. AGENCIA EN CHILE
- AEROLANE LINEAS AEREAS NACIONALES DEL ECUADOR S.A., AGENCIA EN CHILE
- LAN PERU S.A.
- LAN ARGENTINA S.A.
- AEROVIAS DE INTEGRACION REGIONAL S.A.—AIRES S.A., AGENCIA EN CHILE
- LINEA AEREA CARGUERA DE COLOMBIA S.A. AGENCIA EN CHILE
- TAM LINHAS AEREAS S.A.
- TRANSPORTES AÉREOS DEL MERCOSUR S.A.

For those subsequent operators which do not come under the above definition of “LATAM Operator”, LATAM may request to add such operators as a LATAM Operator and Pratt & Whitney in good faith may consider to add such operators as a LATAM Operator.

“LIBOR” means the London Interbank Offered Rate.

“Life Limit” means the maximum allowable total parts time and/or total parts cycles for specific Parts, including re-operation if applicable, as established by Pratt & Whitney and the applicable Aviation Authority. Life Limits are published in the Airworthiness Limitations section of the applicable Instructions for Continued Airworthiness (which is defined in Chapter 5 of the Engine manual).

“LLPs” means those rotating Parts which have Life Limit as identified in Attachment 6 to Appendix 5.

“LLP Build Standard(s)” means [* * *].

“Miscellaneous Shop Visit” shall mean [* * *].

“Missing Part” means [* * *].

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“Non-Negligent FOD” means [* * *].

“Non-Qualified Event(s)” means those events set forth in Article 5.6 of Appendix 5.

“Non-Qualifying Shop Visit” shall mean a shop visit due to a Non-Qualified Event.

“On Watch” shall mean [* * *].

“Option Aircraft” means the up to one hundred (100) new option A320neo Family Aircraft, which may be ordered by, and delivered to, LATAM by December 31, 2027 and which may be powered by the PW1100G-JM engines.

“Option Engines” shall have the meaning given to it in Article 4.2 of Appendix 5.

“Option Spare Engines” means the up to fourteen (14) new spare Engines to be delivered to and ordered by LATAM to support the Option Aircraft and meet the Spare Engine Ratio required in accordance with Article 2.7 (if the Option Aircraft are powered by the PW1100G-JM engines).

“Optional Equipment” means any item in the Engine Specification identified under the Optional Equipment section.

“P&W Shipping Stand” means a new shipping stand purchased from Pratt & Whitney by LATAM, suitable for road shipment of spare PW1100G-JM engines.

“Production Approval Holder” means an entity holding a production certificate issued under the authority of the FAA or (if applicable) EASA.

“Parts” means [* * *].

“Party” shall mean either Pratt & Whitney or LATAM (or Customer, as the case may be), collectively, the Parties.

“Period of the Plan” means the applicable term of guarantee coverage for each respective Guarantee Plan.

“PMA” or “Parts Manufacturer Approval” means the authority granted by the FAA to manufacture parts for installation in type-certificated products.

“Pratt & Whitney” is United Technologies International Corporation, a corporation organized and existing under the laws of Delaware, United States of America, acting through its Pratt & Whitney Division, which has an office located at 400 Main Street, East Hartford, Connecticut 06118 USA.

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“Pratt & Whitney Network” means Pratt & Whitney’s designated network of maintenance, repair, and/or overhaul facilities, including subcontractors and service providers designated by Pratt & Whitney. LATAM may, based on reasonable grounds, nominate a facility as a preferred facility and/or request the use of an alternative designated facility, subject to Pratt & Whitney’s approval, such approval not to be unreasonably withheld.

“Pratt & Whitney Network Facility” means a maintenance, repair, and/or overhaul facility within the Pratt & Whitney Network.

“Pratt & Whitney Recommendation(s)” means a reasonable written recommendation issued by Pratt & Whitney, which shall not contravene the AMM.

“Primary Part” mean a Part identified as a “Primary Part” in Part 1, Section 2, Article 5 of the Engine Warranty and Service Policy.

“Product Support Plan” means the Product Support Plan for First-Generation Owners/Operators Acquiring New Pratt & Whitney PurePower® PW1100G-JM Engines, attached as Appendix 6.

“Program Manager” has the meaning set forth in Appendix 5, Article 5.7.3.

“FMP Specific Conditions” are the operating conditions set forth in Attachment 1 to Appendix 5.

“PWEL” means Pratt & Whitney Engine Leasing, LLC, a Pratt & Whitney Affiliate, which provides spare engine lease support.

“Qualifying Performance Restoration Shop Visit” means [* * *].

“Reliability Service Bulletins” means [* * *].

“Restoration Shop Visit” or “RSV” means [* * *].

“SB” means a Pratt & Whitney-issued Engine service bulletin.

“Scrapped LLP” means [* * *].

“Shop Visit” means a FMP Eligible Engine which has been removed and inducted into a Pratt & Whitney Facility and the separation of one or more major mating engine flanges and/or the removal of a disk, hub, or spool is performed on such FMP Eligible Engine.

“Spare Engine” means either a Firm Spare Engine or an Option Spare Engine, as appropriate.

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“Spare Engine Credit” means the credit provided by Pratt & Whitney to LATAM as described in Article 4.2 of this Agreement.

“Spare Engine Ratio” means the number of Spare Engines divided by the number of installed Engines.

“Spare Parts and Tooling Credit” means the credit provided by Pratt & Whitney to LATAM as described in Article 4.3 of this Agreement.

“Standard Equipment” means any item identified in the Standard Equipment section in the Engine Specification.

“State of Registration” means the country in which an Aircraft is registered.

“T&M Rates and Charges” are those rates and charges contained in Attachment 1, and Attachment 3 to Appendix 5 for maintenance services not covered under the FMP Rate.

“Type Certificate Holder” means an entity holding a type certificate issued under the authority of the FAA or (if applicable) EASA.

“Target Life Limit” means the LLP target lives set forth in Attachment 4.

“Terms and Conditions” means the Standard Terms and Conditions of Sale of Goods and Services attached hereto as Appendix 22.

“Unit Base Price” means the respective Spare Engine unit base price set forth in Article 5., expressed in United States Dollars for a January 2013 delivery.

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APPENDIX 2

**PUREPOWER® PW1100G-JM ENGINE SUPPORT AND MAINTENANCE AGREEMENT
AIRCRAFT AND SPARE ENGINE DELIVERY SCHEDULE**

FIRM NEO AIRCRAFT

RANK	AIRCRAFT MODEL	QUANTITY OF AIRCRAFT	ENGINE MODEL	DELIVERY DATE
1	[* * *]	1	[* * *]	[* * *]
2	[* * *]	1	[* * *]	[* * *]
3	[* * *]	1	[* * *]	[* * *]
4	[* * *]	1	[* * *]	[* * *]
5	[* * *]	1	[* * *]	[* * *]
6	[* * *]	1	[* * *]	[* * *]
7	[* * *]	1	[* * *]	[* * *]
8	[* * *]	1	[* * *]	[* * *]
9	[* * *]	1	[* * *]	[* * *]
10	[* * *]	1	[* * *]	[* * *]
11	[* * *]	1	[* * *]	[* * *]
12	[* * *]	1	[* * *]	[* * *]

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13	[* * *]	1	[* * *]	[* * *]
14	[* * *]	1	[* * *]	[* * *]
15	[* * *]	1	[* * *]	[* * *]
16	[* * *]	1	[* * *]	[* * *]
17	[* * *]	1	[* * *]	[* * *]
18	[* * *]	1	[* * *]	[* * *]
19	[* * *]	1	[* * *]	[* * *]
20	[* * *]	1	[* * *]	[* * *]
21	[* * *]	1	[* * *]	[* * *]
22	[* * *]	1	[* * *]	[* * *]
23	[* * *]	1	[* * *]	[* * *]
24	[* * *]	1	[* * *]	[* * *]
25	[* * *]	1	[* * *]	[* * *]
26	[* * *]	1	[* * *]	[* * *]
27	[* * *]	1	[* * *]	[* * *]
28	[* * *]	1	[* * *]	[* * *]
29	[* * *]	1	[* * *]	[* * *]
30	[* * *]	1	[* * *]	[* * *]
31	[* * *]	1	[* * *]	[* * *]
32	[* * *]	1	[* * *]	[* * *]
33	[* * *]	1	[* * *]	[* * *]
34	[* * *]	1	[* * *]	[* * *]
35	[* * *]	1	[* * *]	[* * *]

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36	[* * *]	1	[* * *]	[* * *]
37	[* * *]	1	[* * *]	[* * *]
38	[* * *]	1	[* * *]	[* * *]
39	[* * *]	1	[* * *]	[* * *]
40	[* * *]	1	[* * *]	[* * *]
41	[* * *]	1	[* * *]	[* * *]
42	[* * *]	1	[* * *]	[* * *]

FIRM PW1100G-JM SPARE ENGINES [* * *]

<u>RANK</u>	<u>QUANTITY OF ENGINES</u>	<u>ENGINE MODEL</u>	<u>DELIVERY DATE</u>
1	1	[* * *]	[* * *]
2	1	[* * *]	[* * *]
3	1	[* * *]	[* * *]
4	1	[* * *]	[* * *]
5	1	[* * *]	[* * *]
6	1	[* * *]	[* * *]
7	1	[* * *]	[* * *]
8	1	[* * *]	[* * *]
9	1	[***]	[* * *]

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APPENDIX 3

PUREPOWER® PW1100G-JM ENGINE SUPPORT AND MAINTENANCE AGREEMENT

PW1100G-JM ENGINE SPECIFICATION

[* * *]

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APPENDIX 4

**PUREPOWER® PW1100G-JM ENGINE SUPPORT AND MAINTENANCE AGREEMENT
PW1100G-JM ENGINE PRICE ESCALATION FORMULA**

[* * *]

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APPENDIX 4B

PW1100G-JM ENGINE PRICE ESCALATION CAPPING EXAMPLE

NEB YOY Escalation Cap - Example

	Jan 2013	Jan 2014	Jan 2015	Jan 2016	Jan 2017	Jan 2018	Jan 2019	Jan 2020	Jan 2021	Jan 2022
1 Actual Escalation—Year-over-Year	0.00%	4.50%	4.75%	2.00%	9.00%	4.00%	1.00%	7.00%	3.50%	3.50%
2 Actual Escalation—Compounded	0.00%	4.50%	9.46%	11.65%	21.70%	26.57%	27.84%	36.78%	41.57%	46.53%
3 Escalation Cap—Yr over Yr	0.00%	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%
4 Hyper—Yr over Yr	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
5 Hyperinflation clause triggered					Yes			Yes		
6 Hyperinflation Escalation cap adjustment	0.00%	0.00%	0.00%	0.00%	1.50%	0.00%	0.00%	0.50%	0.00%	0.00%
7 Hyperinflation adjusted Year-over-year Escalation Cap Rate	0.00%	2.85%	2.85%	2.85%	4.35%	2.85%	2.85%	3.35%	2.85%	2.85%
8 Applied Escalation—Yr over Yr	0.00%	2.85%	2.85%	2.00%	4.35%	2.85%	1.00%	3.35%	2.85%	2.85%
9 Applied Escalation—Compounding	0.00%	2.85%	5.78%	7.90%	12.59%	15.80%	16.96%	20.88%	24.32%	27.86%

- 1 Can be modified for example purposes; this represents the year-over-year actual escalation produced by the escalation equation
- 2 Compounded actual escalation; this would be the escalation applied if no cap existed (reference 1 compounded)
- 3 Escalation cap yearly base rate (without hyperinflation adjustment)
- 4 Hyperinflation value; evaluated on a year-over-year basis; triggered when the year-over-year actual escalation exceeds 6.0%
- 5 Indicates when the hyperinflation clause is triggered due to year-over-year actual escalation exceeding 6.0%
- 6 This is the shared portion of the yr-over-yr actual escalation hyperinflation exceedance (50% of the yr-over-yr actual escalation above 6.0%) (compares 6 reference 1 and reference 4)
- 7 Escalation cap yearly rate after hyperinflation adjustment (adds reference 6 to reference 3)
- 8 The resultant applied escalation on a year-over-year basis (compares reference 1 and reference 7)
- 9 Represents the compounded escalation that will be applied to the 2013 price after applying the cap - THIS IS THE RESULTANT ESCALATION APPLIED

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APPENDIX 5

**PUREPOWER® PW1100G-JM ENGINE SUPPORT AND MAINTENANCE AGREEMENT
PURESOLUTIONSSM FLEET MANAGEMENT PROGRAM**

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1. [***]

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2. [***]

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3. [***]

3.1 [***].

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3.4 [***].

3.5 [***].

3.6 [***].

3.7 [***].

4. [***]

4.1 [***].

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- 5.7 [***].
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- 6. [***]
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- 7. [***]
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- 7.3 [***].
- 7.4 [***].
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10. [* * *]

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10.2 [* * *].

10.3 [* * *].

10.4 [* * *].

10.5 [* * *].

10.6 [* * *].

11. [* * *]

11.1 [* * *].

11.2 [* * *].

12. [* * *]

13. [* * *]

14. [* * *]

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ATTACHMENT 1

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ATTACHMENT 3

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ATTACHMENT 4

[* * *]

Target Lives and Estimated Prices

	<u>A319/24K</u>	<u>A320/27K</u>	<u>A321/33K</u>
\$/cy	\$ 100.98	\$ 108.03	\$ 129.68
Target Lives and Estimated Prices*			
Group A (12,000cy)	n/a	n/a	\$ 475K (8 parts)
Group B (16,000cy)	n/a	\$ 315K (4 parts)	\$ 360K (4 parts)
Group C (25,000cy)	\$ 2.52m	\$ 2.20m	\$ 1.69m
Full Set		\$2.52m	

* - 2013\$, for budgetary & planning purposes

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ATTACHMENT 5

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ATTACHMENT 6

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[* * *]

[* * *]

<u>Part Number</u>	<u>Description</u>	<u>Qty per engine</u>	<u>MTBUR Guarantee (FH)</u>
TBD	Air/Oil Cooler (AOC) Ejector Valve #1	1	30,000
TBD	Air/Oil Cooler (AOC) Ejector Valve #2	1	30,000
TBD	Air/Oil Cooler (AOC) Ejector Valve #1 Solenoid	1	25,000
TBD	Air/Oil Cooler (AOC) Ejector Valve #2 Solenoid	1	25,000
TBD	Buffer Air Shutoff Valve (BASOV)	1	62,400
TBD	Buffer Air Check Valve (BACV)	1	80,000
TBD	Starter Air Valve (SAV)	1	27,300
TBD	Starter—Air Turbine Starter (ATS)	1	20,000
TBD	HPC Bleed Valve	1	64,000
TBD	Buffer Air Valve Solenoid	1	30,000
TBD	ECS—Intermediate Pressure Check Valve (IPCV)	1	20,000
TBD	Permanent Magnet Alternator (PMA)	1	32,000
TBD	Ignition Lead	2	40,000
TBD	Ignition Excitor	1	32,000
TBD	Wiring Harness (WF01)	1	100,000
TBD	Wiring Harness (WF02)	1	100,000
TBD	Wiring Harness (W03)	1	100,000
TBD	Wiring Harness (W04)	1	100,000
TBD	Wiring Harness (WF06)	1	100,000
TBD	Wiring Harness (WF07)	1	100,000
TBD	Wiring Harness (WC08)	1	100,000
TBD	Wiring Harness (WC10)	1	100,000
TBD	Wiring Harness (WC11)	1	100,000
TBD	Wiring Harness (WF20)	1	100,000
TBD	EEC Ground Strap	1	N/A
TBD	PHMU Ground Strap	1	N/A
TBD	EEC—Electronic Engine Control	1	15,000
TBD	PHMU—Prognostics & Health Monitoring Unit (PHMU)	1	15,000
TBD	Data Storage Unit (DSU)	1	24,000
TBD	HPC Stator Vane Master Actuator	1	30,000
TBD	HPC Stator Vane Slave Actuator	1	30,000
TBD	LPC Stator Vane Actuator	1	30,000
TBD	LPC 2.5 Bleed Actuator	1	30,000
TBD	Fuel Divider Valve (FDV)	1	50,000
TBD	Ecology Tank	1	100,000
TBD	Ecology Pump	1	100,000
TBD	IFPC—Integrated Fuel Pump & Control	1	20,000
TBD	Active Clearance Control Valve & Actuator (ACCV)	1	25,500

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<u>Part Number</u>	<u>Description</u>	<u>Qty per engine</u>	<u>MTBUR Guarantee (FH)</u>
TBD	Fuel Return to Tank (RTT) Valve	1	50,000
TBD	Fuel Filter Bowl (Housing)	1	20,000
TBD	Fuel Filter Bypass Valve	1	20,000
TBD	Buffer Air Cooler (BAC)	1	33,000
TBD	Air/Oil Cooler (AOC)	1	16,000
TBD	Engine FOC (Fuel/Oil Cooler)	1	16,000
TBD	Generator FOC (Fuel/Oil Cooler)	1	20,000
TBD	Generator OOC (Oil/Oil Cooler)	1	20,000
TBD	Active Oil Damping Valve (AODV)	1	30,000
TBD	Engine FOCBV (Fuel/Oil Cooler Bypass Valve)	1	20,000
TBD	Variable Oil Reduction Valve (VORV)/ Journal Oil Shuttle Valve (JOSV)	1	25,000
TBD	Lube Trim Check Valve	1	55,000
TBD	T3 Sensor	1	18,000
TBD	Fuel Flow Meter (FFM)	1	30,000
TBD	N2 Speed Sensor	1	100,000
TBD	Oil Debris Monitor (ODM) Sensor	1	42,000
TBD	EGT Probe	4	20,000
TBD	EGT Harness	1	18,000
TBD	Buffer Air Temperature (BAT) Sensor	1	30,000
TBD	Low Oil Pressure (LOP) Switch	1	85,000
TBD	N1 Speed Sensor	1	60,000
TBD	Generator FOC Fuel Delta P Sensor	1	50,000
TBD	P2.5/T2.5 Sensor	1	40,000
TBD	Oil Level Sensor (OLS)	1	40,000
TBD	Fan Speed Sensor (NF)	1	120,000
TBD	TCore—Core Nacelle Temperature Sensor	1	24,000
TBD	Fuel Filter Delta P (FFDP) Sensor	1	50,000
TBD	Main Oil Pressure (MOP) Sensor	1	50,000
TBD	T2 Sensor	1	60,000
TBD	Oil Filter Delta Pressure (OFDP) Sensor	1	50,000
TBD	PB - Burner Pressure Sensor	1	30,000
TBD	Main Oil Temperature (MOT) Sensor	1	35,000
TBD	Vibe Sensor—N1 (MTF)	1	90,000
TBD	Vibe Sensor—N2 (E-Flange)	1	70,000
TBD	HPC Bleed Pressure Sensor	1	20,000
TBD	Auxillary Oil Pressure (AOP) Sensor	1	50,000
TBD	Air/Oil Cooler (AOC) Ejector Pressure Sensor	1	72,000

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ATTACHMENT 7

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ATTACHMENT 7A

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ATTACHMENT 7B

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ATTACHMENT 7C

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ATTACHMENT 8

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APPENDIX 6

**PUREPOWER® PW1100G-JM ENGINE SUPPORT AND MAINTENANCE AGREEMENT
PW1100G-JM ENGINE PRODUCT SUPPORT PLAN**

Attached

[* * *]

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APPENDIX 7

**PUREPOWER® PW1100G-JM ENGINE SUPPORT AND MAINTENANCE AGREEMENT
WARRANTIES AND SERVICE POLICIES FOR THE PW1100G-JM ENGINE**

Attached

[* * *]

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APPENDIX 8

PUREPOWER® PW1100G-JM ENGINE SUPPORT AND MAINTENANCE AGREEMENT

[* * *]

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APPENDIX 9

PUREPOWER® PW1100G-JM ENGINE SUPPORT AND MAINTENANCE AGREEMENT

[* * *]

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APPENDIX 10

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APPENDIX 11

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ATTACHMENT 1 OF APPENDIX 11

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APPENDIX 12

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APPENDIX 13

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APPENDIX 14

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APPENDIX 15

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APPENDIX 16

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APPENDIX 17

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APPENDIX 18

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APPENDIX 19

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APPENDIX 20

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APPENDIX 21

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APPENDIX 22

PUREPOWER® PW1100G-JM ENGINE SUPPORT AND MAINTENANCE AGREEMENT

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DATED __ May 2013

AERCAP HOLDINGS N.V.
LATAM AIRLINES GROUP S.A.

FRAMEWORK DEED

**Relating to the purchase and leaseback of ten (10) used
Airbus A330-200 aircraft, nine (9) new Airbus A350-900
aircraft, four (4) new Boeing 787-9 aircraft and two (2)
new Boeing 787-8 aircraft**

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

THIS DEED is made by way of deed and is entered into on _____ 2013

BETWEEN:

- (1) **AERCAP HOLDINGS N.V.**, a public company with limited liability (*naamloze vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of The Netherlands whose registered office is at AerCap House, Stationsplein 965, 1117 CE Schiphol, The Netherlands (*AerCap*); and
- (2) **LATAM AIRLINES GROUP S.A.**, a *sociedad anónima* incorporated under the laws of Chile, whose registered office is at Av. Presidente Riesco 5711, 20th Floor, Las Condes, Santiago, Chile (*LATAM*).

IT IS AGREED AND THIS DEED WITNESSES as follows.

1. DEFINITIONS AND INTERPRETATION

In this Deed the following terms have the meanings set out:

787-8 Specification has the meaning given to it in clause 3.6(h)(ii).

787-9 Specification has the meaning given to it in clause 3.6(h)(ii).

A330 Aircraft means each Aircraft listed in Schedule 2.

A330 Aircraft Documentation means, with respect to each A330 Aircraft, the documentation referred to in clause 3.7.

A330 Purchase Agreement means each of the purchase agreements entered into or to be entered into with respect to an A330 Aircraft, between Lan Cargo Overseas, as seller and a Lessor.

A350 Specification has the meaning given to it in clause 3.6(h)(i).

Acceptable Guarantor means AerCap Holdings N.V., or such other guarantor notified by Lessor to LATAM provided that such other Guarantor is a Qualifying Person.

Actual Delay has the meaning given to it in clause [* * *].

AerCap Cancellation Right means, with respect to an Aircraft (other than an A330 Aircraft), the right of AerCap to cancel its obligation under this Deed to purchase or procure the purchase of, such Aircraft as set out in clause [* * *] or 4.2.

Aircraft Specifications means the A350 Specification, the 787-8 Specification and the 787-9 Specification as applicable.

Anticipated Delay has the meaning given to it in clause [* * *].

Affiliate means any other Person directly or indirectly controlling, directly or indirectly controlled by or under direct or indirect common control with the Person specified, and includes any trust of which the beneficiary or Owner Participant (if applicable) is the Lessor or Owner Participant (if applicable) or an Affiliate of the Lessor or Owner Participant (if applicable).

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

Airbus means Airbus S.A.S. or its successor in title.

Aircraft means each of the Airframes to be delivered, sold, assigned, as applicable, and leased in accordance with the relevant Lease and this Deed, with the Engines that will be installed on such Airframes at Delivery and all Parts and Aircraft Documents.

Aircraft Documents means (i) all Manuals and Technical Records; (ii) all log books, Aircraft records, and other documents provided to Lessee at Delivery of the Aircraft and (iii) all documents listed in a schedule to the relevant Delivery Acceptance Certificate.

Airframe means the A330 Aircraft, the nine (9) new Airbus model A350-900 aircraft (each, a **A350-900 Aircraft**), the four (4) new Boeing model 787-9 aircraft (each, a **787-9 Aircraft**) and the two (2) new Boeing model 787-8 aircraft (each, a **787-8 Aircraft**).

Applicable Reference Adjustment means [***].

Applicable Swap Rate means the prevailing twelve (12) year US Dollar SWAP rate as stated on Bloomberg screen service page IRSB18 (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those current provided on such page of such service), expressed as a percentage rounded to two (2) decimal places at 11:00 AM New York City time two (2) Business Days prior to the Delivery Date of the relevant Aircraft.

Base Documents has the meaning given to it in clause 2.3.

Basic Rent for an Aircraft means the amount set out in clause 3.6(g).

BFE means the buyer furnished equipment supplied or purchased by or on behalf of LATAM in respect of the Aircraft (other than the A330 Aircraft) for installation by the Manufacturer pursuant to the Original Purchase Agreement on or before the Delivery Date.

Boeing means The Boeing Company or its successor in title.

Business Day means any day other than a Saturday or a Sunday on which commercial banks are open for business in New York, New York, United States of America, Amsterdam, the Netherlands, Dublin, Ireland, Sao Paulo, Brazil and in Santiago, Chile.

Cancellation Right means the AerCap Cancellation Right or the LATAM Cancellation Right, as applicable.

Cancelled Aircraft means a Delayed Aircraft in relation to which the provisions of clause 4 apply or a Total Loss Aircraft, as applicable.

Compensation Amount means, [***].

Definitive Documents has the meaning given to it in clause 3.1.

Delay means any delay in the delivery of an Aircraft (other than an A330 Aircraft) by the Manufacturer under the Original Purchase Agreement, whether actual or anticipated, beyond the last day of the originally Scheduled Delivery Quarter applicable to such Aircraft.

Delayed Aircraft means any Aircraft the subject of a Delay.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

Delivery means (a) with respect to each Aircraft (other than an A330 Aircraft), the delivery of such Aircraft by the Manufacturer under the Original Purchase Agreement and (b) with respect to an A330 Aircraft the delivery of such A330 Aircraft under the relevant A330 Purchase Agreement; its transfer of title to the relevant Lessor and the commencement of the leasing of such Aircraft to LATAM under the related Lease.

Delivery Date means, with respect to an Aircraft, the date on which Delivery takes place.

Dispute has the meaning given to it in clause 12.2(a).

Dollars, United States Dollars, U.S. Dollar, USD, US\$ and **\$** means the lawful currency of the United States of America.

Engines means:

- (a) with respect to an A350-900 Aircraft each Rolls-Royce Trent XWB83 engine;
- (b) with respect to a 787-9 Aircraft each Rolls-Royce Trent 1000-C1 engine;
- (c) with respect to a 787-8 Aircraft each Rolls-Royce Trent 1000-C1 engine; and
- (d) with respect to an A330 Aircraft each engine that is applicable to such Aircraft as specified in column 2 of Schedule 2,

including, in each case, all Parts installed on any such Engines.

Event of Default has the meaning given to it under the relevant Lease.

Features has the meaning defined in clause 5.2.

Guaranteed Liabilities means any and all monies, liabilities and obligations (whether actual or contingent, whether now existing or hereafter arising, whether or not for the payment of money, and including any obligation or liability to pay damages and including any interest which would have accrued on the amounts in question) which are now or which may at any time and from time to time hereafter be due, owing, payable, or incurred, or expressed to be due, owing, payable or incurred from or by:

- (a) Lan Cargo Overseas;
- (b) TAM; and/or
- (c) any Affiliate of LATAM,

to AerCap or any AerCap Affiliate or any Lessor or any Purchaser under or in connection with any Purchase Agreements, Purchase Agreement Assignments, Airframe Warranties Agreements, Engine Warranties Agreements and any bills of sale or other documentation entered into in connection with the sale and purchase of any Aircraft as contemplated by this Deed, and references to Guaranteed Liabilities includes references to any part thereof.

Lan Cargo Overseas means Lan Cargo Overseas Limited a company incorporated under the laws of the Bahamas whose registered office is at Dehands House, 2nd Terrace West, Centreville, Nassau, The Bahamas.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

LATAM Cancellation Right means, with respect to an Aircraft (other than an A330 Aircraft), the right of LATAM to cancel its obligation under this Deed to sell or procure the sale of, such Aircraft as set out in clause

Lease means, with respect to each Aircraft, the lease agreement for such Aircraft between LATAM (as lessee) and a Lessor (as lessor) on the terms and conditions specified in clause 3, and, with respect to any Aircraft, references in this Deed to the Lease shall be construed so as to refer to the Lease for such Aircraft.

Lease Rent means the Basic Rent adjusted by the provisions of clause 3.6(g).

Lease Term means the applicable scheduled lease term as specified in clause 3.6(f).

Lessee means LATAM.

Lessor means AerCap or an Affiliate of AerCap or a Qualifying Person, or a trustee acting on behalf of any such person, as AerCap may determine, and, with respect to an Aircraft, references to Lessor in this Deed shall be construed so as to refer to the Lessor applicable to such Aircraft.

Lessor Guarantee has the meaning given to it in clause 6.1.

Losses has the meaning specified in the form of Leases attached to this Deed.

Manufacturer means:

- (a) in relation to the A330 Aircraft and A350-900 Aircraft, Airbus; and
- (b) in relation to the 787-8 Aircraft and 787-9 Aircraft, Boeing,

and references in this Deed to the Manufacturer shall be construed so as to refer to whichever of Airbus or Boeing is applicable.

Manufacturer Consent means, with respect to any Aircraft (other than the A330 Aircraft), the consent and agreement of the Manufacturer to the assignment of certain rights under the relevant Original Purchase Agreement (in particular the right to take title to such Aircraft) to the applicable Lessor, in such form as is market practice at the relevant time.

Operative Documents has the meaning set out in each Lease.

Original Purchase Agreement means:

- (a) in relation to an A350-900 Aircraft, the purchase agreement relating to the acquisition by TAM of the Aircraft from the Manufacturer dated 20 December 2005 as amended and restated from time to time;
- (b) in relation to a 787-8 Aircraft or 787-9 Aircraft, the purchase agreement relating to the acquisition by LATAM of the Aircraft from the Manufacturer dated 29 October 2007 and bearing reference number 3256,

and references in this Deed to the Original Purchase Agreement shall be construed so as to refer to whichever agreement is applicable.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

Owner Participant means such entity as AerCap shall advise Lessee in writing as being the owner participant under any owner trust agreement entered into with a Lessor with respect to an Aircraft.

Parts means, whether or not installed in or attached to the Airframe or any Engine any component, furnishing or equipment (other than a complete Engine) installed on or attached to or furnished with the Airframe or any Engine on the Delivery Date or thereafter. Parts includes BFE and Features.

[***]

Purchase Agreement means:

- (a) in relation to an A350-900 Aircraft, a 787-8 Aircraft or a 787-9 Aircraft, the purchase agreement between the applicable Purchaser (as purchaser of the Aircraft) and the applicable Seller (as seller) substantially in the form of Schedule 6; and
- (b) in relation to an A330 Aircraft, the A330 Purchase Agreement,

and, with respect to any Aircraft, references in this Deed to the Purchase Agreement shall be construed so as to refer to the Purchase Agreement for such Aircraft.

Purchase Agreement Assignment means, if applicable in relation to an Aircraft (other than an A330 Aircraft), the assignment of certain rights under the relevant Original Purchase Agreement (in particular the right to take title to such Aircraft) entered into between the relevant Seller (as assignor) and the relevant Lessor (as assignee) and consented to by the Manufacturer by way of the Manufacturer Consent (unless the Manufacturer is also a party to the Purchase Agreement Assignment and provides its consent by entering into such document).

Purchase Price for an Aircraft (other than an A330 Aircraft) means the amount set out in clause 3.6(a) for such aircraft type as adjusted in accordance with the provisions of clause 3.6(a).

Purchaser means AerCap or an Affiliate of AerCap or a Qualifying Person or a Person guaranteed by a Qualifying Person.

Qualifying Person means a Person (i) with a net worth of [***].

Reference Rate means [***].

Relevant Event means any event as specified in Schedule 4.

Relevant Extracts has the meaning given to it in clause 5.8.

Scheduled Delivery Date for an Aircraft (other than the A330 Aircraft) is the date notified by the Manufacturer as the date on which such Aircraft is scheduled to be ready for delivery and acceptance under the Original Purchase Agreement.

Scheduled Delivery Quarter means the quarter during which each Aircraft (other than the A330 Aircraft) is currently scheduled to be delivered under the Original Purchase Agreement as set out in column 2 of Schedule 1.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

Seller means LATAM or an Affiliate of LATAM and, in respect of the A330 Aircraft, Lan Cargo Overseas.

Specification means for an aircraft type (other than in respect of an A330 Aircraft), the specification identification number as set out in clause 3.6(h) .

Specification Change Notice has the meaning given to it in clause 5.1.

[***]

[***]

TAM means TAM Linhas Aéreas S.A.

Total Loss means:

- (a) in relation to any A330 Aircraft, any of the following:
 - (i) the actual or constructive total loss of the Aircraft (including any damage to the Aircraft or requisition for use or hire which results in an insurance settlement on the basis of a total loss); or
 - (ii) the Aircraft being destroyed, damaged beyond economic repair or permanently rendered unfit for normal use for any reason whatsoever; or
 - (iii) the requisition of title or other compulsory acquisition of title for any reason of the Aircraft by any Government Entity or other Person, whether de jure or de facto; or
 - (iv) the hi-jacking, theft, disappearance, confiscation, detention, or hire of the Aircraft, which deprives any person permitted by this Deed to have possession and/or use of the Aircraft of its possession and/or use for more than sixty (60) days (and one hundred eighty 180 days in the case of seizure or requisition for use). If, within 30-days following the Total Loss Date in relation to such hi-jacking, theft, disappearance, confiscation, detention, seizure or requisition for use or hire of the Aircraft, is restored to the possession of TAM, then the scheduled Delivery should continue; and
- (b) in relation to any Aircraft (other than as A330 Aircraft), the loss, destruction or, in the reasonable opinion of the relevant Manufacturer, the damage of such Aircraft beyond repair.

Total Loss Aircraft means any Aircraft the subject of a Total Loss.

Capitalized terms used but not otherwise defined herein shall have the meaning set forth for such terms in the form Leases attached to this Deed.

2. PURPOSE; BASE DOCUMENTS; CONDITIONS PRECEDENT; AGREEMENT

2.1 This Deed constitutes the agreement reached among AerCap and LATAM in respect of the purchase by AerCap or by a Purchaser procured by AerCap and the leaseback to LATAM of the Aircraft.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

2.2 The purpose of this Deed is to set forth:

- (a) the terms of the agreement of AerCap to provide a purchase and leaseback for the Aircraft, including the terms of LATAM's agreement to sell, or procure the sale of, each Aircraft to the applicable Lessor and concurrently to lease such Aircraft from the applicable Lessor, and AerCap's agreement to cause the applicable Lessor to purchase such Aircraft from the applicable Seller (or Manufacturer, pursuant to a Purchase Agreement Assignment in the case of an Aircraft other than an A330 Aircraft), and concurrently to lease such Aircraft to, LATAM, on the applicable Delivery Date for such Aircraft;
- (b) the method for determining the key economic provisions, notably the purchase price payable for the Aircraft and the scheduled rental payable under the related Lease; and
- (c) certain other terms that are to be applicable to the purchase and leaseback transaction relating to each Aircraft.

Base Documents

2.3 Attached to this Deed as Schedules are the forms of the following documents (together with some specific pre-agreed amendments) which have been fully negotiated by AerCap and LATAM, with respect to the purchase and leaseback of the Aircraft (collectively, the **Base Documents**):

- (a) Schedule 6 – Purchase Agreement—to be used for the purchase of the A350-900 Aircraft, 787-8 Aircraft and 787-9 Aircraft subject to the terms of clause 3.4;
- (b) Schedule 7 – Lease Agreement (A350-900 Aircraft variant) – subject, if requested by AerCap at its discretion that they be inserted, to the amendments specified in Schedule 9;
- (c) Schedule 8 – Lease Agreement (787-8 Aircraft and 787-9 Aircraft variant) – subject, if requested by AerCap at its discretion that they be inserted, to the amendments specified in Schedule 10;
- (d) [***];
- (e) [***];
- (f) Schedule 11 – form of Lessor Guarantee.

Conditions Precedent

2.4 As a condition precedent to the effectiveness of this Deed, each party has provided the following documentation to the other party:

- (a) evidence that it has duly authorised the entry into and performance of the transactions contemplated by of this Deed and evidence of the authority of the person signing this Deed on its behalf, all such documentation to be reasonably satisfactory to the party receiving it; and
- (b) a legal opinion as to this Deed, in form and substance acceptable to the other party, acting reasonably, from external legal counsel in its jurisdiction of incorporation that the parties have separately agreed will provide such opinion.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

By signature to this Deed, each party confirms its receipt and satisfaction of the foregoing conditions.

Agreement to purchase, sell and lease

2.5 Subject to the terms and conditions of this Deed and, with respect to each Aircraft, the Definitive Documents and/or the A330 Aircraft Documentation (where applicable) and/or any other documentation entered into by the Seller with the Purchaser relating to such Aircraft:

- (a) AerCap agrees to buy or procure the purchase of each Aircraft from the Seller;
- (b) LATAM agrees to sell or procure the sale of each Aircraft to the Purchaser; and
- (c) AerCap agrees that it will procure that the Purchaser leases the Aircraft to LATAM pursuant to the Lease and LATAM agrees to take the Aircraft on lease from the Purchaser, such leasing to commence simultaneously with the purchase and sale of the Aircraft.

3. DEFINITIVE DOCUMENTS – ARRANGEMENTS FOR EXECUTION AND KEY TERMS AND CONDITIONS

Definitive Documents – Execution Process

3.1 The definitive documentation for the purchase and leaseback of each Aircraft, other than the A330 Aircraft as to which clause 3.7 shall apply, (with respect to each Aircraft, the *Definitive Documents*) will be in the form of the Base Documents (except as AerCap and LATAM may otherwise agree in writing) and will reflect the specific purchase and leaseback terms for such Aircraft determined pursuant to this Deed.

3.2 AerCap, acting reasonably, may, request the amendment of the form of the Lease Agreement for any Aircraft, subject to LATAM's consent, acting reasonably:

- (a) on the advice of its legal counsel to reflect any changes in law in Chile or Brazil after the date of this Deed or, if different, the proposed State of Registration of the Aircraft;
- (b) to reflect the requirements of AerCap's financiers who will provide financing for the Aircraft provided that such amendments reflect market standards for operating lease transactions for the relevant Aircraft or similar Aircraft at the time of the request and further provided such changes will not lead to increased costs for LATAM; and/or
- (c) to make changes of an administrative nature, for example to reflect updated definitions, names and addresses of parties, account details and the like,

provided always that any such changes do not increase any material obligations or reduce any material rights of LATAM under the related Lease Agreement.

AerCap will reimburse LATAM in respect of any reasonable out of pocket expenses (including legal fees) incurred by LATAM in connection with documenting any such amendments.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

3.3 AerCap will distribute execution versions of the Definitive Documents with respect to each Aircraft (other than an A330 Aircraft) at least thirty (30) days before the Scheduled Delivery Date for such Aircraft. Upon distribution of such documents LATAM will execute, and AerCap will cause the relevant Purchaser and Lessor to execute, the Definitive Documents with respect to each Aircraft to which it is to be a party, and the parties will thereupon exchange fully executed copies of the Definitive Documents, in each case at least fifteen (15) days before the Scheduled Delivery Date for such Aircraft. For the avoidance of doubt, if all Definitive Documents with respect to an Aircraft are not executed and delivered by all parties to each such document, then none of the Definitive Documents for such Aircraft shall be binding or otherwise enforceable against any of the parties thereto.

Purchase Agreement Assignment

3.4 If LATAM wishes that title to any Aircraft (other than an A330 Aircraft as to which clause 3.7 shall apply) is transferred directly to the relevant Lessor by the Manufacturer then LATAM will notify AerCap of the same at least forty five (45) days prior to the first Aircraft of that type and with respect to any further Aircraft of that type at least thirty (30) days prior to the Scheduled Delivery Date, such notice to be accompanied by a draft of the Purchase Agreement Assignment relating to such title transfer. The parties will work together in good faith with a view to agreeing upon the execution form of such Purchase Agreement Assignment and any related Manufacturer Consent such that the same is agreed at least twenty (20) days prior to the Scheduled Delivery Date. Absent such agreement, LATAM and the relevant Lessor will enter into a Purchase Agreement for such Aircraft using the Base Document form. The parties agree that the form of Purchase Agreement Assignment, once agreed as contemplated by this clause, will actually be signed by the relevant parties thereto on the Delivery Date for the applicable Aircraft subject always to the terms and conditions of this Deed and to AerCap and the relevant Purchaser being satisfied that LATAM will take the Aircraft on lease in accordance with the provisions of the related Lease simultaneously with the Purchaser taking title to the Aircraft by way of the Purchase Agreement Assignment.

3.5 In the event that an Aircraft is purchased pursuant to a Purchase Agreement Assignment, the parties agree that the additional clauses set out in Schedule 5 to this Deed will be deemed to apply to the purchase and delivery of any Aircraft the subject of a Purchase Agreement Assignment.

Key Terms and Conditions

3.6 The key terms and conditions for the purchase and leaseback of each of the Aircraft, other than the A330 Aircraft as to which clause 3.7 shall apply, are as follows:

- (a) Purchase Price: [***];
- (b) Seller: at LATAM's option, either:
 - (i) for the A350-900 Aircraft, TAM pursuant to the Purchase Agreement or Airbus (by way of a Purchase Agreement Assignment); or
 - (ii) for the 787-8 Aircraft and 787-9 Aircraft, LATAM pursuant to the Purchase Agreement or Boeing (by way of a Purchase Agreement Assignment);

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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- (c) Purchaser/Lessor: at AerCap's option:
- (i) AerCap; or
 - (ii) an AerCap Affiliate (or an entity acting as trustee on behalf of such Affiliate) guaranteed by an Acceptable Guarantor pursuant to a guarantee in the form of the Guarantee; or
 - (iii) a Qualifying Person (or a Person guaranteed by an Acceptable Guarantor), provided always that, notwithstanding that the Aircraft is to be purchased by and leased to LATAM by a Qualifying Person (or a Person guaranteed by an Acceptable Guarantor), AerCap will be primarily liable to ensure that such Person purchases the Aircraft on the Delivery Date subject to and in accordance with the requirements of this Deed and the Operative Documents;
- (d) Lessee: LATAM;
- (e) Delivery Date: the date of delivery of such Aircraft by the Manufacturer under the Original Purchase Agreement, estimated to be a date in the Scheduled Delivery Quarter as set out in Schedule 1, noting the potential for a delay in delivery in accordance with the terms of the related Original Purchase Agreement, which is subject to the delayed delivery arrangements agreed by the parties in clause 4;
- (f) Lease Term: for each Aircraft, [***] from the actual Delivery Date for such Aircraft;
- (g) Lease Rent: [***];
- (h) Aircraft specification:
- (i) A350-900 Aircraft: LATAM confirms to AerCap that the current specification of the A350-900 aircraft is the standard specification as set out in the Airbus Aircraft Description Document number [***], as amended by an applicable Specification Change Notices (the **A350 Specification**);
 - (ii) Boeing Aircraft: LATAM confirms to AerCap that the current specification for the 787-8 Aircraft and the 787-9 Aircraft is as follows: the standard specification referred to by the Boeing Detail Specification number [***] (the **787-8 Specification** and the **787-9 Specification** as applicable);
 - (iii) LATAM agrees that it will not discriminate between the Aircraft (excluding the A330 Aircraft) to be subject to the purchase and leaseback transaction as contemplated by this Deed and the other aircraft that are subject to the Original Purchase Agreement and that are to be delivered within a similar timeframe as the Aircraft, such that the final specification of the Aircraft will be substantially the same as such other aircraft.
- LATAM agrees to consider in good faith, without obligation to consent, any requests by AerCap to include additional specifications which will assist in the remarketing of the Aircraft, such additions to be incorporated at AerCap's cost and such cost will not lead to any adjustment in the rent payable by Lessee under the related Lease; and
- (i) Other Terms and Conditions: as set out in the agreed form Lease that is applicable to such Aircraft type.

“[***]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

A330 Aircraft Documentation

3.7 On or prior to the date of this Deed, the parties have agreed the following relating to each A330 Aircraft:

- (a) the form of A330 Purchase Agreement;
- (b) the form of Lease;
- (c) the specifications of each A330 Aircraft; and
- (d) the purchase price, Lease rent, Lease rent factor, and Lease term for each A330 Aircraft (as set out in Schedule 2).

3.8 Subject to the terms and conditions of each Purchase Agreement and each Lease, the parties confirm their intention that the completion of the purchase and leaseback of the A330 Aircraft will take place during the month of June, 2013 and each party agrees to cooperate together to ensure that such completions take place in line with a schedule of closings that they have separately settled upon.

3.9 [***].

4. CANCELLATION RIGHTS FOLLOWING DELAY IN DELIVERY / TOTAL LOSS

[***]

4.1 [***]:

Total Loss of an Aircraft prior to Delivery

4.2 If, before Delivery, an Aircraft suffers a Total Loss, LATAM shall, as soon as reasonably practicable after it has become aware of such Total Loss, notify AerCap in writing thereof. Following notification of a Total Loss, subject to clause 4.3, AerCap has the right, by giving notice in writing to LATAM, to cancel its obligation under this Deed to purchase or procure the purchase of the Total Loss Aircraft and lease it to LATAM (and each applicable Purchaser and Lessor, if Definitive Documents have been executed and delivered, shall have a corresponding right under such documents). If AerCap exercises such Cancellation Right then, [***] LATAM will pay to AerCap the Compensation Amount for the Total Loss Aircraft within six (6) months of the exercise of the Cancellation Right.

[***]

4.3 [***].

4.4 [***].

4.5 [***].

4.6 [***].

4.7 [***].

4.8 All references to "Aircraft" in this clause 4 shall be construed so as not to include any A330 Aircraft, it being agreed that this clause 4 does not apply to the A330 Aircraft.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

5. OTHER ORIGINAL PURCHASE AGREEMENT RELATED MATTERS

Specification Change Notices, Features and BFE

5.1 The parties acknowledge that the A350 Specification is not yet fully defined. In this regard, LATAM agrees with AerCap that LATAM will finalise, or procure that TAM finalises, the list of Specification Change Notices (**SCNs**) and BFE to be installed on each A350-900 Aircraft with the Manufacturer in accordance with the Manufacturer's usual processes as contemplated by the Original Purchase Agreement. LATAM will give AerCap prior written notice of proposed SCNs and BFE to be incorporated on each A350-900 Aircraft and confirm to AerCap such SCNs and BFE once contracted with Airbus or the relevant BFE vendor.

5.2 The parties acknowledge the amendments to the 787-8 Specification and the 787-9 Specification are not yet fully defined. In this regard, LATAM agrees with AerCap that LATAM will finalise the list of features (**Features**) and BFEs to be installed on each 787-8 Aircraft and 787-9 Aircraft with the Manufacturer in accordance with the Manufacturer's usual processes as contemplated by the Original Purchase Agreement. LATAM will give AerCap prior written notice of proposed Features and BFEs to be incorporated on each 787-8 Aircraft and the 787-9 Aircraft and confirm to AerCap such Features and BFE once contracted with Boeing or the relevant BFE vendor.

5.3 In relation to any such amendment to the Specification by way of SCN and/or BFE, LATAM agrees that it will not discriminate between the Aircraft to be subject to the purchase and leaseback transaction as contemplated by this Deed and the other aircraft that are subject to the Original Purchase Agreement to be delivered during a similar timeframe as the Aircraft, and that the final Specification of the Aircraft as amended by any Specification Change Notices and/or BFE shall be substantially the same as such other aircraft. LATAM further agrees to consider in good faith without obligation to consent a request from AerCap following its review of SCN, Features or BFE list, for the installation, at AerCap's cost (and on the basis that such costs shall not be rentalised), of incremental SCNs, Features or BFEs which would improve the remarkatability of the Aircraft following the Lease with LATAM.

Development Changes and Certification Changes

5.4 From time to time each Aircraft Specifications may be revised by the relevant Manufacturer (**Development and Certification Changes**). LATAM shall as soon as reasonably practicable, provide AerCap a written copy of such Development and Certification Changes.

Manufacturer Notices

5.5 LATAM shall, as soon as reasonably practicable, inform AerCap of the contents of any notices and other communications received by LATAM from the relevant Manufacturer concerning the following with respect to each Aircraft:

- (a) the proposed month of Delivery;
- (b) the manufacturer's serial number;
- (c) the Scheduled Delivery Date of each Aircraft;
- (d) any change to or amendment of the Specification of any Aircraft;

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

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- (e) the arrangements for the delivery of the Aircraft;
 - (f) any actual or anticipated delay in delivery of any Aircraft;
 - (g) any default by LATAM or TAM or any Affiliate under any Original Purchase Agreement where the relevant Manufacturer has reserved its rights in relation to such default or notifies LATAM of the termination, in whole or in part, of any Original Purchase Agreement as a consequence of such default.

Delivery Inspections and delivery condition deviations

- 5.6(a) Subject to compliance by AerCap with any requirements of the relevant Manufacturer, LATAM will use reasonable endeavours to procure that AerCap is entitled, if it wishes to do so, to participate in the inspection of the Aircraft conducted under the provisions of the related Original Purchase Agreement and to attend the delivery and acceptance process for each Aircraft so that AerCap can verify that the Aircraft meets the Aircraft Specification as amended by SCNs, Features and BFE, the requirements of the Original Purchase Agreement, this Deed and the other Operative Documents, as to specification and condition.
- (b) Where, with respect to an Aircraft, the delivery acceptance and inspections procedure has been conducted by the Manufacturer under the Original Purchase Agreement and:
 - (i) such Aircraft does not meet the Specification; and/or
 - (ii) LATAM, acting in a manner that is consistent with best practices of leading commercial airlines accepting delivery of aircraft new from the Manufacturer, determines that it is not willing to accept delivery of such Aircraft under the Original Purchase Agreement due to other technical deficiencies in the condition of such Aircraft,

then the parties shall consult together, in good faith, with respect to such deviation from Specification and/or other technical deficiencies, such consultation to continue for at least fifteen (15) Business Days or such longer period as the parties may agree. LATAM will use reasonable efforts to arrange for the Manufacturer to be involved in such consultations. If following such consultations the parties have not agreed upon a remedy with respect to the Specification deviation or other deficiency that is acceptable to each of them, in their sole discretion (or in the case of a deficiency referred to in clause 5.6(b)(ii), acceptable to LATAM, in its sole discretion) then:

- (X) in the case of clause 5.6(b)(i), either party may terminate this Deed with respect to such Aircraft; and
- (Y) in the case of clause 5.6(b)(ii), only LATAM may terminate this Deed with respect to such Aircraft.

In such event, the party wishing to terminate this Deed with respect to such Aircraft will promptly notify the other party of its decision to do so and sub-clause (c) below will then apply.

- (c) With respect to any Aircraft for which a termination notice is issued in accordance with clause 5.6(b) , the provisions of clause 4 shall apply as if such Aircraft were a “Delayed Aircraft” and a Cancellation Right had been exercised in relation to such Aircraft.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

Amendments to Original Purchase Agreement

5.7 LATAM will not amend or agree to any amendment of, or waive performance under or agree to any such waiver, any Original Purchase Agreement (or under any Engine general terms agreement) if the same relate to any of the following matters:

- (a) the formula for calculating purchase price escalation;
- (b) the warranties relating to the Aircraft and/or any Engines;
- (c) the delivery and acceptance process and the obligations of the Manufacturer in relation to the delivery of the Aircraft in compliance with the Specification and otherwise in accordance with the requirements of the Original Purchase Agreement.

Relevant Extracts

5.8 Subject to the consent of the relevant Manufacturer, LATAM has provided to AerCap on or before the date of this Deed:

- (a) the following extracts from the Original Purchase Agreements:
 - (i) Aircraft specifications;
 - (ii) price escalation formulae;
 - (iii) all provisions that relate to: delivery, title transfer, acceptance; specification change; scheduled delivery quarters and matters to do with delay – excusable and non-excusable; termination; warranties and service life policies; and
- (b) the assignable engine warranties and service life policies
(together the *Relevant Extracts*).

5.9 LATAM undertakes to provide to AerCap all relevant extracts of documentation relating to BFE as AerCap may reasonably request, subject always to obtaining the relevant manufacturer's consent, if required.

5.10 LATAM hereby represents and warrants to AerCap that the Relevant Extracts are true, complete and accurate copies of the original documentation as to the matters referred to therein and LATAM has not omitted to provide AerCap with any documentation or agreements that have the effect of amending any of the provisions that have been disclosed .

5.11 LATAM will use reasonable efforts to ensure that AerCap is allowed access to all online information as available on AirbusWorld (including AIRNAV, CDIS and drawings), MyBoeingFleet (MBF) as well as equivalents of Engine manufacturers relating to each Aircraft from the relevant Delivery Date of such Aircraft (or earlier if available). If such access is not permitted by the Manufacturer or Engine manufacturer then LATAM will, on request and subject to the consent of the relevant Manufacturer, or Engine Manufacturer, to the extent required, provide AerCap with copies of any documentation that it would otherwise have had access on the online system.

5.12 All references to "Aircraft" in this clause 5 shall be construed so as not to include any A330 Aircraft, it being agreed that this clause 5 does not apply to the A330 Aircraft.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

6. GUARANTEES

Lessor Guarantee

6.1 AerCap undertakes that in relation to each Lease, AerCap or an Acceptable Guarantor will provide to LATAM a guarantee substantially in the form of Schedule 11 (each a *Lessor Guarantee*).

6.2 AerCap will notify LATAM of the identity of any Acceptable Guarantor which it wishes to propose for each relevant Lease no later than fifteen (15) Business Days before entry into the relevant Lease.

LATAM Guarantee

6.3 By entry into this Deed, LATAM irrevocably and unconditionally guarantees to AerCap on demand the due and punctual performance of the Guaranteed Liabilities. LATAM also agrees to indemnify AerCap and the relevant Lessor on demand in relation to any Losses suffered or incurred by AerCap or the relevant Lessor as a result of any representation or warranty given by TAM, LAN Cargo Overseas, any Affiliates of LATAM or any seller under and pursuant to any Purchase Agreement or any bill of sale or other title transfer document relating to any Aircraft being inaccurate, untrue or incorrect. Any release, discharge or settlement between LATAM and AerCap shall be conditional upon no security, disposition or payment to AerCap being void, set aside or ordered to be refunded and if such condition shall not be fulfilled AerCap shall be entitled to enforce the guarantee under this clause subsequently as if such release, discharge or settlement had not occurred and any such payment had not been made.

6.4 The guarantee under clause 6.3 shall:

- (a) secure the Guaranteed Liabilities from time to time owing to AerCap and shall be a continuing security, notwithstanding any intermediate payment, partial settlement, delay in payment or other matter whatsoever;
- (b) be in addition to any present or future rights or remedies available to AerCap in respect of the Guaranteed Liabilities; and
- (c) not be in any way prejudiced or affected by the existence of any such rights or remedies or by the same becoming wholly or in part void, voidable or unenforceable on any ground whatsoever or by AerCap dealing with, exchanging, varying or failing to perfect or enforce any of the same or giving time for payment or indulgence or compounding with any other person liable.

6.5 The liability of LATAM shall not be affected nor shall the guarantee under clause 6.3 be discharged or reduced by reason of any act or omission which, but for this clause 6.5, would discharge or reduce its liability under the guarantee under clause 6.3.

7. OBLIGATIONS OF THE PARTIES AND RELATED MATTERS

7.1 AerCap agrees to cause each Lessor to satisfy or to cause to be satisfied the conditions precedent set forth in Section 6.3 of the Lease and clause 4.1 of each Purchase Agreement in each case to which such Lessor is a party.

7.2 LATAM agrees to satisfy or to cause to be satisfied the conditions precedent set forth in Sections 6.1 and 6.2 of each Lease and clause 4.4 of each Purchase Agreement.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

7.3 If:

- (a) an Event of Default occurs and is continuing under any Lease in respect of a delivered Aircraft; or
- (b) a Relevant Event occurs and is continuing; or
- (c) LATAM fails to return to AerCap fully executed copies of the Definitive Documents with respect to any Aircraft (other than an A330 Aircraft) at least ten (10) days before the Scheduled Delivery Date; or
- (d) if the Definitive Documents for an Aircraft (other than an A330 Aircraft) are entered into but title to such Aircraft is not transferred to the Lessor and the leasing of such Aircraft to LATAM is not commenced within ten (10) Business Days of the date notified by the Manufacturer to be the Scheduled Delivery Date for such Aircraft, for any reason other than as specified in clause 4, clause 5.6 or clause 7.4 below; or
- (e) LATAM breaches any of its other material obligations or representations and warranties under this Deed and such breach, if capable of remedy, is not remedied to the reasonable satisfaction of AerCap, with thirty (30) days of notice from AerCap requiring the same to be remedied; or
- (f) the Original Purchase Agreement is terminated or cancelled with respect to all of the Aircraft (other than where such termination relates to a Delay or cancellation which is provided for in clause 4),

then all obligations of AerCap to cause any Lessor to purchase and take title to some or all Aircraft (that have not yet been purchased and leased as contemplated by this Deed) and concurrently to lease such Aircraft to LATAM, and the related obligations of AerCap and any Lessor under this Deed and any of the Operative Documents with respect to such Aircraft as selected by AerCap in its absolute discretion, shall terminate and be of no further force or effect:

- (i) upon notice of such termination by AerCap to LATAM; and
- (ii) automatically, without notice or other action, upon the occurrence of any of the Relevant Events specified in paragraphs 3 or 4 of Schedule 4.

7.4 If:

- (a) AerCap fails to purchase or arrange for the purchase of any Aircraft in circumstances where:
 - (i) LATAM has fulfilled all of its material obligations under this Deed and each other Operative Document relating to such Aircraft;
 - (ii) all of the conditions precedent to the delivery, purchase and lease of such Aircraft (other than those that can only be, and are, provided simultaneously with the Delivery) that are required to be provided for Lessor's or AerCap's benefit have been supplied or otherwise fulfilled;
 - (iii) such Aircraft is in the condition required by the Original Purchase Agreement, this Deed and the related Lease and AerCap has had the opportunity to inspect such Aircraft or to participate in the inspection of such

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Aircraft to verify that it meets such condition in accordance with the terms of this Deed; or

(iv) none of the events or circumstances specified in clause 7.3 have occurred and are continuing,

and such failure continues for thirty (30) days from notice by LATAM to AerCap requiring such failure to be remedied; or

(b) any Relevant Event of the type referred to in paragraphs 3 or 4 of Schedule 4 occurs and is continuing with respect to AerCap,

then all obligations of LATAM to procure the sale of some or all of the Aircraft (that have not yet been purchased and leased as contemplated by this Deed) and concurrently to lease such Aircraft, and the related obligations of LATAM under this Deed and any of the Operative Documents with respect to such Aircraft as selected by LATAM in its absolute discretion, shall terminate and be of no further force or effect upon notice of such termination by LATAM to AerCap.

7.5 Notwithstanding any termination pursuant to this clause 7:

(a) each of AerCap and LATAM shall retain any and all rights, remedies and claims that it may have against the other party for breach of its obligations under this Deed and under any Operative Document; and

(b) [***].

7.6 If any Aircraft is ready for Delivery under the Original Purchase Agreement and an event or circumstance referred to in clause 7.3 has occurred and is continuing such that AerCap is entitled to terminate this Deed with respect to such Aircraft then AerCap will notify LATAM of its decision as to whether or not it wishes to proceed with the purchase and leaseback of such Aircraft subject to and in accordance with this Deed. AerCap agrees to give such notice as soon as reasonably practicable and in any event no later than ten (10) Business Days after the Scheduled Delivery Date for such Aircraft. AerCap will not be obliged to give such notice if it is restricted from doing so under any applicable laws.

8. REPRESENTATIONS AND WARRANTIES

Each party to this Deed represents and warrants to the others, as of the date of execution and delivery of this Deed, that:

- (a) this Deed has been duly authorized, executed and delivered by such party and constitutes the legal, valid and binding obligation of such party, enforceable against such party in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, examinership or other similar laws affecting the rights of creditors generally and by general principles of equity; and
- (b) the execution, delivery and performance by such party of this Deed do not require any stockholder (or equivalent) approval or approval or consent of any trustee or holder of any indebtedness or obligations of such party, except such as have been duly obtained and are in full force and effect, and do not contravene or conflict with any law, governmental rule, regulation, judgment or order binding on such party or the Certificate of Incorporation or By-Laws (or equivalent constitutive documents) of

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such party or contravene or result in a breach of, or constitute a default under, or result in the creation of any lien or other lien upon the property of such party under, any indenture, mortgage, contract or other agreement to which such party is a party or by which it or any of its properties are bound.

9. PAYMENT RELATED MATTERS

9.1 The fees and expenses of each party incurred in connection with the preparation of this Deed and any Definitive Document and all other related documents are for the respective accounts of each such party.

9.2 If either party requests any amendment, waiver or consent hereby then the requesting party shall, within thirty (30) Business Days of demand by the other party, reimburse such party for all reasonable and properly incurred costs and expenses (including reasonable legal fees) incurred by such party in responding to or complying with such request.

9.3 All payments by AerCap to LATAM or LATAM to AerCap under this Deed shall be made for value on the due date in United States Dollars and in immediately available funds settled through the New York Clearing House System or such other funds as may for the time being be customary for the settlement in New York City of payments in Dollars by wire transfer to such account as AerCap or LATAM, as applicable, shall notify the other party in writing, giving at least five (5) Business Days prior notice. All such payments shall be made free and clear of any withholdings or deductions.

10. ASSIGNMENTS

10.1 This Deed shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors.

10.2 Neither party may assign or otherwise transfer its rights or obligations under this Deed, in whole or in part, without the prior written consent of the other party. Any such assignment or transfer without such consent shall be null and void.

11. OTHER MATTERS

Financial Accommodation

11.1 The parties hereto acknowledge and agree that, with respect to each Aircraft that has not previously been purchased by any Purchaser, this Deed and the obligations of AerCap hereunder, or any Purchaser, Lessor and Owner Participant, if any, under an applicable Purchase Agreement (or Purchase Agreement Assignment), in each case with respect to such Aircraft, constitute, and are intended to constitute, (a) a "sale-leaseback" financing by such Purchaser, Lessor and Owner Participant, if any, of LATAM's acquisition of such Aircraft and an extension of credit by AerCap, such Purchaser, Lessor and such Owner Participant, if any, to LATAM and (b) agreements to extend "financial accommodations", within the meaning of Sections 365(c)(2) and 365(e)(2)(B) of the Bankruptcy Code of the United States of America, to LATAM.

Rights of Third Parties Act

11.2 A person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 (the *Third Parties Act*) to enforce or enjoy the benefit of any term of this Deed.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

11.3 The parties to this Deed do not require the consent of any person not a party to this Agreement to rescind, supplement, amend or vary this Deed (or any rights arising by virtue of the Third Parties Act as contemplated herein) from time to time.

Continuing Obligations

11.4 No failure to exercise, nor any delay in exercising any right or remedy under this Deed shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy.

Invalidity of any Provision

11.5 If, at any time, any provision of this Deed is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

Notices

11.6 Unless otherwise expressly provided herein, all notices, requests, demands or other communications to or upon the respective parties hereto in connection with this Deed shall:

- (a) in order to be valid be in English and in writing;
- (b) be deemed to have been duly served on, given to or made in relation to a party if it is:
 - (i) posted by first class airmail postage prepaid or sent with an internationally recognised courier service in each case in an envelope addressed to that party at the address set out herein or at such other address as that party has specified by not less than five (5) days' written notice to the other party; or
 - (ii) sent by facsimile to the facsimile number of that party set out herein or to such other facsimile number as that party has specified by not less than five (5) days' written notice to the other parties hereto;
- (c) be sufficient if:
 - (i) executed under the seal of the party giving, serving or making the same; or
 - (ii) signed or sent on behalf of the party giving, serving or making the same by any attorney, director, secretary, agent or other duly authorised officer or representative of that party;
- (d) be deemed received:
 - (i) in the case of a letter, on the tenth (10th) day after mailing; and
 - (ii) in the case of a facsimile transmission, on the date set forth on the confirmation of receipt produced by the sender's fax machine immediately after the fax is sent.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

11.7 For the purposes of clause 11.6, all notices, requests, demands or other communications shall be given or made by being addressed as follows:

(a) if to AerCap, to:

AerCap Holdings N.V.
AerCap House
Stationsplein 965
1117 CE Schiphol Airport
The Netherlands

(b) if to LATAM at the following address:

LATAM Airlines Group S.A.
Avenida Presidente Riesco 5711
20th Floor
Las Condes,
Santiago
Chile

Confidentiality

11.8 Without prejudice to the provisions of clause 11.9, this Deed and the other Definitive Documents, including any information provided hereunder or thereunder, in each case to the extent not publicly disclosed, and all non-public information obtained by either party about the other, are confidential and are between AerCap and LATAM only and shall not be disclosed by a party to third parties (other than to any Owner Participant, an actual or prospective new lessor, or a party's Affiliates and its or their (i) Board of Directors and employees, auditors, legal counsel, professional advisors, rating agencies, shareholders, prospective investors and actual or prospective financiers so long as such person is under a duty of confidentiality or is subject to a confidentiality agreement or, in the case of a rating agency, a practice of confidentiality); and (ii) as may be required to be disclosed under applicable law or regulations or for the purpose of legal proceedings) without the prior written consent of the other party. If disclosure is required as a result of applicable law (including any SEC disclosure obligations), AerCap and LATAM will co-operate with one another to obtain confidential treatment as to the commercial terms and other material provisions of this Deed; provided that if they are unable to obtain such confidential treatment and disclosure is required by applicable law, then such disclosure may be made in accordance with such law.

11.9 AerCap and LATAM or any of their Affiliates agree to discuss in good faith the contents of any public announcement of the transactions contemplated by this Deed.

Amendments

11.10 This Deed can only be amended, modified or varied with the consent of all of the parties hereto.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

Counterparts

11.11 This Deed may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy.

12. GOVERNING LAW AND DISPUTES; PROCESS AGENT

Governing Law and Jurisdiction

12.1 This Deed and any non-contractual obligations arising out of or in connection with it are governed by and construed in accordance English law.

- 12.2(a) The courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this Deed (including a dispute relating to the existence, validity or termination of this Deed or any non-contractual obligation arising out of or in connection with this Deed) (a ***Dispute***).
- (b) The parties agree that the courts of England are the most appropriate and convenient courts to settle Disputes and accordingly no Party will argue to the contrary.
- (c) This clause 12.2 is for the benefit of the parties to this Deed only. As a result, no party shall be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, the parties may take concurrent proceedings in any number of jurisdictions.

Process Agent

12.3 AerCap hereby irrevocably designates, appoints and empowers LPA Process Limited (registered in England with company number 6439736) whose current address is at 3A Eghams Wood Road, Beaconsfield, Buckinghamshire, HP9 1JP, England (being its current registered office) to receive for it and on its behalf service of process issued out of the courts of England in any such legal action or proceedings.

12.4 LATAM hereby irrevocably designates, appoints and empowers the London office of LATAM, at present located at 2nd Floor, Landmark House, Hammersmith Bridge Road, London W6 9EJ England (Attention: Gonzalo Garcia) to receive for it and on its behalf service of process issued out of the courts of England in any such legal action or proceedings.

IN WITNESS whereof the parties to this Deed have caused this Deed to be duly executed as a deed and delivered on the date stated at the beginning of this Deed.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

SCHEDULE 1

AIRCRAFT DETAILS AND SCHEDULED DELIVERY QUARTERS

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“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

SCHEDULE 2
A330 AIRCRAFT

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“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

SCHEDULE 3

ESCALATION FORMULA AND SAMPLE CALCULATIONS

[***]

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

SCHEDULE 4
RELEVANT EVENTS

Each of the following is a Relevant Event:

1. Discontinuation: LATAM suspends or ceases to carry on all or substantially all of its business.
2. Disposal of Business: LATAM sells or otherwise disposes of all or substantially all of its business.
3. Bankruptcy:
 - (a) there shall have been commenced against LATAM an involuntary case or other proceeding under the bankruptcy laws of Chile, as now or hereafter constituted, or any other applicable foreign, federal, provincial, state or local bankruptcy, insolvency or other similar law or seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of LATAM for all or substantially all of its property, or seeking the winding-up or liquidation of its affairs (and any such involuntary case or other proceeding shall not have been dismissed, vacated, or withdrawn within sixty (60) days, unless an order judgment or decree is entered during that period); or
 - (b) an order, judgment or decree shall have been entered in any proceeding by any court of competent jurisdiction appointing a receiver, trustee or liquidator of LATAM for all or substantially all of LATAM's property or sequestering all or substantially all of the property of LATAM and any such order, judgement or decree or appointment or sequestration shall be final or shall remain in force and effect, undismissed, unstayed or unvacated; or
 - (c) there shall at any time be an order for relief under the Bankruptcy Code in effect with respect to LATAM.
4. Insolvency:
 - (a) LATAM suspends payment on its debts or other obligations, is unable to or admits its inability to pay its debts or other obligations as they fall due or shall have voluntarily commenced a case or other proceeding under the bankruptcy laws of Chile, as now constituted or hereafter amended, or any other applicable foreign, federal, provincial, state or local bankruptcy, insolvency or other similar law; or
 - (b) LATAM shall have consented to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of LATAM for all or substantially all of the property of LATAM; or
 - (c) LATAM shall have made any assignment for the benefit of creditors of LATAM; or
 - (d) LATAM shall have taken any corporate action to authorise or facilitate any of the foregoing.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

SCHEDULE 5
RELEVANT ADDITIONAL CLAUSES FOR PURCHASE AGREEMENT
ASSIGNMENT

The provisions of this Schedule 5 apply in the circumstances set out in clause 3.5 of this Deed:

1. BFE

LATAM warrants that, with respect to any BFE to which title is being transferred to Purchaser, upon such transfer of title such BFE is transferred to Purchaser with full title guarantee.

2. Satisfaction of condition of Aircraft

The requirements of the Original Purchase Agreement in relation to the condition of the Aircraft and its acceptance for delivery thereunder shall have been fulfilled and Purchaser shall have been afforded the opportunity to participate in the technical acceptance procedures in accordance with the relevant Lease and the Purchase Agreement, subject to Purchaser having entered into such documentation as the Manufacturer may require in order to permit such participation in the technical acceptance procedures.

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

SCHEDULE 6
FORM OF PURCHASE AGREEMENT

[* * *]

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

SCHEDULE 7
FORM OF LEASE (A350-900 AIRCRAFT)

[* * *]

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

SCHEDULE 8
FORM OF LEASE (787-8 AIRCRAFT
AND 787-9 AIRCRAFT)

[* * *]

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

SCHEDULE 9

ADDITIONAL PROVISIONS FOR LEASE (A350-900 AIRCRAFT)

[***]

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

SCHEDULE 10

ADDITIONAL PROVISIONS FOR LEASE (787-8 AIRCRAFT AND 787-9 AIRCRAFT)

[***]

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

SCHEDULE 11
FORM OF LESSOR GUARANTEE

[* * *]

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.

This Deed has been entered into on the date stated at the beginning of this Deed.

EXECUTED and DELIVERED as a DEED)
by)
AERCAP HOLDINGS N.V.)
)
by _____)
_____)
its authorised representative in the presence of:)

by _____)
_____)
its authorised representative in the presence of:)

EXECUTED and DELIVERED as a DEED)
by)
LATAM AIRLINES GROUP S.A.)
)
by _____)
_____)
its authorised representative in the presence of:)

“[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission.
Schedule 11 to Framework Deed 33

Subsidiaries

<u>Legal Name</u>	<u>Place of Incorporation</u>	<u>Doing Business As</u>	<u>Ownership %¹</u>
Lan Argentina S.A.	Argentina	Lan Argentina	94.99%
Aerolinhas Brasileiras S.A.	Brazil	ABSA	Non-Voting: 100.00% Voting: 19.42%
Inmobiliaria Aeronáutica S.A.	Chile	Inmobiliaria Aeronáutica	100.00%
Inversiones Lan S.A.	Chile	Inverlan	99.99%
Lan Cargo S.A.	Chile	Lan Cargo	99.89%
Lan Pax Group S.A.	Chile	Lan Pax Group	100.00%
Transporte Aéreo S.A.	Chile	LanExpress	99.90%
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A.	Ecuador	Lan Ecuador	71.95%
Aerotransporte Mas de Carga S.A.	Mexico	Mas Air	Non-Voting: 39.00% Voting: 61.60%
Lan Perú S.A.	Peru	Lan Perú	49.00%
Lantours División Servicios Terrestres SA	Chile	Lantours	100.00%
Línea Aérea Carguera de Colombia S.A.	Colombia	LANCO	90.00%
Aerovías de Integración Regional S.A.	Colombia	Lan Colombia	98.29%
TAM S.A.	Brazil	TAM	Non-Voting: 100.00% Voting: 19.42%

¹ Percentage of equity owned by LATAM Airlines Group S.A. directly or indirectly through subsidiaries or affiliates

CERTIFICATION

I, Enrique Cueto Plaza, certify that:

1. I have reviewed this annual report on Form 20-F of LATAM Airlines Group S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2014

/s/ Enrique Cueto Plaza

Enrique Cueto Plaza
CEO LATAM

CERTIFICATION

I, Andrés Osorio Hermansen, certify that:

1. I have reviewed this annual report on Form 20-F of LATAM Airlines Group S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2014

/s/ Andrés Osorio Hermansen

Andrés Osorio Hermansen
CFO LATAM

CERTIFICATION

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of LATAM Airlines Group S.A. (“**the Company**”), hereby certifies, to such officer’s knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2012 (the “**Report**”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 30, 2014

/s/ Enrique Cueto Plaza

Enrique Cueto Plaza
CEO LATAM

CERTIFICATION

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of LATAM Airlines Group S.A. (the “**Company**”), hereby certifies, to such officer’s knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2012 (the “**Report**”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 30, 2014

/s/ Andrés Osorio Hermansen

Andrés Osorio Hermansen

CFO LATAM