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, 2007
	OR
	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	for the transition period from to
	Commission File Number: 1-14728
	Lan Airlines S.A. (Exact name of registrant as specified in its charter)
	Lan Airlines S.A. (Translation of registrant's name into English) Republic of Chile (Jurisdiction of incorporation or organization)
	Presidente Riesco 5711, 20 th Floor
	Las Condes Santiago, Chile (Address of principal executive offices)
	Gisela Escobar Koch Tel.: 56-2-565-3944 — E-mail: gisela.escobar@lan.com Presidente Riesco 5711, 20 th Floor
	Las Condes
	Santiago, Chile (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 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
repo	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 ort: 338,790,909.
	Indicate by check mark if the registrant is a well-known seasoned issuer, as defines in Rule 405 of the Securities Act.
	Yes ⊠ No □
Secu	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 partities 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 ng 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 tirements for the past 90 days.
	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 $oxin Accelerated$ filer $oxin Non-Accelerated$ filer $oxin Accelerated$							
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:							
U.S. GAAP \square IFRS \square Other \boxtimes							
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 "Lan Airlines" are to Lan Airlines S.A., the unconsolidated operating entity, and references to "LAN," "we," "us" or the "Company" are to Lan Airlines S.A. and its consolidated subsidiaries. All references to "Chile" are references to the Republic of Chile.

This annual report contains conversions of certain Chilean peso 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 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 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 28, 2007, which was Ch\$495.82=US\$1.00. The observed exchange rate on June 24, 2008 was 501.39=US\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos. See "Key Information—Exchange Rates" under Item 3.

Lan Airlines and the majority of our subsidiaries (including our main cargo subsidiary Lan Cargo S.A., or Lan Cargo) 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. Our consolidated financial statements include the results of these subsidiaries translated into U.S. dollars. Generally accepted accounting principles in Chile, or Chilean GAAP, require monetary assets and liabilities to be translated at historical rates of exchange as of the date of acquisition or incurrence and revenue and expense accounts to be translated at the average monthly exchange rate for the month in which they are recognized. As required by Chilean GAAP, the financial statements of our subsidiaries that report in Chilean pesos are adjusted to reflect changes in the purchasing power of the Chilean peso due to inflation. These changes are based on the consumer price index published by the Chilean National Institute of Statistics.

Our consolidated financial statements are prepared in accordance with Chilean GAAP, which differs in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. For a description of certain significant differences between Chilean GAAP and U.S. GAAP as they relate to us, together with a reconciliation of our net income and shareholders' equity to U.S. GAAP, see Note 27 to our audited consolidated financial statements.

We have rounded percentages and certain U.S. dollar and Chilean peso 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 3 of this annual report.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. Such statements may include words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" or other similar expressions. Forward-looking statements are statements that are not historical facts, including statements about our beliefs and expectations. 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:

- our ability to service our debt and fund our working capital requirements;
- · future demand for passenger and cargo air service in Chile, other countries in Latin America and the rest of the world;
- the maintenance of relationships with customers;
- the state of the Chilean, Latin American and world economies and their impact on the airline industry;
- the effects on us from competition;
- future terrorist incidents or related activities affecting the airline industry;
- the relative value of the Chilean, Peruvian 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 "Key Information—Risk Factors" under Item 3.

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"

"available ton kilometers" or "ATKs"

"systems available ton kilometers" or "systems ATKs"

Traffic Measurements:

"revenue passenger kilometers" or "RPKs"

"revenue ton kilometers" or "RTKs"

"systems revenue ton kilometers" or "systems RTKs"

"traffic revenue"

Yield Measurements:

"cargo yield"

"overall yield"

"passenger yield"

Load Factors:

"cargo load factor"

"overall break-even load factor"

"overall load factor"

"passenger break-even load factor"

"passenger load factor"

Other:

"ACMI leases"

"Airbus A320-Family Aircraft"

"block hours"

"ton"

"utilization rates"

The number of seats made available for sale multiplied by the kilometers

The number of tons available for the transportation of revenue load (cargo) multiplied by the kilometers flown.

The number of total tons capacity for the transportation of revenue load (passenger and cargo) multiplied by the kilometers flown.

The number of passengers multiplied by the number of kilometers flown.

The load (cargo) in tons multiplied by the kilometers flown.

The load (passenger and/or cargo) in tons multiplied by the kilometers flown.

Revenue from passenger and cargo operations.

Revenue from cargo operations divided by RTKs.

Revenue from airline operations (passenger and cargo) divided by system RTKs (passenger and cargo).

Revenue from passenger operations divided by RPKs.

RTKs (cargo) expressed as a percentage of ATKs (cargo).

Total costs (operating expenses plus net interest expense less other revenue) per system ATK divided by overall yield.

RTKs (passenger and cargo) expressed as a percentage of ATKs (passenger and cargo).

Total costs attributable to passenger operations per ASK divided by passenger yield.

RPKs expressed as a percentage of ASKs.

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".

The Airbus A318, Airbus A319 and Airbus A320 models of aircraft.

The elapsed time between an aircraft leaving an airport gate and arriving at an airport gate.

A metric ton, equivalent to 2,204.6 pounds.

The actual number of flight hours per aircraft per operating day.

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

Selected Financial Data

The following table presents our summary financial and other information for each of the last five fiscal years in the period ended December 31, 2007. The summary financial information for the three fiscal years in the period ended December 31, 2007 has been derived from our audited consolidated financial statements included in this report.

You should read the information below in conjunction with our audited consolidated financial statements and the notes thereto, as well as "Presentation of Information" and "Operating and Financial Review and Prospects".

Annual Financial Information

Annual Financial Information					
	2003	2004	nded Decemb 2005	er 31, 2006	2007
		millions, excep			
The Company ⁽¹⁾⁽⁵⁾					
Statement of Income Data:					
Chilean GAAP					
Operating revenues					
Passenger	918.4	1,169.0	1,460.6	1,813.4	2,197.2
Cargo	602.0	799.7	910.5	1,072.7	1,154.3
Other	118.4	124.2	135.3	147.9	173.4
Total operating revenues	1,638.8	2,092.9	2,506.4	3,034.0	3,524.9
Operating expenses ⁽²⁾	1,527.1	1,920.8	2,364.7	2,731.3	3,111.6
Operating income	111.7	172.1	141.6	302.6	413.3
Other income (expense)					
Interest income	6.3	10.8	12.4	7.9	18.0
Interest expense	(39.4)	(36.5)	(39.2)	(60.7)	(76.2)
Other income-net ⁽²⁾	24.1	45.2	58.2	37.1	12.6
Total other income (expense)	(9.0)	19.5	31.5	(15.7)	(45.6)
Minority interest	(0.9)	0.2	1.8	1.2	0.3
Income before income taxes	101.9	191.8	174.9	288.1	368.1
Income taxes	(18.3)	(28.3)	(28.3)	(46.8)	(59.8)
Net income	83.6	163.6	146.6	241.3	308.3
Net income per common share ⁽³⁾	0.26	0.51	0.46	0.76	0.93
Net income per ADS ⁽³⁾	1.31	2.56	2.30	3.78	0.93
Operational Data Computed Using Financial Information Under Chilean GAAP					
ASKs (million)	18,323.9	21,174.4	23,687.3	26,400.0	31,556.1
RPKs (million)	12,671.0	15,125.3	17,490.8	19,495.5	24,001.2
ATKs (million) (7)	2,848.7	3,039.8	3,213.8	3,399.1	3,632.8
RTKs (million)	1,911.9	2,259.4	2,392.3	2,579.2	2,702.3
System ATKs (million)	4,539.2	5,256.2	5,810.8	6,349.8	7,023.1
$U.S.\ GAAP^{(6)}$					
Operating revenues	1,638.8	2,092.9	2,506.4	3,034.0	3,524.9
Operating income	122.9	218.6	150.2	287.0	419.5
Net income	87.9	164.7	156.5	201.6	322.0
Basic and diluted earnings per share ⁽³⁾	0.28	0.52	0.46	0.76	0.97
Net income per ADS ⁽³⁾	1.38	2.58	2.45	3.16	0.95

(table and footnotes continue on next page)

Bala	unce Sheet Data:					
	Cash, time deposits and marketable securities	219.0	304.6	159.2	218.6	468.0
	Miscellaneous current assets ⁽⁴⁾	280.2	347.8	417.8	487.7	625.9
	Property and equipment	1,009.5	979.0	1,252.3	1,855.9	2,351.6
	Total other assets	132.3	197.9	314.3	366.6	456.2
	Total assets	1,641.0	1,829.3	2,143.6	2,928.8	3,901.7
	Long-term liabilities	765.4	809.0	955.3	1,421.9	1,785.9
	Shareholders' equity	352.6	434.6	502.7	626.3	988.1
U.S.	$GAAP^{(6)}$					
	Total assets	1,610.5	1,830.0	2,149.0	2,906.1	3,833.8
	Long-term liabilities	748.9	796.5	938.7	1,431.9	1,695.3
	Shareholders' equity	351.7	447.8	600.5	658.3	1,010.7
	Capital stock (millions of shares)	318.9	318.9	318.9	318.9	338.8

- (1) For more information on the subsidiaries included in this consolidated account, see Note 2(b) to our audited consolidated financial statements.
- To reflect operational results more clearly, fuel hedging gains or losses have been reclassified as a non-operational item in the other income-net line in each of 2003, 2004, 2005, 2006 and 2007. We recorded a US\$12.3 million fuel hedge loss in 2003, a US\$46.5 million fuel hedge gain in 2004, a US\$51.5 million fuel hedge gain in 2005, a US\$12.9 million fuel hedge gain in 2006 and a US\$28.2 million fuel hedge gain in 2007.
- As of December 31, 2006, we had 318,909,090 common shares outstanding in each of the periods indicated, which was equivalent to 63,781,818 ADSs. As of December 31, 2007 we had 338,790,909 common shares outstanding, which was equivalent to 338,790,909 ADSs due to the ADR ratio change that was implemented in August 2007.
- (4) Total current assets less the sum of cash, time deposits and marketable securities.
- The sums of the items may differ from the total amount due to rounding.
- In 2007, the Company adopted FSP AIR-1 and changed its accounting principle for heavy aircraft and engine maintenance costs on leased aircraft from the accrual method to the cash method. For more information see "Change in accounting policy for maintenance costs and adoption of FSP AIR-1" in Note 27 to our audited consolidated financial statements.
- (7) In August 2007, the Company implemented a change in its methodology used for calculating cargo ATKs in order to better represent the available capacity in the bellies of passenger aircraft. Cargo RTKs were not affected by this change. Historical data, except for the year 2003, has been accordingly modified for comparison purposes.

Although most of our revenues and expenses are denominated in U.S. dollars, some are denominated in different currencies, such as the Chilean peso. 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 significantly mitigated by the fact that 84% of our revenues and 71% of our operating expenses are denominated in U.S. dollars.

In accordance with the Chilean Corporation Law, we must pay annual cash dividends equal to at least 30% of our annual consolidated distributable net income each year (calculated in accordance with Chilean GAAP), subject to limited exceptions. As of June 25, 2008, we had declared aggregate dividends US\$41.8 million with respect to income for 2003, US\$81.8 million with respect to income for 2004, US\$73.3 million with respect to income for 2005, US\$168.9 million with respect to income for 2006 and US\$215.8 million with respect to income for 2007. Dividends for 2007 include two interim dividends paid in August 2007 and January 2008 and a final dividend paid in May 2008. The table below sets forth the cash dividends per common share and per ADS, 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 (U.S. dollars)	Number of common shares entitled to dividend (in millions)	Cash dividend per common share (U.S. dollars)	Cash dividend per ADS (U.S. dollars)
2003	August 25, 2003	11,583,459	318.91	0.03632	0.18160
	November 27, 2003	23,415,897	318.91	0.07343	0.36715
	May 13, 2004	6,776,018	318.91	0.02124	0.10620
2004	August 30, 2004	39,786,605	318.91	0.12475	0.62375
	December 29, 2004	35,000,000	318.91	0.10974	0.54870
	May 18, 2005	6,992,865	318.91	0.02193	0.10965
2005	September 2, 2005	36,452,425	318.91	0.11430	0.57150
	March 1, 2006	35,000,000	318.91	0.10975	0.54875
	May 17, 2006	1,849,186	318.91	0.00578	0.02890
2006	August 24, 2006	48,061,644	318.91	0.15071	0.75355
	January 18, 2007	67,787,211	318.91	0.21256	1.06280
	April 25, 2007	53,059,893	318.91	0.16638	0.83190
2007	August 23, 2007	90,104,830	338.79	0.26596	0.26596
	January 17, 2008	119,894,715	338.79	0.35389	0.35389
	May 8, 2008	5,827,204	338.79	0.01720	0.01720

Our 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 "Financial Information—Other Financial Information—Dividend Policy" under Item 8.

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 American Depositary Receipts, or 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 depositary 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.

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.

		Daily Observed Exchange Rate					
Year Ended December 31,	High	Low	Average ⁽¹⁾	Period-End			
		Ch	per US\$				
2003	758.21	593.10	687.51	599.42			
2004	649.45	559.21	612.13	559.83			
2005	592.75	509.70	559.27	514.21			
2006	549.63	511.44	531.03	534.43			
2007	548.67	493.14	521.95	495.82			
2007							
November	516.25	493.14	506.95	508.47			
December	506.79	495.49	499.28	495.82			
2008							
January	498.05	463.58	480.90	465.30			
February	476.44	458.02	467.22	458.02			
March	454.94	431.22	442.94	439.09			
April	459.16	433.98	446.43	459.16			

Source: Central Bank of Chile

On June 24, 2008 the observed exchange rate was Ch\$501.39=US\$1.00.

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.

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, 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 American Depositary Shares, or ADS, 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 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 dependant 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. 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.

The success of our business depends upon key regulatory issues and these issues 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 result of operations.

Our business, financial condition and results of operations could be adversely affected if we or certain aviation authorities (among them, those from Argentina, Brazil, Chile, Ecuador, Mexico, Peru and the United States) fail to maintain the required foreign and domestic governmental authorizations. In order to maintain the necessary authorizations issued by the Chilean *Junta Aeronáutica Civil*, which we refer to as the JAC, and technical operative authorizations issued by the Chilean *Dirección General de Aeronáutica Civil*, which we refer to as the DGAC, and other 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*® 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, Argentina, Peru 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. Recently, we faced a reduction in international "fifth freedom" routes in Peru, which we do not expect to have a material adverse effect on our business, but which exemplifies the route changes to which we may be subject. See "Information on the Company—Business of the Company—Regulation—Route Rights" under Item 4.

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. We cannot assure that a change in a foreign government's administration of current laws and regulations or that the adoption of new laws and regulations will not 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.

Our short-haul business model could lead to lower results of operations than expected.

Our short-haul business model involves, among other things, reducing our costs and lowering fares on many short-haul routes. We have reduced our costs primarily through higher Internet penetration and sales, reduced agency commissions and increased self check-in service through Internet check-in and airport kiosks. If we are unable to control costs or if lower fares significantly reduce the yield on short-haul routes, our results of operations could be negatively affected.

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, war or terrorist attacks.

Demand for air transportation may be adversely impacted by exogenous events, such as 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.

For example, the terrorist attacks in the United States on September 11, 2001 had a severe adverse impact on the airline industry, particularly on 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 has 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 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 salmon and produce exports from Chile and Peru, and 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 30.0% of our operating expenses in 2007. 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 this type of mechanisms may also be limited.

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 fly more hours on average 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 March 31, 2008, we operated a fleet of 44 Airbus and 37 Boeing 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 of FAA or 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 are often affected by certain factors beyond our control, including weather conditions, which can affect our operations.

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.

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.

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. Several of our competitors are larger than us and have greater brand recognition and greater resources than we do. Competing carriers include investor-owned, government-subsidized and national flag carriers of foreign countries. The U.S. Chile and other open skies agreements may subject us to further competition from international carriers. 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.

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.

We may face increasing competition from low-cost carriers offering discounted fares, which could negatively impact our results of operations.

We have faced substantial and increasing competitive pressure from low-cost carriers offering discounted fares. The low-cost carriers' operations are typically characterized by point-to-point route networks focusing on the highest demand city pairs, high aircraft utilization, single class service and fewer in-flight amenities. As evidenced by the operations of Gol Intelligent Airlines Inc., or Gol, in Brazil and other markets, the low-cost carrier business model appears to be gaining acceptance in Latin America. As a result, we may continue to face new and substantial competition from low-cost carriers in the future, which could result in significant and lasting downward pressure on the fares we charge for flights on our routes and, consequently could negatively impact our results of operations.

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 are subject to long-term operating leases. Our operating leases typically run from three to 12 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.

We are incorporating various new technologies and equipment and their phase-in may have a negative impact on our service and operating standards.

In recent years we have decided to incorporate a number of new aircraft, equipment and systems. The decision to incorporate these new elements has been based on their potential to enhance customer satisfaction, increase efficiency and/or streamline processes. However, the phase-in of these elements may temporarily result in lower service and operating standards which could affect how our customers perceive us and have a negative impact in our results of operations.

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.

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. 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.

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

Following the 9/11 terrorist attacks, insurance companies dramatically increased airline insurance premiums and significantly reduced the maximum amount of insurance coverage available to airlines for liability to persons (other than passengers) for claims resulting from acts of terrorism, war or similar events. Although insurance costs have decreased since 2004, we cannot assure that these costs will continue to decrease or will not increase in the future.

In the event of additional terrorist attacks, hijackings, airline crashes or other events adversely affecting the airline industry in the markets in which we operate, airline insurers could reduce their coverage or increase their premiums. Increases in insurance costs and/or significant reductions in coverage would harm our financial condition and results of operations.

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.

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

Approximately 35% of our 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.

Pressure 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.

For example, during the third quarter of 2001, members of one of our pilot unions implemented a series of actions that disrupted our services prior to the negotiation of their collective bargaining agreement, which had a negative impact on our operations and our profitability.

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

Labor costs constitute a significant percentage of our total operating costs, 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.

Failure to comply with applicable environmental regulations could adversely affect our business and 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.

Risks Related to Chile and Other Emerging Market Countries

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. 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.

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

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. 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. A significant part of our indebtedness is denominated in U.S. dollars, while 16% of our revenues and 29% of our operating expenses in 2007 are denominated in currencies other than the U.S. dollar, mainly the Chilean peso. 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 a nominal appreciation of 6.6% against the U.S. dollar in 2004, a nominal appreciation of 8.1% against the U.S. dollar in 2005, a nominal devaluation of 3.9% against the U.S. dollar in 2006 and a nominal appreciation of 1.6% against the U.S. dollar in 2007. The exchange rate of the Chilean peso and other currencies against the U.S. dollar may fluctuate significantly in the future. Changes in Chilean 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.

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 required of foreign issuers under the Exchange Act is more limited than the disclosure required of 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.

As of March 31, 2008 our controlling shareholders, together, beneficially owned 51.84% of our voting common shares. These controlling shareholders are in a position to elect a majority of the members of our board of directors, direct our management and control substantially all matters that are to be decided by a vote of shareholders, including fundamental corporate transactions. In addition, under the terms of the deposit agreement governing the ADSs, if holders of ADSs do not provide The Bank of New York, in its capacity as depositary for the ADSs, with timely instructions on the voting of the common shares underlying their ADRs, the depositary will be deemed to have been instructed to give a person designated by the board of directors the right to vote those common shares.

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 depositary 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 peso exchange rate falls relative to the U.S. dollar, the value of the ADSs and any distributions made thereon from the depositary, could be adversely affected. Cash distributions made in respect of the ADSs are received by the depositary (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 depositary to the holders of the ADRs evidencing those ADSs. In addition, the depositary 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.

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 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 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—Foreign Investment and Exchange Controls in Chile."

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

The Chilean Corporation Act and Regulation thereof, *Ley sobre Sociedades Anónimas No. 18,046* and the *Reglamento de Sociedades Anónimas*, collectively known as the Chilean Corporation Law, provide 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, or 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 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

BUSINESS

Overview

We are one of the leading passenger airlines in Latin America and the main air cargo operator in the region. We currently provide domestic and international passenger services in Chile, Peru, and Argentina and international passenger services in Ecuador. 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 and Mexico. In 2007, we initiated a strategy for stimulating demand for air travel in our domestic markets by offering lower-fare options to travelers, lowering our costs and increasing the aircraft utilization rates and efficiency of operations. For more information about our short-haul operations see "—Business of the Company— Passenger Operations—Business Model for Domestic Operations" below.

As of March 31, 2008, we serviced 14 destinations in Chile, 12 destinations in Peru, ten destinations in Argentina, two destinations in Ecuador, 15 destinations in other Latin American countries and the Caribbean, three destinations in the United States, two destinations in Europe and four destinations in the South Pacific. In addition, as of March 31, 2008, through our various code-share agreements, we offered service to 58 additional international destinations. We provide cargo service to all our passenger destinations and to approximately 15 additional destinations served only by freighter aircraft. We also offer other services, such as ground handling, courier, logistics, and maintenance

Lan Airlines S.A. is a publicly-held stock corporation (*sociedad anónima abierta*) incorporated under the laws of Chile. 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.

History of the Company

The Chilean government founded Lan Airlines (formerly Lan Chile S.A.) in 1929. Lan Airlines was a government-owned company from 1929 until its incorporation in 1983. Lan Airlines 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% of Lan Airlines' capital stock to Chilean investors and to Scandinavian Airlines System. In 1994, our controlling shareholders together with other major shareholders acquired 98.7% of Lan Airlines' stock, including the remaining stock held by the Chilean government, in a series of transactions. As of March 31, 2008, the controlling shareholders held 51.84% of our capital stock. For more information about our controlling shareholders, see "Controlling Shareholders and Related Party Transactions" under Item 7.

Since this acquisition of our capital stock in 1994 and the appointment of our current management, we have grown our revenue base and maintained our profitability every year despite significant challenges. Additionally, we have created a comprehensive network across the region by forming, together with local partners, or acquiring,

passenger affiliates in Peru, Ecuador, and Argentina and cargo affiliates in Brazil, Mexico and, we expect, in Colombia within the next year. In early 2004, we changed our corporate image and started using the "LAN" brand in order to better reflect the common values and attributes present in all the companies forming our network. We have complemented our own network with a set of bilateral alliances with carriers such as American Airlines, Iberia and Qantas, and have been a member of the *oneworld*® alliance since 2000.

Organizational Structure

LAN is a company primarily involved in the transportation of passengers and cargo. Our operations are carried out principally by Lan Airlines and also by a number of different subsidiaries. As of March 31, 2008, in the passenger business we operated through five main airlines: Lan Airlines, Transporte Aéreo S.A. (which does business under the name "Lan Express"), Lan Peru S.A. ("Lan Peru"), Aerolane Líneas Aéreas Nacionales del Ecuador S.A. ("Lan Ecuador"), and Lan Argentina S.A. ("Lan Argentina", previously Aero 2000 S.A.).

In the passenger business we market our sales primarily under the "LAN" brand. As of March 31, 2008 we held a 99.9% stake in Lan Express through direct and indirect interests, a 70.0% stake in Lan Peru through direct and indirect interests, a 71.95% indirect stake in Lan Ecuador and a 90.0% indirect stake in Lan Argentina.

Our cargo operations are carried out by a number of companies, including Lan Airlines and Lan Cargo, and are complemented by the operations of certain subsidiaries, such as Aero Transportes Mas de Carga S.A. de C.V., or MasAir, in Mexico and Aerolinhas Brasileiras S.A., or Absa, in Brazil. In the cargo business, we market ourselves primarily under the Lan Cargo brand.

In addition to our air transportation activities, we provide a series of ancillary services. We offer handling services, courier services and logistics, small package and express door-to-door services through Lan Airlines and various subsidiaries.

Competitive Strengths

Our strategy is 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 Key South American Markets

We are one of the main international and domestic passenger airlines in Latin America, as well as the largest cargo operator in both Chile and most of the South American markets that we serve. We hold the largest market share of passenger traffic to and from Chile, Peru and Ecuador, as well as the largest market share of domestic passenger traffic in both Chile and Peru. More recently, we have also achieved a solid and growing position in the Argentine domestic market through Lan Argentina and in the Argentine international market through Lan Argentina and our other passenger airlines. We are also the leading air cargo operator within, to and from South America. Our international and domestic passenger and cargo operations have increased substantially over the past four years in terms of capacity, traffic and revenue. Since 2003, passenger, cargo and total traffic revenues have grown 139.2%, 91.7% and 120.4%, respectively.

Diversified Revenue Base from both Passenger and Cargo Operations

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 reserve certain dedicated cargo routes using our freight 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. As of December 2007, passenger revenues accounted for 62.3% of total revenues and cargo revenues accounted for 32.7% of total revenues.

Attractive Cost Structure with High Utilization of our Assets and Productive Personnel

We believe that we have a highly competitive cost structure with a cost per ATK of 42.7 cents in 2007. Our cost advantage arises mainly from our productive and committed employees, high aircraft utilization, modern and

fuel-efficient fleet and cost-conscious culture. Our wages and labor costs accounted for approximately 15.7% of total costs in 2007, which we believe is a lower percentage than that of many other U.S. and European carriers. Our itineraries and aircraft rotations are designed to maximize aircraft utilization. During 2007, our long-haul aircraft (Boeing 767-300 passenger and Airbus A340-300s) operated an average of more than 14 hours per day. In connection with the implementation of our new business model for short-haul operations, we expect utilization for narrowbody aircraft to reach approximately 12 hours by the end of 2008. We are undergoing a re-fleeting plan that will enable us to modernize our short and long-haul fleets, as well as to reduce the number of aircraft families that we operate. Finally, our corporate culture promotes constant process streamlining and productivity enhancement.

Strong Brand Teamed with Key Global Strategic Alliances

In March 2004 we launched our new brand, "LAN", under which we operate all of our international passenger airlines. This brand commonality enables our customers to better identify with the high standards of service and safety that are common to all of our airlines. Our new image also has improved the visibility of our brand, and the cost effectiveness and efficiency of our marketing efforts as we continue to expand in our existing and new markets. Additionally, we are a member of the *oneworld*® alliance, and have also entered into bilateral agreements with strategic partners such as American Airlines, Iberia and Qantas, among others, whose leading presence in the markets that they serve creates a truly global reach for our passengers. In December 2007 we implemented a commercial agreement with the Brazilian airline TAM, through which we hope to improve connectivity between Brazil and the regional markets served by LAN. Our passenger alliances and commercial agreements provide our customers with approximately 700 travel destinations, a combined reservations system, itinerary flexibility and various other benefits, which substantially enhance our competitive position within the Latin American market. On April 1, 2007, Lan Ecuador and Lan Argentina became members of the *oneworld*® alliance. With these new memberships, all the companies in the LAN group are now members of this alliance.

Optimized Fleet Strategy

We make optimal use of our fleet structure through a combination of fewer aircraft types, modern aircraft and staggered lease maturities. We carefully 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 aircraft types we operate. For short-haul flights we operate Airbus A320-Family Aircraft. As of May 18, 2008, we stopped using Boeing 737-200 aircraft in our Chilean domestic operations. For long-haul passenger and cargo flights we operate Boeing 767-300 passenger aircraft and Boeing 767-300 freighters, respectively. For ultra long-haul service, such as between Santiago and Madrid and between Santiago and Auckland, we use Airbus A340-300 aircraft. We believe that our streamlined fleet structure allows us to provide broader service across Latin America and in our domestic markets. Further, having a fleet with minimal aircraft types reduces inventory costs, as fewer spare parts are required, and reduces the need to train our pilots to operate different types of aircraft.

The average age of our fleet as of March 31, 2008 was 7.9 years, making our fleet one of the most modern in Latin America. The phasing out of our Boeing 737-200s, our oldest aircraft, which was completed in May 2008, will further reduce the average age of our fleet. Additionally, we expect that our purchase orders of additional aircraft for delivery between 2008 and 2016 will further reduce the average age of our fleet. We believe that having a younger fleet makes us more cost competitive through reduced fuel consumption and maintenance costs. We also believe that our modern fleet has enabled us to enjoy a high degree of performance reliability.

We announced in June and July 2007 historically large orders for new passenger and freighter aircraft in order to further improve our fleet. We have scheduled four Boeing 777 freighter aircraft (two of which will be leased and two owned) to be delivered between 2009 and 2012. We have ordered 32 Boeing 787 *Dreamliners* (six of which will be leased and 26 owned) to be delivered between 2011 and 2016, although production delays might require us to change the anticipated delivery schedule. These are the largest orders for these types of aircraft in the region and provide the basis for LAN's commitment to remain a leader in commercial aviation in Latin America.

Additionally, our leased fleet is structured with staggered lease maturities over time to create the strategic flexibility to expand or reduce capacity according to market conditions. We believe that our aircraft and the flexibility of our fleet allow us to maximize aircraft utilization by adapting rapidly to changes in passenger and cargo demand in the markets that we serve.

Strong Financial Position with Track Record of Growth and Profitability

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. We are one of the few investment-grade rated airlines in the world. We have built our strong financial position by preserving our financial liquidity and continuing to structure long-term financing for newly acquired aircraft. 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. In 2007, we completed a US\$320 million equity offering in the domestic and international financial markets. This equity offering further strengthened our balance sheet, reduced our leverage ratio and improved our cash position, all of which better enables us to continue financing our fleet expansion and renewal plans. We also monitor and seek opportunities to reduce financial risks associated with currency, interest rate and jet fuel price fluctuations. Over the last five years, while much of the airline industry has faced significant competitive and liquidity crises, we have enjoyed a 115.4% compound growth rate in our total revenues while remaining consistently profitable.

Business Strategy

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

Continue to Grow Both our Passenger and Cargo Networks

We currently intend to expand our capacity significantly over the next several years to accommodate robust growth in both passenger and cargo demand in the markets we target. We plan on expanding our operations not only in the markets we currently serve but also into new South American markets where we believe demand exists for our combination of passenger and cargo services. To meet this growth, as of March 31, 2008, we had an orderbook of 30 latest generation Airbus 320-Family Aircraft to be delivered between 2008 and 2011 and eight Boeing 767-300 widebody passenger aircraft to be delivered between 2008 and 2009. In addition, in 2007 we ordered four Boeing 777 dedicated freighters to be delivered between 2009 and 2012. We also ordered 32 Boeing 787 Dreamliner passenger aircraft to be delivered between 2011 and 2016, but delays in the assembly line of the Boeing 787 aircraft could postpone the deliveries of those aircraft for 20 to 28 months. We are currently working on a transition fleet in order to compensate for the expected delays in delivery of the Boeing B787 aircraft.

We will continue to leverage the benefits of combining our passenger and cargo operations. Our passenger and cargo operations are equally important aspects of our business, and we dedicate the necessary resources, employees, facilities, management and fleet to enable both operations to provide high-quality service and to compete effectively in their respective markets.

Enhance the Profitability of our Short-Haul Operations through Our New Business Model

We plan to continue with the implementation of the initiatives launched in 2007 to redesign our short-haul business model, specifically in the domestic markets in Chile and Peru. A key objective of this program has been to increase the utilization of our fleet through modified itineraries that include more point-to-point and overnight flights. Our Boeing 737-200 fleet was completely phased out in May 2008 in favor of the new Airbus 320-Family Aircraft. We believe that these initiatives have already begun to increase efficiency and improve the margins of LAN's short-haul operations. In addition, the new 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 our new business model include a reduction in sales and distribution costs through increased Internet penetration, reduced agency commissions, faster turn-around times, 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 allow us to expand operations while controlling fixed costs, spurring a significant reduction in overhead costs per ASK by year-end 2008. We have begun to pass on a portion of these operating efficiencies to consumers through fare reductions, which we expect will stimulate additional demand and enhance our overall profitability.

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 and quick check-in for short-haul flights, and the comfort afforded by a modern fleet. During 2008 we expect to complete the reconfiguration of the cabins of our Boeing 767 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. We then plan to reconfigure our Airbus A340 fleet with the new Premium Business Class and improvements in economy class. Our frequent flyer program, LANPASS, provides travel benefits and rewards to almost three million loyal customers in Chile, Argentina, Peru, Ecuador and in other countries where we operate. 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.

Continued Emphasis on Safety

Our top priority is safety, and we have structured our operations and maintenance to focus on safe flying. Our main maintenance facilities are certified by the FAA, DGAC and other civil aviation authorities. Our flight and maintenance safety procedures are certified under ISO 9001-2000 standards. We have programs in place to train our crews and mechanics to world-class standards both at facilities abroad or at our training centers, which we have developed in association with high-quality partners.

BUSINESS OF THE COMPANY

Airline Operations and Route Network

We are one of the main air transport operators in Latin America. As of March 31, 2008, we operated passenger airlines in Chile, Peru, Ecuador and Argentina. We are also the largest air cargo operator in the region. Our international and domestic passenger and cargo operations and services have increased substantially over the past five years in terms of capacity, traffic and revenue.

The following table sets forth our gross traffic revenues by activity for the periods indicated.

		Year ended December 31,				
	2003	2004	2005	2006	2007	
		(in	US\$ million	ıs)		
The Company ⁽¹⁾						
Total passenger revenues	918.4	1,169.0	1,460.6	1,813.4	2,197.2	
Total cargo revenues	602.0	799.7	910.5	1,072.7	1,154.3	
Total traffic revenues	1,520.4	1,968.7	2,371.1	2,886.1	3,351.5	

⁽¹⁾ Information provided for the Company consolidates Lan Peru beginning August 2001, Lan Ecuador beginning April 2003, Lan Dominicana beginning June 2003 and ending in May 2004, and Lan Argentina beginning June 2005.

Passenger Operations

General

As of March 31, 2008, our passenger operations were performed through airlines in Chile, Peru, Ecuador and Argentina. We operate international services out of Chile, Peru, Ecuador and Argentina, as well as domestic flights in Chile, Peru and Argentina. Between June 2003 and May 2004, we also operated international services to and from the Dominican Republic through Lan Dominicana, that we subsequently suspended due to market conditions.

As of March 31, 2008, our network consisted of 14 destinations in Chile, 12 destinations in Peru, two destinations in Ecuador, ten destinations in Argentina, 15 destinations in other Latin American countries and the Caribbean, three destinations in the United States, two destinations in Europe and four destinations in the South Pacific. Within Latin America, we have routes to and from Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, the Dominican Republic, Ecuador, Mexico, Peru, Uruguay and Venezuela. We also fly to a variety of international destinations outside Latin America, including Auckland, Frankfurt, Los Angeles, Madrid, Miami, New York, Papeete (Tahiti) and Sydney. In addition, as of March 31, 2008, through our various code-share agreements, we offer service to 22 additional destinations in North America, 12 additional destinations in Europe, 23 additional destinations in Latin America and the Caribbean (including Mexico), and one destination in Asia.

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

			ar chaca Decemb		
	2003	2004	2005	2006	2007
The Company ⁽¹⁾					
ASKs (million)					
International ⁽²⁾	14,505.3	17,389.0	20,025.9	22,497.1	27,241.6
Domestic ⁽²⁾	3,818.6	3,758.4	3,661.4	3,902.8	4,314.4
Total	18,323.9	21,147.4	23,687.3	26,400.0	31,556.1
RPKs (million)					
International ⁽²⁾	10,271.5	12,620.5	15,032.9	16,961.9	20,871.8
Domestic ⁽²⁾	2,399.5	2,504.9	2,457.9	2,533.6	3,129.8
Total	12,671.0	15,125.3	17,490.8	19,495.5	24,001.2
Passengers (thousands)					
International ⁽²⁾	3,143.5	4,114.6	5,495.8	6,369.4	8,071.3
Domestic ⁽²⁾	2,365.6	2,464.4	2,471.1	2,511.9	3,020.1
Total	5,509.1	6,578.9	7,966.9	8,881.3	11,091.3
		Ye	ar ended Decemb	er 31,	
	2003	2004	2005	2006	2007
Passenger yield (passenger revenues/RPKs, in US cents)					
International ⁽²⁾	US¢ 6.86	US¢ 7.29	US¢ 7.77	US¢ 8.73	US¢ 8.76
Domestic ⁽²⁾	US¢ 8.90	US¢ 9.95	US¢ 11.89	US¢ 13.11	US¢ 11.74
Combined yield ⁽³⁾	US¢ 7.25	US¢ 7.73	US¢ 8.35	US¢ 9.30	US¢ 9.15
Passenger load factor (%)					
International ⁽²⁾	70.8%	72.6%	75.1%	75.4%	76.6%
Domestic ⁽²⁾	62.8%	66.6%	67.1%	64.9%	72.5%
Combined load factor ⁽⁴⁾	69.1%	71.5%	73.8%	73.8%	76.1%

⁽¹⁾ Information provided for the Company consolidates Lan Ecuador beginning April 2003, LanDominicana beginning June 2003 and ending in May 2004, and Lan Argentina beginning June 2005.

International Passenger Operations

As of March 31, 2008, we operated scheduled international services from Chile, Peru, Ecuador and Argentina through Lan Airlines, Lan Express, Lan Peru, Lan Ecuador and Lan Argentina. International passenger traffic has grown significantly in the past couple of years due to demand growth, market share gains, increased connecting traffic to and from other Latin American countries, the launch of new routes and expansion into new market and routes.

⁽²⁾ Our domestic operations in Chile are classified as "Domestic." Our domestic operations in Peru and Argentina are classified as "International".

⁽³⁾ Aggregate of international and domestic passenger yield.

⁽⁴⁾ Aggregate of international and domestic passenger load factor.

Our international network combines our Chilean, Peruvian, Ecuadorian and Argentinean affiliates. We have operated international services out of Chile since 1946, and we greatly expanded our flights out of Peru and Ecuador with the creation of Lan Peru and Lan Ecuador in 1999 and 2003, respectively. In August 2006, we expanded our international operations through Lan Argentina, which until then had only been offering domestic flights. This strategy 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. We provide long-haul services out of our four main hubs in Santiago, Lima, Guayaquil and Buenos Aires. We also provide regional services from Chile, Peru, Ecuador and Argentina. Since 2004, we have grown our intra-Latin American operations out of Lima to position it as our main regional hub. The following table sets forth the destinations served from each of the aforementioned countries as of March 31, 2008:

Country of Origin	Destination	Number of Destinations
Chile	Argentina	10
	Bolivia	2
	Brazil	2
	Colombia	1
	Cuba	1
	Ecuador	2
	Peru	1
	Uruguay	1
	Venezuela	1
	Dominican Republic	1
	Mexico	2
	United States	3
	Spain	1
	Germany	1
	New Zealand	1
	Falkland Islands	1
	Australia	1
Peru	Argentina	1
	Bolivia	2
	Chile	1
	Colombia	1
	Ecuador	2
	Venezuela	1
	Mexico	1
	United States	3
Ecuador	Argentina	1
	Chile	1
	Peru	1
	United States	2
	Spain	_ 1
Argentina	United States	1
	Brazil	1
	Chile	1
	Dominican Republic	1
	Dominican republic	1

We designed a new class called "Business Express" for our Airbus 320 Family Aircraft fleet in order to better respond to the needs of LAN's business travelers flying on our regional Latin American network. We created the Business Express class by converting the first three rows in our short-haul Airbus fleet (which regularly have 18 seats) into a 12-seat area in order to provide passengers with additional comfort. We also provide pre-boarding and on-board services of a business class level. The new Business Express class was successfully tested on all regional routes flying through the Lima hub in 2007 and resulted in increased overall customer satisfaction. We plan to launch the new Business Express class on all regional routes during 2008. We expect to retrofit our Airbus fleet with convertible seats by the second half of 2008 so that such aircraft may be easily converted from an full economy flight used on domestic routes to a Business Express / economy flight flown on regional routes.

According to JAC data, Chilean international air passenger traffic increased 12% in 2007 as compared to 2006, to approximately 21,355 million RPKs. We had a 50.9% market share in 2007, based on RPKs, compared to 49.4% in 2006. Our international operations out of Chile can be divided into four main segments: to North America, to Europe, to the rest of Latin America, and to the Pacific. As of March 31, 2008, the other principal carriers that transport passengers between Chile and North America with direct flights included American Airlines, Delta Airlines, and Air Canada. Grupo TACA and COPA also participate in the Chile-North American markets with stopovers in their respective Central American hubs. Our main competitors on routes between Chile and Europe were Air France-KLM, Iberia and Swiss. On regional routes our main competitors were Aerolineas Argentinas, Aeromexico, Avianca, GOL, TACA and TAM. We were the only airline operating between Chile and the South Pacific.

Based on the information provided by the Peruvian DGAC, international traffic to and from Peru grew 22% between 2006 and 2007 to approximately 3.9 million passengers. We had a 36% international market share in 2007, based on passengers, compared to 32% in 2006. Our Peruvian international operations can be divided into two main segments: to North America and to the rest of Latin America. As of March 31, 2008, our main competitors on direct routes to North America included American Airlines, Continental Airlines, and Delta Airlines. Grupo TACA and COPA also participate in the Peru-North American markets with stopovers in their respective Central American hubs. The other principal carriers operating between Peru and the rest of Latin America as of that date included Aerolineas Argentinas, Aeromexico, TACA Peru, Avianca and GOL.

The Ecuadorian international market increased 3.4% to approximately 2.5 million passengers between 2006 and 2007. According to travel agency statistics (MIDT), we had a 17.3% market share of the Ecuadorian international market in 2007 compared to 16.8% in 2006. Our Ecuadorian international operations can be divided into three main segments: to North America, to Europe and to the rest of Latin America. As of March 31, 2008, on direct routes to North America, our main competitors were American Airlines, Continental Airlines and Delta Airlines. Grupo 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 were Air Comet, Iberia, and Air France-KLM. On regional routes, our main competitors were TACA, COPA and Avianca.

Based on our internal estimates, the Argentinean international market increased 14% to approximately 7.3 million passengers between 2006 and 2007. Our estimated market share of the Argentinean international market was 17.9% in 2007 compared to 14.6% in 2006. Our Argentinean international operation consists of operations between Buenos Aires and Miami, the Dominican Republic, Sao Paulo and Santiago. As of March 31, 2008, on the Miami route, our main competitors were American Airlines and Aerolineas Argentinas, TAM, Grupo TACA and COPA also participate in the Argentina-North American markets with stopovers in their respective hubs. On the Sao Paulo route, our main competitors were TAM, GOL and Aerolineas Argentinas. On the Santiago route, our main competitors were GOL, Aerolineas Argentinas and Air Canada.

Lan Argentina began providing international services in August 2006 with three weekly flights between Miami and Buenos Aires. By October 2006, Lan Argentina was operating daily flights on the Miami-Buenos Aires route with a stopover in Punta Cana, Dominican Republic once a week. In January 2007, Lan Argentina launched the Buenos Aires to Sao Paulo route, on which we currently operate a daily flight. In order to service international long-haul operations, Lan Argentina added two Boeing B767-300 passenger aircraft to its fleet during the second half of 2006.

Business Model for Domestic Operations

In 2007 we initiated an important project to redesign our domestic business operations with the goal of increasing efficiency and improving the margins of LAN's short-haul operations, specifically with respect to our domestic operations in Chile, Argentina and Peru. The new business model was first tested in the last quarter of 2006. A key element of this project has been to significantly increase the utilization of our narrowbody fleet, which we have been achieving through modified itineraries including more point-to-point and overnight flights. We removed Boeing 737-200 aircraft from our fleet in favor of the new more efficient Airbus 320-Family Aircraft. The Airbus 320-Family Aircraft fleet utilization increased to over 10 block hours per day in 2007, and we target a utilization of approximately 12 block hours per day per aircraft by the end of 2008. 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.

Other key elements of our new business model are the reduction in sales and distribution costs through higher Internet penetration and reduced agency commissions, a faster turn around 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 significant reduction in overhead costs. We have begun to pass on these operating efficiencies to consumers through significant fare reductions, which we expect will have a strong impact on stimulating new demand.

In 2007, we implemented all aspects of this new business model in the Chilean and Peruvian domestic markets. We launched our new short-haul business model on all domestic routes in Chile during April 2007, with a marketing campaign which began in March 2007. We launched the new model in all domestic Peruvian routes in January 2007. Implementation of certain aspects of this new model is also in progress in the Argentinean domestic market.

We plan to continue with the implementation of this business model in 2008 as we look for ways to increase operational efficiency, encourage direct sales and self check-in, and implement new sales strategy aimed at stimulating demand. Efficiency and productivity improvements are especially important in light of current fuel prices.

Operations within Chile

Through the companies Lan Airlines 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. As of March 31, 2008, we flew to 14 destinations within Chile (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 Airlines and Lan Express have integrated passenger operations, including through operation 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.

As of March 31, 2008, we operated a fleet of 14 Airbus A320 Family Aircraft and 4 Boeing 737-200 aircraft in the Chilean domestic market, and we plan to increase the number of Airbus A320 Family Aircraft to a total of 15 to 16 in 2008. Domestic operations in Chile were positively affected by the greater utilization of the latest-generation Airbus fleet and the retirement of the Boeing 737-200s, which were completely phased-out as of May 2008. The new business model was launched nationwide within Chile in April 2007. As a result, demand and capacity expanded significantly by 24.7% and 11.5% respectively, leading to an increase in load factor of 7.7 percentage points, which averaged 73% in 2007. We stimulated demand by decreasing fares an average of 12%, with some fare classes discounted by up to 35%. We reduced sales costs by increasing direct sales (with 45% of our 2007 sales done through the Internet), and by reducing agency commissions from 6% to 1% in February 2007. We also increased fleet utilization, crew productivity and the leg average through schedule changes. Additionally, we simplified our processes, which helped to increase the self check-in rate from 40% to almost 70%, and modified the on-board snack offered. Finally, we utilized the greater efficiency of the Airbus aircraft to reach operational efficiencies such as reducing the turn-around time and lowering fuel consumption. As of March 2008, we operated close to 90% of our ASKs with our Airbus 320 Family Aircraft fleet

According to JAC data, the Chilean domestic market as a whole transported approximately 4.0 million passengers in 2007. Our domestic market share in Chile was 74% for 2006 and 2007. Our main competitors in the domestic market are Sky Airlines with a 17% market share in 2007 and Aircomet Chile (formerly known as Aerolineas del Sur) with a 9% market share in 2007. Sky Airlines currently operates a fleet of Boeing 737-200s and flies to 13 destinations. Aircomet Chile, which entered the market in December 2004, is affiliated with Air Comet and Aerolineas Argentinas, and operates flights to eight destinations with a fleet of Boeing 737-200 aircraft.

There are currently no foreign airlines participating in the Chilean domestic market. Chile permits foreign airlines to operate in Chile if the airline's home country gives similar treatment to Chilean airlines. 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

Through Lan Peru we are the leading passenger airline in the domestic Peruvian market. We have operated domestic flights in Peru since the creation of Lan Peru in 1999. In 2004, in response to changes in the competitive structure of the domestic market, including the cessation of operations of Aerocontinente, we expanded our operations considerably and thereby expanded our presence in the Peruvian market. Specifically, we added service to four new destinations and incorporated five Airbus A320 aircraft to our domestic operations. Our strategy is based on delivering high quality service in Peru and providing intensive and convenient service to Peru's main destinations while gradually expanding into new markets. We added an eighth Airbus A320 to the fleet in July 2006. We replaced the entire Airbus A320 fleet with an Airbus A319 fleet during the last quarter of 2006. The smaller Airbus A319 aircraft, which numbered 10 in 2007, are more appropriate for our Peruvian operations and have allowed Lan Peru to achieve significant efficiencies.

According to the *Corporación Peruana de Aeropuertos y Aviación Comercial S.A.*, or CORPAC, data, our domestic market share in Peru was 65% for 2005, 67% for 2006 and 68% for 2007. According to the Company's internal statistics, Lan Peru achieved a 72% domestic market share in March 2008. In 2007, we flew to the following 12 destinations in Peru: Lima, Cusco, Arequipa, Juliaca, Puerto Maldonado, Tacna, Trujillo, Chiclayo, Piura, Tarapoto, Iquitos and Pucallpa. A total of 2,272,697 passengers traveled on Lan Peru's domestic Peruvian routes in 2007, which represented an increase of 32% compared to 2006. In March 2008, approximately 25% of Lan Peru's sales were made through LAN.com, and approximately 70% of the passengers used the self-check option by checking in online or by using the self-check kiosks located at airports.

Our main competitors in the Peruvian market during 2006 were Star Peru, AeroCondor, TACA Peru and Wayra Peru. In February 2006 one of our competitors, TANS, ceased operations. In November 2006, Wayra Peru, which had entered the market in March 2006, also ceased its operations. During 2007, our main competitors were Star Peru, AeroCondor and TACA Peru.

Operations within Argentina

Lan Argentina initiated services in June 2005, covering two Argentine domestic destinations from Buenos Aires, Cordoba and Mendoza. During 2005 and 2006 Lan Argentina increased the number of Argentine domestic destinations to eight adding Bariloche, Iguazu, Comodoro Rivadavia, Rio Gallegos, Ushuaia and Calafate. In March 2007, Lan Argentina initiated service from Buenos Aires to Salta with one daily flight.

From June to November 2006, Lan Argentina replaced all its Boeing B737-200 fleet, which consisted of five aircraft, with four Airbus A320 aircraft. We use these aircraft in both domestic and regional operations. The replacement of these aircraft enabled Lan Argentina to increase the scope, size and efficiency of its operations. In March 2007, we incorporated a fifth Airbus A320 to its fleet, and in March 2008, a sixth one.

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 delegated to the Transportation Secretary the authority to change prices, which up to then could only be done by presidential decree, and liberalized foreign ownership of Argentinean airlines, previously capped at 49%. In April 2008, a new presidential decree increased both the floor and ceiling of the regulated price range by 18%. In May 2008, a presidential decree further lifted the floor and the ceiling of the domestic price range by an additional 18%. Together, these two increases resulted in a rise of almost 40% in domestic fares.

Our domestic market share in Argentina, based on our internal estimates for the October-December 2007 period amounted to 18%. Our competitors in the Argentinean market during 2007 were Aerolineas Argentinas and its affiliate Austral. Together, these two companies held substantially all of the remaining share of the domestic Argentine market.

Passenger Alliances and Commercial Agreements

The following are our passenger alliances and partnerships as of March 2008:

- oneworld®. In June 2000, Lan Airlines and Lan Peru were officially incorporated into the oneworld® alliance, a global marketing alliance consisting at that time of American Airlines, British Airways, AerLingus, Cathay Pacific Airlines, Qantas, Iberia and Finnair, which, among other benefits, offers improved service to frequent flyer customers. In April 2007, JAL from Japan, Royal Jordanian from Jordan and Malev from Hungary, together with Lan Ecuador and Lan Argentina, joined the alliance, while AerLingus withdrew from the alliance. Together, these airlines are able to offer customers travel advantages, such as approximately 700 worldwide destinations, schedule flexibility and reciprocal frequent flyer program benefits. Additionally, oneworld® is the first alliance to deploy full interline e-ticketing between its partners.
- American Airlines. Since 1997, Lan Airlines has had an agreement with American Airlines which enables Lan Airlines and American Airlines to share carrier codes for certain flights on global reservations systems, thereby enabling American Airlines passengers to purchase seats on Lan Airlines flights and vice-versa. The Department of Transportation, or DOT, granted antitrust immunity to our arrangement with American Airlines in October 1999. The antitrust immunity encompasses cooperation in commercial and operational areas such as pricing, scheduling, joint marketing efforts and reductions of airport and purchasing costs, as well as further implementation of cargo synergies in areas such as handling and other airport services. For more information see "—Regulation—U.S. Aeronautical Regulation—Regulatory Authorizations in Connection With Strategic Alliances" below. Through this alliance, we currently offer service to 18 additional destinations in the United States and Canada. In 2005, the DOT granted antitrust immunity to a similar agreement between Lan Peru and American Airlines. This antitrust immunity allows enhanced coordination between Lan Peru and American Airlines, and both companies established in 2007 code-share operations between Peru and the U.S. with additional destinations in both countries.
- *Iberia.* In January 2001, Lan Airlines initiated a code-share agreement with Iberia, pursuant to which we offer passengers between ten and 14 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 and Peru respectively, and Spain as well as eight other European destinations for each.
- Qantas. In July 2002, Lan Airlines 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, 2008, this code-share agreement included daily flights operated by Lan Airlines.

- British Airways. In August 2000, Lan Airlines initiated a code-share agreement with British Airways on Lan Airlines flights between Buenos Aires and Santiago to provide service for British Airways passengers traveling from London to Santiago through a connection in Buenos Aires (which was later changed in 2007 to a connection in Sao Paulo). In May 2001, we expanded this code-share agreement to include British Airways' flights between Madrid and London.
- Aeromexico. In 2004, we expanded our previous alliance with Aeromexico. The new 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 13 domestic destinations in Mexico. Additionally, it provides our
 passengers with benefits such as easier connections and reciprocal accrual and redemption of frequent flyer program rewards.
- TAM: In 2007, Lan Airlines and Lan Peru, established regional code-share agreements with TAM Linhas Aereas. Through this agreement, LAN offers nine additional destinations in Brazil. LAN also code shares with Transportes Aereos del Mercosur S.A. ("TAM Mercosur") with respect to flights from Santiago to Asunción, Paraguay that are operated by TAM Mercosur. These arrangements will provide our passengers with reciprocal accrual and redemption of frequent flyer program rewards. Lan Argentina is currently finalizing the approval process with the Argentine authorities for this regional code-share agreement with TAM.
- Other alliances and partnerships: Since 2005, we have had a code-share agreement with Korean Air. Under this agreement we place our code on Korean Air flights between Los Angeles and Seoul, while Korean Air places its code on our flights from Los Angeles to Santiago. In 2004, LAN and Mexicana signed a frequent flyer program that allows for reciprocal accrual and allowance of frequent flyer benefits. Since 1999, Lan Airlines has been in an alliance with Alaska Airlines Inc. 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

Even though we market our services under the common "LAN" brand, we differentiate our marketing strategies between our long-haul and short-haul services.

Our long-haul marketing strategy emphasizes attributes valued by our international customers, including reliability, high quality on-board and ground service, comfort, comprehensive coverage of key South American markets and frequent service to major overseas gateways such as New York, Los Angeles, Miami, Madrid and Sydney. In order to strengthen our market position, we have continued improving our passenger cabins and service and constantly monitor our corporate image. As such, in 2006 we launched a US\$80 million retrofit program for all of our Boeing B767-300 passenger aircraft, which merges our Business and First Classes into a Premium Business Class featuring full-flat seats, new entertainment units for both Premium Business and Economy cabins, together with a new on-board service. In 2006, LAN received the Business Traveler award for "Best Business Class in Latin America," confirming the positioning achieved by the Company. Our aim is to give our long-haul passengers a sense of a "shorter" and more pleasant flight. For our Business passengers, our cabin features and on-board service aimed at providing the passenger with more time to rest, and for our Economy Class passengers, our upgraded entertainment units aim to make the flight a more enjoyable one. The retrofit program for the new configuration should be completed by August 2008. In the second half of 2008, we will start to retrofit our Airbus A340-300 fleet, merging the Business and First Classes cabins into a Premium Business Class.

We have redesigned our short-haul operations in order to better match the customers' needs in those routes, which are punctuality, reliability, higher frequencies, modern aircraft and efficient operations. As such, these routes now feature modern planes, most with all-leather seats, increased frequencies with more point-to-point flights, improved punctuality and streamlined processes including Internet sales, Internet check-in and airport self-check-in. We expect to complete the phase-out of our Boeing B737-200 fleet by May 2008.

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. As a result, we created a new Business Express class on some regional routes in response to comments made by our business travelers.

As mentioned above, we implemented a "new way to travel" initiative in the domestic Chilean and Peruvian market that seeks to make air travel accessible to more people through discounts and the lowest fares supported by the efficiency of operations.

Branding

In March 2004, we launched our new "LAN" brand under which we started to operate all of our passenger service that we previously operated under the local brands such as "Lan Chile", "Lan Peru" and "Lan Ecuador." We developed our new 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. We expect that using a single, common brand will enable our customers to better understand the common service and operating standards that exist between our airlines. Additionally, we believe that our new image will improve the visibility of our brand, enhance flexibility, and increase the efficiency of our marketing efforts.

This marketing program involved changing our corporate image, including our logo and aircraft livery. As a result, all of our marketing efforts are now done using audiovisual elements based on the LAN brand. During 2005 and 2006, we focused on advancing the transition to our new brand. This included the gradual repainting of our fleet, which was completed in the second quarter of 2006. Our commercial strategy, centered on exploiting the LAN alliance concept, has been widely recognized, as exemplified by the decision of Airline Business magazine to recognize us in 2004 with its "Airline Strategy Award, Marketing."

Even though we now offer different products for our long-haul and short-haul operations, both products are marketed under the same brand, as the corporate values behind the umbrella brand encompasses attributes applicable to both operations. This decision will result in significant savings as we only have to promote one brand, thereby increasing the efficiency of our marketing efforts.

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 and accounted for approximately 73% of passengers during 2007. We paid these travel agents standard commissions ranging from 0% to 9% depending on the market. 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. In Chile, as of February 2007, we reduced the standard commission from 6% to 1% for Economy Class passengers, maintaining the 6% commissions for First and Business Class passengers. However, we are now charging a fee to customers for sales done through our own ticket offices or call centers in Chile, leaving the Internet as the only free-of-charge distribution channel. We are in the process of reducing commissions to agents in Peru, Argentina and Ecuador.

Travel agents obtain airline travel information and issue airline tickets through Global Distribution Systems, or GDSs, that enable them to make reservations on flights from a large number of airlines. GDSs are also used by travel agents to make hotel and car rental reservations. 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.

Direct channels refer to sales by our own ticket offices, call-centers and website. In 2007, direct bookings accounted for approximately 27% of all of our passengers.

We have an extensive sales and marketing network in over 30 countries consisting of more than 100 domestic and international points of sale owned by us and of approximately 20 general sales agents.

Our call-centers support the growth of our operations by combining a remote sales channel with personalized service. During 2007, we continued on the consolidation of our main call-center located in Santiago. Today, it handles calls originated in Chile as well as those in foreign markets such as the United States, Uruguay, Brazil, Ecuador, Europe and Mexico. As of 2007, we have two additional call-centers located in Argentina and Peru. These call-centers are complemented by approximately 200 home-based agents and by third-party service providers that include approximately 150 additional agents. We have continuously upgraded our systems by incorporating technological advances to enhance efficiency and customer service.

Our website is an integral part of our commercial, marketing and service efforts. In March 2004, we replaced the different country-specific sites (such as *lanchile.cl* or *lanperu.com.pe*) with a unified one, *www.lan.com*, to better reflect the launch of our new corporate image. 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, rising 118% in 2007 compared to 2006, and amounting to US\$225.6 million in 2007. We are continuously improving our website, a key element of our new shorthaul model, so that the technological platform can support the expected future growth.

Besides serving as a sales channel, we have utilized our website as a tool to provide value-added services and enhance communication. We send weekly promotional e-mails to more than 1.1 million subscribers, and 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.

During 2007 we continued promoting our Internet-based check-in service for domestic flights, allowing passengers who are not checking in bags to obtain their boarding passes from their home or office, thus avoiding traditional airport counter procedures. In 2006, in order to complement the Internet-based check-in service, we introduced the airport self-check kiosks, which allow the passengers who are not checking bags to bypass the check-in counter going directly to the gate. Currently, we have self-check kiosks in seven cities in Chile and three cities in Peru. As of March 2008, the kiosk and Internet check-in utilization rate had increased to 49% for domestic routes in Chile.

Electronic Ticketing

In 1997, we introduced electronic tickets, commonly referred to as e-tickets, and have since worked to increase their penetration. E-tickets are a key element of our sales efforts through the Internet and our call centers and they also produce important simplifications in our back-office, enabling us to significantly reduce distribution costs. E-tickets, which accounted for approximately 98% of tickets sold during 2007, are currently available on all of LAN's routes. Since 2003, we have advanced in implementing interline e-tickets and, in line with this effort, in mid-2005 we completed the implementation of this feature with all of our *oneworld*® partners. We continue developing interline e-ticket agreements with most of our interline partners.

Advertising and Promotional Activities

Our advertisement and promotional efforts are aimed at enhancing our brand positioning and supporting specific aspects of our commercial efforts. Our advertising and promotional activities include the use of television, print and radio advertisements as well as direct marketing. The utilization of a common brand among our airlines has enabled us to launch regional campaigns focused in highlighting key attributes such as reliability and warmth.

During 2007, we deployed two regional campaigns. The main campaign was to introduce our new Premium Business Class on our Boeing 767-300 fleet, highlighting the level of comfort of flying on a full flat bed during a long haul trip. The other campaign was about LAN's network and its extended coverage of South America. Campaigns used local television and print in Argentina, Chile, Ecuador and Peru, as well as in regional media.

On a country-specific level, the launch of the new model for domestic operations in Chile in April 2007 was supported by intense marketing efforts involving television, radio and print. The principal focus of this campaign was offering passengers better fares in order to stimulate demand and enable more people to fly.

In Peru and Argentina, we launched campaigns to enhance awareness of attributes such as reliability and differentiating technological advances such as web check-in. Additionally, specific advertisement campaigns were implemented to stimulate Internet sales, web-based check-in and service redemption, and low-season travel.

LAN has built a comprehensive database that includes valuable information such as flying preferences, demographic and other relevant customer information, which is used for passenger revenue management (including targeted promotions to different customer segments), thereby reducing dilution and maximizing response rates. This type of information is also a source for customer metrics and monitoring and provides significant management information.

Frequent Flyer Program

Our frequent flyer program is called LANPASS. LANPASS's objective is to generate incremental revenue and customer retention through customer loyalty and targeted marketing. Worldwide, LANPASS has approximately 2.8 million members.

Customers earn kilometers in their LANPASS accounts based on distance flown and class of ticket purchased. Based on an award schedule, customers can redeem kilometers for free tickets or upgrades. Under our current frequent flyer program, our passengers are grouped into one standard level and three 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.

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 and Argentina, which give additional kilometers to customers for using their services. As an active member of the *oneworld*® alliance, we have reciprocal frequent-flyer agreements with all *oneworld*® carriers. In addition, we have reciprocal agreements with other carriers, such as Alaska Airlines, Aeromexico and Mexicana, that allow us to benefit from the loyalty of their customers, as they can accrue miles under their frequent flyer program when traveling on LAN's flights.

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 the penetration of the program outside Chile. In 2007, membership in LANPASS grew 31% in Peru, 27% in Ecuador and 56% in Argentina.

Cargo Operations

General

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

		Year ended December 31,			
	2003	2004	2005	2006	2007
The Company					
RTKs (millions)					
International	1,876.6	2,226.5	2,359.4	2,548.0	2,673.6
Domestic	35.2	32.9	32.8	31.2	28.8
Total	1,911.9	2,259.4	2,392.3	2,579.2	2,702.3
Weight of cargo carried (millions of tons)					
International	397.4	481.3	504.2	540.0	581.5
Domestic	26.8	25.1	24.8	24.1	23.0
Total	424.2	506.3	529.0	564.1	604.5
Total cargo yield (cargo revenues/RTKs, in US cents)	US¢ 31.49	US¢ 35.39	US¢ 38.06	US¢ 41.59	US¢ 42.72
Total cargo load factor (%)	67.1%	74.3%	74.4%	75.9%	74.4%

Our cargo business generated revenues of US\$910.5 million in 2005, US\$1,072.7 million in 2006 and US\$1,154.3 million in 2007. This represented 36.3%, 35.4% and 32,7% of our operating revenues, respectively. Cargo revenues grew 26.8% between 2005 and 2007 primarily due to the addition of new routes and improvement in yield. Our international cargo routes to, from and within Latin America accounted for around 97.0% of total cargo revenues for 2005, 2006 and 2007.

Our cargo business generally operates on the same route network used by our passenger airline business, which is supplemented by freighter-only operations. Overall, it consists of 74 destinations (58 operated by passenger and/or freighter aircraft and approximately 16 operated only by freighter aircraft). We complement our own operations through coordination with our regional affiliates, MasAir in Mexico, and Absa in Brazil. We are in the process of establishing a new cargo subsidiary in Colombia, and we expect to complete the process and begin operations within the next 12 months. We carry cargo for a variety of customers, including other international air carriers, freight-forwarding companies, export oriented companies and individual consumers. For information about our fleet, see "—Fleet—General" below.

We transport cargo in four ways: (i) in the bellies of our passenger aircraft, (ii) in our own dedicated freighter fleet, (iii) in belly space that we purchase from other airlines and, (iv) in aircraft that we charter or lease pursuant to ACMI contracts (Aircraft, Crew, Maintenance and Insurance), which are also known as "wet-leases," in which the lessor operates the aircraft and provides the aircraft, crew, maintenance and insurance, pursuant to short- and medium-term contracts.

Our international cargo operations are headquartered in Miami, whose geographical location positions it as the natural gateway for Latin American imports and exports to and from the United States, and since 2001, are located in our 380,000 square-foot facilities located within the Miami International Airport. 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. To complement our own cargo operations to the United States, we have negotiated commercial agreements with American Airlines on some routes from Miami to Brazil.

We operate to three gateways in Europe: Madrid, which we serve via passenger aircraft (using our flights from Santiago, Lima and Guayaquil), Frankfurt (through both passenger flights and freighter operations since October 2002, when we signed our partnership with Lufthansa Cargo (for more information on this agreement see "—Cargo Agreements" below)), and Amsterdam (through freighter operations since October 2005).

In Latin America, the principal origins of our cargo are Chile, Ecuador, Peru, Argentina and Brazil, which represent a large part of our northbound traffic. And for our southbound flights, Brazil is the main import market.

Our international cargo traffic increased 42.5% between 2003 and 2007, from 1,876.6 million cargo revenue ton kilometers in 2003 to 2,673.6 million cargo revenue ton kilometers in 2007. International cargo traffic increased 6.0% in 2005, 8.0% in 2006 and 5% in 2007, and accounted for around 97.0% of our total cargo revenues during 2005, 2006 and 2007.

We believe that the primary reasons for the growth in cargo operations are:

- increased trade throughout Latin America;
- our expansion and growing presence in new cargo markets;
- a worldwide trend toward greater consumption of fresh fruit, fresh fish and other fresh products;
- · commercial agreements with other airlines; and
- a worldwide trend towards companies reducing their inventories and shipping more frequently as part of their supply chain management.

In general terms, cargo flows are unidirectional. This characteristic is a key determinant of the structure of cargo operations as well as of the commercial conditions in the cargo business. This is especially relevant in markets featuring structural imbalances between inbound and outbound flows or during specific periods of such disequilibrium. Lack of demand in one particular direction may force airlines to rely on different markets in order to maximize loads on return flights. Furthermore, demand weakness in one direction may limit the capacity that is profitable to allocate to some routes, therefore creating pressure on fares in order to compensate for weaker revenues in one particular direction. 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. From 2002 to 2003, our international operations were characterized by very strong export traffic out of Latin America, but gradual increases in import demand, as well as the deceleration of export growth, led to more balanced cargo flows during 2004. Further extension of this trend led to excess demand on southbound routes since 2005.

We have designed our operations, route network and commercial strategies with the flexibility required to respond to changing conditions. As such, during 2003 we allocated additional capacity to northbound routes and adjusted fares on northbound routes in response to excess demand. During 2004 we gradually adjusted our operations to leverage a more balanced demand environment by performing an increased number of direct roundtrips between key export and import markets. However, weakness in exports since 2005 has driven us to support the northbound segment of certain routes with stop-overs in additional export markets, to reduce northbound fares to stimulate demand and to raise southbound fares.

Despite some initial challenges, during 2007 we continued a series of measures and projects that led to improved margins. Among other things, we consolidated our new fleet model, reducing wetlease utilization in favor of a more efficient owned fleet. We reduced wetlease capacity as a percentage of total cargo capacity from 13% in 2006 to 10% in 2007. We also emphasized the most profitable routes in expanding our network. We carried out significant improvements in our information system as part of our constant search to enhance customer service. Among other initiatives, we integrated our system with those of our major customers, and we also developed a new

and improved web-based e-tracking tool. Those innovative initiatives help to differentiate the product we offer to our clients and reinforce our commitment to maintain leadership and world-class service standards.

During the last five years, we also improved our competitive position as key operators reduced their operations, and competitors such as UPS and FedEx either downsized their operations or exited some markets. Since mid-2004, competition increased as regional carriers added capacity, but despite this increase in competition, we have been able to maintain solid market shares in large part because of the efficient utilization of our fleet and network. Today, on Latin America-United States routes, our main competitors are Cielos del Perú S.A., Transportes Aereos Mercantiles Panamericanos S.A., or TAMPA (which was recently acquired by Avianca), Arrow, and Polar Air, and on the Latin American-Europe routes, our main competitors are Cargolux, Lufthansa Cargo, Martinair and Air France-KLM.

Cargo Agreements

Since 2002, Lan Cargo and Lufthansa Cargo have had a block space agreement between Europe and Latin America. As part of this agreement, Lan Cargo allocates space to Lufthansa Cargo on its flights between selected cities in Latin America and Europe, and Lufthansa Cargo allocates space to Lan Cargo on its flights between Europe and Brazil and Argentina.

We also have agreements with Asian carriers such as Korean Airlines, JAL, China Airlines, Air China and Cathay Pacific through which Lan Cargo receives space allocations from these airlines to move our cargo from Seoul, Tokyo, Taipei, Shanghai and Hong Kong to Los Angeles and Miami connecting with our network. In exchange, Lan Cargo provides them with space from these same two hubs in the United States to all Latin American destinations and also feeds them with westbound cargo.

Marketing and Sales

Our sales and marketing efforts are carried out either directly when we have a local office or through general sales agents. In Latin America we have our own offices in all key markets. In the United States we have our own offices in Miami, New York and Los Angeles, and work with representatives in various other cities. In Europe we have offices in Frankfurt and Madrid and use agents in other key cities. Finally, in Asia all our sales efforts are done through general sales agents. In total, we maintain a network of more than 40 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. On some routes, Lan Cargo offers special, value-added products such as Positive Flight Specific or FS, which enables the customer to choose a specific passenger flight to transport its goods.

Cargo-Related Investigations

In February 2006 the European Commission, in conjunction with the Department of Justice of the United States, initiated a global investigation of a large number of international cargo airlines – among them LAN Cargo S.A., LAN's cargo subsidiary – 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 S.A. and LAN of the initiation of proceedings against 25 cargo airlines, among them LAN Cargo S.A., for allegations of anti-competitive behavior in the air freight business. Given the current stage of the proceedings, it is not possible at this time to anticipate with any precision their outcome, although it is expected to be a lengthy judicial process. Notwithstanding the above, in the fourth quarter of 2007, LAN recorded a US\$25.0 million reserve in Other Non-Operating Expenses in relation with the European investigation.

The investigation by the U.S. Department of Justice prompted the filing of numerous civil class actions against many airlines, including Lan Cargo and Lan Airlines, in Canada and the United States. A total of 54 civil actions naming numerous carriers were filed in the United States. These cases have since been consolidated in the United States District Court, Eastern District of New York. The original complaint was subsequently amended to include additional airlines, including Absa. Four civil actions have been filed in Canada that include Lan Cargo as a defendant. It is not possible at this time to anticipate with any precision the outcome of these proceedings.

On April 5, 2008, Brazilian authorities notified Absa of the initiation of administrative proceedings before the Conselho Administrativo de Defesa Econômica against several cargo airlines and airline officers, among them Absa, for allegations of anticompetitive practices regarding fuel surcharges in the air cargo business. Given the current stage of the proceedings, it is not possible at this time to anticipate with any precision their outcome, although it is expected to be a lengthy process. This investigation and the related proceedings do not imply that Absa has been charged with or has engaged in any prohibited activity.

The New Zealand Commerce Commission has also initiated an investigation into potential anti-competitive activities in the international air cargo markets and has requested information and documentation from LAN, which LAN has already submitted. It is not possible at this time to anticipate with any precision the outcome of the investigation, though it is noted that LAN has relatively limited cargo operations to and from New Zealand.

On April 26, 2006, a proceeding was filed against Lan Airlines and Lan Cargo before the Chilean Antitrust Court relative to the alleged abusive exercise of their dominant position in the air cargo business to and from Punta Arenas, Chile, and in the customs storage business in that city, where Lan Airlines participates through its subsidiary Fast Air Almacenes de Carga S.A. Each of Lan Airlines and Lan Cargo paid a fine of 2,000 Unidades Tributarias Mensuales (equal to US\$138,000 according to the observed exchange rate as of December 31, 2007).

Fleet

General

As of March 31, 2008, we operated a fleet of 78 jet aircraft, comprised of 69 passenger aircraft and 9 cargo aircraft, as set forth in the following chart.

	Nun	nber of aircraft in o	peration ⁽¹⁾	Average term of lease	
	Total	Owner	Operating lease	remaining (years)	Average age (years)
Passenger aircraft					
Boeing 737-200 ⁽¹⁾	6	1	5	<1.0	27.6
Airbus A318-100	7	7	0		<1.0
Airbus A319-100	15	10	5	8.22	2.5
Airbus A320-200	17	6	11	3.9	5.9
Boeing 767-300 ER	22	10	12	1.9	8.9
Airbus A340-300	5	0	5	5.0	7.8
Total passenger aircraft	72	34	38	3.6	8.2
Cargo aircraft					
Boeing 767-300 Freighter	9	8	1	5.7	5.8
Total cargo aircraft	9	8	1	5.7	5.8
Total fleet ⁽²⁾	81	42	39	3.6	7.9

⁽¹⁾ As of March 31, 2008, three Boeing B737-200 passenger aircraft were not considered part of the operating fleet because they were in the process of being returned to their respective leasing companies.

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

	2005	2006	2007
	(mea	sured in ho	urs)
Passenger aircraft			
Airbus A340-300	16.0	15.8	14.7
Boeing 767-300 ER	14.8	14.1	14.2
Airbus A320 Family Aircraft	9.4	9.6	10.6
Boeing 737-200	6.1	5.6	4.4
Cargo aircraft			
Boeing 737-200C	3.4	3.9	3.4
Boeing 767-300 Freighter	16.7	16.6	16.5

Year ended December 31.

Does not include one Boeing 767-200 passenger aircraft leased to Aeromexico, one Boeing 737-200 passenger aircraft leased to Pluna, and two Boeing 737-200 passenger aircraft leased to Sky Airline.

We operate different aircraft types as we perform various different missions ranging from short-haul domestic 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 operate Airbus A320-Family Aircraft and Boeing 737-200 aircraft. In the first half of 2008 we will finish phasing out the B737-200 aircraft and will have a fleet composed entirely of Airbus A320 Family Aircraft.

The A320-Family Aircraft which we currently operate have been acquired pursuant to a purchase agreement with Airbus in 1999 and subsequently amended in 2005 and 2008, and also incorporated pursuant to operating leases. As a consequence of the amended purchase agreement, as of March 31, 2008 we had outstanding orders for eight Airbus A318, five Airbus A319 and two Airbus A320 aircraft for delivery between the remainder of 2008 and 2009. Additionally, we exercised options for 15 additional short-haul aircraft for delivery in 2010 and 2011. As a consequence of having exercised these options, we plan to receive 30 aircraft between the remainder of 2008 and 2011 (eight A318, 11 A319, and 11 A320 aircraft). Our purchase contracts with Airbus provide for some flexibility with regard to future changes in aircraft types and delivery dates. For more information, see "Additional Information—Material Contracts" under Item 10. We believe that our fleet of A320-Family Aircraft will allow us to provide broader service across Latin America as well as the domestic markets that we serve given their longer range. We also believe that they will enable us to increase efficiency levels through reduced fuel consumption and maintenance costs.

For long-haul passenger and cargo flights we operate Boeing 767-300 passenger aircraft and Boeing 767-300 Freighters, respectively. We believe that these aircraft's size and range provide 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. We believe that these aircraft provide a key efficiency advantage over our peers, especially in the cargo business. The 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. Between 2004 and 2006 we placed additional orders for 18 Boeing 767-300 passenger and Freighter aircraft for delivery between 2005 and 2009. The first two aircraft, both freighters, were delivered during the second half of 2005. In 2006 and 2007, we received seven passenger aircraft featuring a new upgraded two-class configuration, and one additional dedicated freighter. Eight Boeing 767-300 passenger aircraft are currently scheduled for delivery between 2008 and 2009. Our contract with Boeing provides for certain flexibility with respect to the aircraft types to be received.

We operate five Airbus A340-300 aircraft for long-haul routes. Given their range and four-engine configuration, these aircraft are well-suited to perform trans-Atlantic and trans-Pacific missions out of Santiago.

From time to time, we also purchase used aircraft for economic reasons. Because of the attractiveness of the purchase price compared to the cost of continuing to lease the aircraft, we acquired one DC-8 in 2003 that was previously leased to LAN. The latter was sold in 2004. In 2003, we converted one of our Boeing 737-200 passenger aircraft into a freighter to serve domestic routes, this aircraft ended services in February 2008.

Historically, we have also utilized between one and six cargo aircraft pursuant to short-term ACMI leases. These contracts enable us to adjust capacity on a short- to medium-term basis in order to manage the volatility of the demand for cargo services and increase access to certain cargo destinations resulting from increased capacity and access to destinations outside the Lan Cargo network. As of March 31, 2008, we were utilizing two Boeing 747 freighter under ACMI leases. Our current ACMI contracts are structured for periods of less than 12 months.

Fleet Leasing and Financing Arrangements

Our financing and leasing methods include borrowing from financial institutions and leasing under financial leases, tax leases and operating leases.

Between 1998 and 2001, LAN acquired eight Boeing 767s, which were fully financed by three separate syndicated credits backed by U.S. Export-Import Bank ("Ex-Im Bank") guarantees. While four of the planes were financed utilizing twelve-year payment profiles, the payment profiles of these four planes were successfully extended to 15 years through the use of accreting loans, pursuant to which the loan principal grows over a period of time. This extension made LAN the first airline to receive this type of financing with Ex-Im Bank support.

Between 2004 and 2006, LAN ordered 15 Boeing 767-300 passenger aircraft and Freighters for delivery between 2005 and 2008. In 2004 the Company structured a new syndicated facility for US\$260 million to finance the entire cost of the two Boeing 767-300 Freighters delivered in 2005 and the first Boeing 767-300 passenger aircraft delivered in 2006. In 2005, LAN finalized the syndicated facility to fund the purchase of four Boeing 767-300 passenger and Freighter aircraft for delivery in 2006. Between 2005 and 2006, LAN also finalized two additional syndicated facilities to fund the purchase of the remaining eight Boeing 767-300 passenger aircraft. Three of these aircraft were delivered in 2007, and five are scheduled for delivery in 2008. Each loan with respect to the three aircraft delivered in 2007 is guaranteed by the Ex-Im Bank with a 12-year profile for the financing of 85% of the aircraft value. The loans with respect to the remaining five aircraft scheduled for delivery in 2008 are also guaranteed by the Ex-Im Bank with the same 12-year profile and the same level of financing.

In 2006, LAN structured a pre-delivery payments facility for three of the aircraft discussed above with deliveries in 2007 and 2008. As of March 31, 2008, LAN had drawn US\$91.7 million from this facility. We expect to complete payment of the facility in 2008.

In 2006, LAN also ordered three additional Boeing 767-300 passenger aircraft for delivery in 2009. We plan to finance these aircraft partially by an intended new Ex-Im Bank guaranteed facility and partially with funds generated from operations.

In April 2007, we entered into two lease agreements with GE Commercial Aviation Services for the lease of two B777-200LR Freighters, for delivery in 2009. In October 2007, we signed a purchase agreement with the Boeing Company for two additional B777-200LR Freighters to be delivered in 2011 and 2012.

The Company decided in the second half of 2007 to acquire 32 new Boeing 787 Dreamliner aircraft with delivery initially scheduled between 2011 and 2016. The Company entered into a purchase agreement with the Boeing Company for 26 of these aircraft, while the Company entered into leasing agreements with the International Lease Finance Corporation for the remaining six aircraft.

In 2000, to finance our Airbus aircraft, we entered into a US\$1.3 billion umbrella credit facility with a syndicate of international financial institutions under which we borrowed in the form of separate loans in connection with the specific financing requirements of each Airbus aircraft (including pre-delivery and long-term financing). This umbrella facility provided for guarantees from the English, French and German export credit agencies. Our repayment profile for each aircraft financed under the facility was for a period of up to 18 years. Under this financing package we incorporated Airbus aircraft into our fleet through operating leases, financial leases and tax leases. Even though this facility covered the aircraft scheduled to be delivered under our 1998/9 Airbus purchase agreements through December 31, 2006, we decided to fund the 2006 deliveries with a new facility negotiated in 2006.

This new facility financed the acquisition of eight Airbus A319 delivered in 2006, five A318 and two A320 delivered in 2007, two A318 delivered in the first quarter of 2008, and will finance the acquisition of 15 Airbus A320-Family Aircraft between 2008 and 2009. This new US\$920 million facility is similar to the previous one as we drew separate loans in connection with the specific financing requirements of each Airbus aircraft. This facility is based on support guarantees from the European export credit agencies. Under this financing package we may incorporate into our fleet Airbus aircraft through operating leases, financial leases and tax leases. The facility covers 85% of the purchase price of each aircraft plus the associated export credit agencies premium. The remaining 15% will be funded directly by us.

We intend to finance the 15 A320-Family Aircraft options in part through a facility similar to the facility described above, and partially with funds generated from operations.

On June 12, 2005, we made the final payment with respect to a Boeing 767-200 aircraft we held under a capital lease. We subleased this aircraft to a third party at market rate and recently extended this sublease until June 2010.

As of March 31, 2008, we held 39 aircraft under operating leases. Under the terms of our operating leases, we are required to return the aircraft in an agreed upon condition at the end of the lease. Although the title to the aircraft remains with the lessor, we are responsible during the lease term for the maintenance, servicing, insurance, repair and overhaul of the aircraft. As of December 31, 2007, aggregate future minimum lease payments required

under our aircraft operating leases were US\$1,406.0 million. Our operating leases have terms ranging from three months to 12 years from the date of delivery of the aircraft. For more information, see Note 18 to our audited consolidated financial statements.

For more information on our expected future capital expenditures in connection with aircraft purchases see "Capital Expenditures" under Item 5.

Maintenance and Safety

Maintenance

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

Our maintenance base at the Arturo Merino Benítez International Airport in Santiago, Chile is among the most extensive in Latin America and has been certified as an IOSA standard and FAA approved repair station. Our hangars and support shops at our Santiago repair station can service the Boeing 767, Airbus 340 and Airbus 320 Family Aircraft fleet.

In addition, we have facilities for designing and manufacturing galleys, structures and composite materials, and we have the capability to retrofit aircraft interiors, including sophisticated in-flight entertainment equipment.

Our engineering and maintenance division is subjected to multiple recurrent external audits from aviation authorities such as the Chilean DGAC, the FAA, the Argentine DNA, and the Brazilian National Civil Aviation Agency. 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.

We also rely on third parties for certain maintenance of our aircraft and engines. Lufthansa Technik provides our Airbus A320-Family Aircraft and A340 component support on a power-by-the-hour basis under a long-term contract, which runs until 2013. International Aero Engines provides the A320 engine support on a power-by-the-hour contract, which runs for 12 years once each engine is received. General Electric provides the maintenance of our Airbus A340 engines under a similar contract, which runs until 2013. The maintenance of most of our Boeing 767 engines is provided by General Electric. Substantially all of our other engine maintenance is also provided by third parties. Our Boeing 767-components are maintained by Air France-KLM under a 10-year total component support contract.

We occasionally 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.

Operational Safety and Safety Organization

We place a high priority on providing safe and reliable air service, as it is considered a fundamental asset to LAN and one of the basic pillars for the development of our company. We have uniform safety standards and safety-related training programs that cover all of our operations. LAN has implemented a Safety and Quality Management System throughout the operational areas of the Company which is certified by Chile's DGAC. The system provides clear definitions of the functions and responsibilities regarding Operational Safety, from the top to the bottom of the airline. It enforces the commitment and knowledge from everyone in the Company with all actions that could affect safety.

The Operational Safety Director is responsible for the Operational Safety Oversight and the implementation of a Safety Management System, or SMS, within LAN. The Operational Safety Director 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 five main areas:

1. **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.

- 2. **Maintenance Safety Management:** The Maintenance Safety Area oversees and audits our maintenance safety measures and investigates maintenance-related incidents.
- 3. **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 softwares.
- 4. **Corporate Quality Management**: The Corporate Quality Management Area is responsible for the administration of Internal Evaluation Programme conducting organization-wide audits in all operational areas.
- 5. **Emergency Response Management:** The Emergency Response Management Area is responsible for the administration of the Emergency Response Plan. It has been developed for the effective management of accident and serious incidents with the purpose of mitigating any impact on operations.

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 program using mainly two different analysis programs. The Flight Data Monitoring program is fully developed for the A320 Family Aircraft, A340 and B767 fleets. The statistical information obtained has produced standard operational procedures 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, where they are analyzed according to their 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 or our equipment and operations. LOSA observations have been conducted on the A-340, A-320 and 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.
- Quality Assurance and IOSA Certification Programs. Our flight and maintenance safety areas have a quality assurance system and are currently certified ISO 9001-2000. Our safety management system is based on the ISO 9001-2000 standards. 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. LAN Airlines, and passenger subsidiaries are IOSA (IATA Operational Safety Audit) registered. Currently, cargo subsidiaries IOSA audits are ongoing.

We also have an operational safety committee, composed of senior executives and key operational managers, responsible for the initiation of safety-related actions.

All of our B767, A320 and A340 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.

Since 1991, we have had no accidents involving major injury to passengers, crew or aircraft.

Fuel Supplies

The availability and cost of jet fuel have a significant impact on our results of operations. Fuel costs represented 27.2%, 28.0% and 29.9% of our operating expenses in 2005, 2006 and 2007, respectively. In 2007, we purchased a substantial portion of the fuel for our domestic flights in Chile and a portion of the fuel for our international flights through four-year renewable contracts with Air BP, COPEC and Exxon Mobil Aviation and through a one-year renewable contract with Repsol YPF. We also purchase a portion of the fuel for our international flights through fuel contracts with well-known international fuel suppliers located at the destinations of those flights. In Peru, we purchase our fuel mainly from Repsol YPF, Exxon Mobil and Petroperu. In Ecuador, we purchase our fuel mainly from Repsol YPF. In Argentina, we purchase fuel mainly from Repsol YPF, Exxon and Shell. In the United States, we purchase our fuel mainly from Morgan Stanley, Chevron, Shell and Glencore.

Over the last few years, our fuel consumption and expenses have increased as a result of increases in our operations and because of higher fuel prices. Crude oil prices, which are influenced by economic and political factors and events occurring throughout the world, have led to significant volatility in the last two years. In 2007, fuel costs increased 21.8% due to a 9.2% increase in average fuel prices for the year and an 11.5% increase in consumption. We can neither control nor accurately predict fuel prices; however, we offset our price variation risk, in part, through our jet fuel hedging program and the application of a passenger and cargo fuel surcharge. For more information, see "Quantitative and Qualitative Disclosures About Market Risk —Risk of Fluctuations in Jet Fuel Prices" under Item 11.

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

		Year	ended December	r 31,	
	2003	2004	2005	2006	2007
Fuel consumption (thousands of gallons)	257,277.6	308,014.6	338,275.1	364,785.1	406,666.0
ATKs (millions)	4,539.2	5,256.2	5,810.8	6,349.8	7,023.1
Fuel consumption per ATK (thousands of gallons)	0.06	0.06	0.06	0.06	0.06
Total fuel costs (US\$ thousands)	259,566	414,539	642,696	763,951	930,208
Cost per gallon (US\$)	1.01	1.35	1.90	2.09	2.29
Total fuel costs as a percentage of total operating costs	17.0%	21.8%	27.2%	28.0%	29.9%

Ground Facilities and Services

Our main operations are based at the 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 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 Arturo Merino Benítez International Airport, additional customs warehouses in Chile (Iquique, Antofagasta, and Punta Arenas) and Argentina (Rosario) 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 have VIP lounges at the Arturo Merino Benítez International Airport. The 7,500 square foot Neruda lounge, which represented an investment of approximately US\$550,000 in 2001, has been widely acclaimed. In 2005, *Latin Trade* magazine selected it as the "Best Airline Lounge" in Latin America.

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. In 2007, LAN generated other revenues of US\$173.4 million.

Our total revenue from aircraft leases (including subleases to certain of our cargo affiliates, dry-leases, wet-leases and capacity sales to alliance partners) and charter flights amounted to US\$37.2 million in 2007.

LAN also provides cargo-related services such as courier, warehousing, value-added door-to-door services and customs services, through various subsidiaries. Through our subsidiary LanCourier we operate vans and trucks and offer distribution and warehouse services throughout Chile. By using tracking and Internet technology, LanCourier customers have real-time access to data regarding the status of their parcels. During 2007, our logistics and courier businesses generated revenues of US\$29.3 million, a decrease in last year's revenues (which was US\$44.4 million) due to the divestiture of the LanLogistics affiliates in the U.S. We also have storage and customs brokerage operations that generated revenues of US\$29.6 million in 2007.

During 2007, we had revenues of US\$9.3 million for ground services and US\$22.2 million for duty-free in-flight sales. The balance of our operating revenues, US\$45.8 million in 2007, was generated by sales to third parties by Amadeus Chile CRS (computer reservation system), aircraft maintenance services to third parties, our security services business, tour operations, and other activities.

Insurance

We carry hull insurance that includes, among other coverage, "all risk", war and allied risks, spares and liability for passengers, cargo, mail, baggage and third parties. We renew our insurance coverage yearly, and are subject to deductibles that vary depending on the coverage type and the loss type. Our deductibles are US\$1,250 for loss or damage associated with passengers' baggage liabilities, US\$10,000 for loss or damage associated with cargo liabilities and between US\$500,000 and US\$1.0 million for hull "all risk" insurance (depending on the aircraft type). Additionally, we have hull deductible coverage to reduce the net hull deductible to US\$100,000 per occurrence (aircraft and/or engine).

Since December 2006, we have negotiated common terms for Hull All Risk, Aviation Legal Liabilities and Spares coverage, together with British Airways, which allows us to obtain premium reductions and coverage improvements.

Our insurance coverage has a one-year term starting in April of each year. The aggregate cost of our insurance coverage for the 2007 calendar year was US\$12.7 million, which represents an 8.0% decrease in insurance expenses (despite the Company growth and fleet renewal) and a 26.3% decrease in average insurance rates compared to the 2006 calendar year.

Information Technology

General

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

With the exception of our reservations, departure control (check-in), inventory, flight planning and baggage tracing systems, which are operated by Amadeus, Iberia and SITA, we operate our systems from two data center facilities in Santiago. 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 4 days. The line of business infrastructure currently has a recovery time of, on average, 2 hours for 80% of our systems and, on average, 2 days for the remaining 20%.

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 Electronic Data Systems, or EDS).

Basic Infrastructure Operation

Since early 2003, we have outsourced our IT infrastructure management to EDS. This service includes the administration and support of the data centers and desktop equipment. EDS's assistance has enabled us to:

- increase the efficiency of our IT operations;
- convert fixed costs into variable costs;

- guarantee that the service standards (such as up-time and response time) required by critical processes of our business are fulfilled;
- accelerate critical infrastructure projects while significantly reducing the resources required;
- increase the efficiency of our personnel; and
- focus internal IT efforts on business functions, rather than basic hardware and software issues.

Telecommunications

We have used the latest technology available with regard to our global telecommunications network. Our network has the capacity to transport voice, data, and video with the quality required by the Company, combining traditional private data channels with virtual private networks through the Internet.

Front-End Systems

During 2002, we deployed new systems to support our sales personnel. These systems provide the employees, who deal directly with our customers with additional tools to improve service, enhance customer information and increase efficiency. During 2004 and 2005, we implemented these systems at our airport counters and our call centers.

Since 2005, we have favored a strategy of encouraging and facilitating self service alternatives for customers, through improving the functionality of the lan.com website as well as implementing self check-in kiosks in airports.

Enterprise Resource Planning

In 2002, we purchased an enterprise resource planning (ERP) system from SAP. This system was fully implemented in the second quarter of 2004 in Lan Airlines and almost all of its subsidiaries. This ERP system includes modules covering areas such as: finance, accounting, inventory management, human resources, business warehouse, as well as a user-friendly portal. We are currently working in optimizing and simplifying this system, and in leveraging it to increase the efficiency of our back-office processes.

Development and Maintenance System

With respect to new development needs, our first choice is to buy 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 three principal vendors: TATA Consultancy Services, Everis and Indra. Thanks to this outsourcing initiative, we have achieved:

- a decrease in project delays;
- an increase in systems reliability; and
- a shift in the efforts of the internal IT department to a more business oriented perspective.

Regulation

Chilean 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 regulates the assignment of domestic and international routes, 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 International Civil Aviation Organization, or 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. Non-Chilean airlines are permitted to provide domestic air service between destinations in Chile, provided that the country in which the foreign airline is based grants a reciprocal right to Chilean airlines. There are no regulatory barriers, however, that would prevent a foreign airline from creating a Chilean subsidiary and entering the Chilean domestic market using that subsidiary.

International Routes. As an airline providing services on international routes, Lan Airlines 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 another government the right to designate one or more of its domestic airlines to operate scheduled services between certain destinations in that country. 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. We made no material payments for international routes during 2007. In January 2008, Lan Airlines participated in a public auction for seven frequencies between Santiago and Lima, obtaining six of them for a total amount of approximately US\$730,000.

In March 2007, the Chilean and Peruvian governments entered into a bilateral agreement temporarily reducing the number of flights that Peru grants to Chilean airlines using "fifth freedom rights", or the rights to carry passengers from Chile to Peru and from Peru to a third country, from 14 weekly frequencies to eight weekly frequencies. As a result of this regulatory change, we have reduced the number of flights that used these rights from Lima to the United States. We have replaced some of these flights with direct flights from Santiago to the United States. The bilateral agreement between Chile and Peru provides for the restoration of three fifth freedom rights frequencies in 2008 and the three remaining additional frequencies in 2009.

In March 2007, the Venezuelan authorities revoked our permanent traffic rights for flights between Caracas and Bogota. The Venezuelan authorities granted us provisional traffic rights, which we are currently using in order to operate the Caracas-Bogota route. We are currently in the process of reinstating the permanent traffic rights for this route.

Air Fare Pricing Policy. Chilean 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 may file complaints before the Antitrust Court with respect to monopolistic or other pricing practices by other airlines that violate Chile's antitrust laws. In 1997, the Antitrust Commission approved and imposed a specific self-regulatory fare plan for our domestic operations 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. As of March 31, 2008, 47% of the domestic routes that we operate had been classified as "non-competitive" and were subject to the requirements described above.

Registration of Aircraft. Aircraft registration in Chile is governed by the Chilean Aeronautical Code. 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 Chilean Aeronautical Code.

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, so long as that country is a member of the Warsaw Convention. 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 Airlines 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.

Chilean 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 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. Most of 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.

Regional Aeronautical Regulation (Brazil, Ecuador, Mexico and Peru)

Our subsidiaries and affiliates operate throughout the Latin American region under the routes granted by the relevant authorities in each jurisdiction where they are based.

International Routes. Under Brazilian, Ecuadorian, Mexican and Peruvian laws, international route rights, as well as the corresponding landing rights, are granted under air transport agreements negotiated directly between the relevant home jurisdiction and foreign governments.

Domestic Routes. Under Chilean regulation, domestic airlines are not required to obtain permits in connection with carrying passengers or cargo on any domestic routes. Peruvian law requires the consent of Peruvian authorities to fly domestic routes. Cabotage operations are exclusive of national airlines. Ecuadorian law requires the

airline to obtain a specific concession to fly domestically. In Brazil the *Comissão de Coordenação de Linhas Aéreas Regulares* reviews all requests by airlines to fly domestic routes based on economic and safety considerations.

U.S. Aeronautical Regulation

General. 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. Operations to the United States by non-U.S. airlines, such as Lan Airlines, are subject to Title 49 of the U.S. Code, under which the DOT and the FAA exercise regulatory authority. The U.S. Department of Justice also has jurisdiction over airline competition matters under the federal antitrust laws.

Authorizations and Licenses. The DOT has jurisdiction over international aviation with respect to the United States and related route authorities, 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. Lan Airlines 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). We hold the necessary authorizations from the DOT in the form of a foreign air carrier permit, an exemption authority and statements of authorization to conduct our 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. Our foreign air carrier permit has no expiration date, while our exemption authority (which includes the open skies traffic rights) was set to expire on April 10, 2008, but a renewal application was timely filed and is pending before the DOT. The exemption authority is automatically extended until such time as the DOT issues the renewal order. We plan to amend our foreign air carrier permit to include the open skies rights, which would eliminate our need to renew the exemption authority in the future.

In the United States, we are subject to the FAA's 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 Airlines currently holds FAA operations specifications under Part 129 of the Federal Aviation Regulations. We believe that we are in compliance in all material respects with all requirements necessary to maintain in good standing our 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 we fail 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.

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, or 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, or 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.

Airport Slot Restrictions. Four U.S. airports—Chicago O'Hare, LaGuardia (New York), John F. Kennedy International (New York) and Reagan National (Washington, D.C.)—have been designated by the FAA as "high density traffic airports". Operations at these airports are or have been subject to slot restrictions during certain periods of the day. A "slot" is an authorization to take off or land at a designated airport within a specified time window. Legislation passed in March 2000 resulted in the elimination of slot restrictions at Chicago O'Hare on July 1, 2002 and at LaGuardia and Kennedy International on January 1, 2007. While the FAA has reimposed analogous operating slot restrictions at both Chicago O'Hare and LaGuardia airports, it has not imposed such restrictions at JFK airport, where we operate. We do not currently operate in airports in which we have to obtain slots or operating authorizations. Nevertheless, government policies regulating slots and the analogous operating authorizations are affected by matters such as flight delays, noise exposure and ground congestion, and any one or more of those factors could lead to the reimposition of slot or analogous operating limitations at airports in which we operate.

Proposed Laws and Regulations. Additional U.S. laws and regulations have been proposed from time to time that could significantly increase the cost of airline operations by imposing additional requirements or restrictions on airline companies. Laws and regulations have been considered from time to time that would prohibit or restrict the ownership and transfer of airline routes or slots. There can be no assurance that laws and regulations currently enacted or enacted in the future will not adversely affect our ability to maintain our current level of operating results.

Regulatory Authorizations in Connection with Strategic Alliances

The alliance between Lan Airlines and American Airlines includes three major components: a frequent flyer agreement, a reciprocal code-share agreement and the coordination of pricing, scheduling and other functions. The last two of these items required the approval of regulatory authorities in both Chile and the United States. With respect to the code-share agreement, the open skies agreement between Chile and the United States expressly permits code-sharing operations by U.S. and Chilean airlines. With regard to the coordination of pricing and scheduling, Lan Airlines and American Airlines filed a joint application with the DOT in December 1997, requesting approval of their alliance agreement and immunity from the application of all U.S. antitrust laws pursuant to Title 49 of the U.S. Code. Lan Airlines and American Airlines received approval and antitrust immunity from the DOT in September 1999, and implemented the code-share agreement in October 1999. In accordance with the terms of the DOT's 1999 approval, Lan Airlines and American Airlines were required to resubmit their alliance agreement to the DOT for review within three years after the DOT's grant of approval. Lan Airlines and American Airlines resubmitted the agreement in September 2002 and did not receive any comments from the DOT.

Lan Peru was also granted antitrust immunity by the DOT on October 13, 2005 with respect to a reciprocal code-share agreement and the coordination of pricing, scheduling and other functions with Lan Airlines and American Airlines. In accordance with the terms of the DOT's 2005 approval, Lan Airlines, Lan Peru and American Airlines are required to resubmit their alliance agreement to the DOT for review within five years after the DOT's grant of approval.

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. Lan Airlines, Lan Express and Lan Cargo must comply with Chilean Antitrust Law that prohibits a carrier from abusing a dominant position in the market. As described above under "Route Rights—Air Fare 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 and, in 2001, imposed a new obligation on us to justify any modification that we make to our fares.

At the request of the Antitrust Court, an investigating attorney was appointed to review our self-regulatory fare plan that has been in effect since 1997. The resulting report delivered to us in 2003 by the attorney was generally favorable as to our fulfillment of our obligations under the self-regulatory fare plan, and did not find any anticompetitive behaviour. While the attorney recommended that we separate our domestic cargo and domestic passenger businesses, this recommendation is neither binding on the Antitrust Court nor on us.

On January 30, 2004, the Antitrust Court imposed a fine of 500 Unidades Tributarias Mensuales (equal to approximately US\$30,000) on each of Lan Airlines and Lan Express for minor breaches of the self-regulatory fare plan to which they are subject. The Company had argued that such breaches were mainly caused by the impossibility of maintaining the fare plan. Other entities also submitted amendment proposals. The Antitrust Court's pronouncement on amendments to the self-regulatory fare plan took place on July 14, 2005 and is now in force and effect. We believe we are in material compliance with the new self-regulatory provisions.

For more recent information regarding regulatory proceedings see "Other Financial Information—Legal and Arbitration Proceedings" under Item 8.

Property

Headquarters

Our main facilities are located on approximately five acres of land near 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. In 2004, we adapted part of this building to meet our expanding training needs. This process included developing new rooms for technical instruction, in-flight and airport services.

During the fourth quarter of 2003, we moved some of our executive offices into a new building in a more central location in Santiago, where we initially occupied a total of four floors. In the first half of 2005 we added three more floors to accommodate our growth requirements. In 2007, in order to accommodate the Company's growth, LAN leased two floors in an adjacent building (totaling 1,700 square meters), where some of LAN staff moved in February 2008.

Maintenance Base

Our 877,258-square foot maintenance base is located on a site that we own inside the grounds of Arturo Merino Benítez International Airport. This facility contains our aircraft hangar, warehouses, workshops and offices, as well as a 559,720 square foot aircraft parking area capable of accommodating up to 17 shorthaul aircraft. We have a five-floor, 53,820 square foot office building plus a 10,000 square foot 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. In 2005, we finalized the construction of an additional hangar, as well as 75,000 square feet of aircraft parking space, for US\$2.1 million. During 2006 we started a new investment plan at this facility that includes building 64,580 square feet of additional aircraft parking space, a new 15,340 square foot building for offices and maintenance shops, a new 16,680 square foot engine shop and storage facility, and additional warehousing and external work space. The plan also includes upgrading some of the current facilities, increasing parking space and building new access road. During 2006, we invested US\$3.3 million in this plan, which is now near completion. Further, in 2006 we completed construction of an engine workshop with eight work stations and capacity for 36 engines, for a total investment of US\$820,000. We also lease from the DGAC 193,750 square feet of space inside the Arturo Merino Benítez International Airport for operational and service purposes.

In 2007, LAN approved a two-year capital expenditures plan earmarking approximately US\$7 million for preparing our buildings and plants for the future growth of the Company and of its fleet. These improvements may include the construction of a new three-story building (for a total of 2,600 square feet), that could eventually grow to a five-story building (for a total of 4,400 square feet) as well as changes to, and expansion of, various workshops and warehouses.

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 foot corporate building, a 380,000 square foot cargo warehouse and a 783,000 square foot aircraft parking platform, which were constructed and are now leased to us under a long-term contract by a North American developer. We began using these new facilities in September 2001 for our passenger and cargo offices (with the exception of our reservations and ticket offices). We converted 21,528 square feet of the warehouse into fully furbished offices during 2004.

Other Facilities

We own a building and 16 acres of land on the west side of Arturo Merino Benítez International Airport that houses a flight-training center. As of March 2007, this facility features three full-flight simulators for Boeing 767, Airbus A320 and Boeing 737 aircraft. We rent this flight-training center under a long-term lease to CAE Inc. (a leading Canadian company in the flight training business).

We own a 661,980-square foot warehouse in Santiago, which includes 91,493 square feet of space for offices and other administrative facilities and 45,000 square foot distribution center. We use this facility to support LanCourier's door-to-door cargo transport business.

In 2004, Fast Air Almacenes de Carga S.A., or Fast Air, one of our subsidiaries which operates import customs warehouses, began utilizing an import warehouse and office building at the Arturo Merino Benítez International Airport. This 172,000 square foot building was developed in conjunction with two other operators.

We have also developed a recreational facility for our employees with Airbus' support. The facility, denominated Parque LAN, is located near the Arturo Merino Benítez International Airport. Parque LAN includes amenities such as a gymnasium, synthetic fields for multiple uses and swimming pools.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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-5 of this annual report.

Our financial statements have been prepared in accordance with Chilean GAAP, which differs in certain respects from U.S. GAAP. A discussion of the principal differences between Chilean GAAP and U.S. GAAP as they relate to us is described in Note 27 to our audited consolidated financial statements.

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. These benefits have helped us maintain strong profitability and expand our operations during the period between 2005 and 2007.

95% of our revenues are generated by our air transport activities. We generate the balance of our operating revenues from airport ground services, customs and storage brokerage operations, aircraft leases, courier services, on-board sales, tour operator services, third-party maintenance, ground handling, storage, charter operations, credit card co-branding, CRS services and airline-related security services.

Between 2005 and 2007 our operating environment continued to be subject to certain conditions that had a mixed effect on our results. Specifically, we faced:

- · strong passenger demand,
- imbalances in cargo flows, and
- external cost pressures.

Passenger demand grew consistently during this period, fueled by positive economic conditions in our main markets. Cargo demand continued to experience significant imbalances between northbound and southbound routes as the strengthening of local currencies and changes in market conditions for some of our products caused significant changes in cargo flows to and from Latin America. While competition on both passenger and cargo routes has grown gradually since 2005, changes in competitive conditions in specific markets generated opportunities for us to expand. Certain factors outside of our control have also generated significant cost pressures. Fuel prices have risen consistently since 2002, reaching record levels in the fourth quarter of 2007 and again in 2008. Additionally, stronger local currencies have caused costs denominated in these currencies to grow in U.S. dollar terms.

Our results for the period between 2005 and 2007 reflect our efforts in recent years to expand and diversify our revenue base while maintaining an efficient cost base. We have aimed to effectively respond to the opportunities and challenges presented by the expansion and diversification of our revenue base. This process included expanding our domestic passenger operations in Peru and supporting the launch of Lan Argentina. As a consequence, we have significantly increased our passenger capacity and redeployed our assets in response to specific opportunities. In the cargo business, we have adjusted our routes and our capacity mix to adapt to changing cargo flows. We have also launched initiatives to enhance customer preference and increase efficiency. These initiatives have enabled us to maintain a solid market position and to develop new mechanisms to sustain high levels of profitability despite facing unprecedented fuel prices and losses relating to the start-up of Lan Argentina. As a consequence, net income amounted to US\$146.6 million in 2005, US\$241.3 million in 2006, and US\$308.3 million in 2007.

Passenger Business

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 demand has grown in the last three years, driven by positive economic conditions in Latin America. Economic growth and improved customer confidence have led to a recovery in both business and leisure traffic to and from Latin America. The appreciation of local currencies versus the U.S. dollar also stimulated

international traffic and had a positive impact over Chilean domestic yields in dollar terms. 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 2005 and 2007. LAN's especially strong traffic growth during 2007, which reached 23.1%, was also based on a historical capacity expansion plan driven by the delivery of 11 new passenger aircraft during the year, as well as higher utilization and new configurations with more seats per aircraft.

Competitive activity on both our domestic and international passenger routes has also varied over the last several years. On our international routes, competition gradually increased as both incumbent and new competitors expanded their operations. Nevertheless, we have maintained our market share in most of our markets since 2005 and have gradually increased our presence in the Argentine domestic and international routes.

Overall, market conditions on the passenger business provided us with opportunities to advance on our strategic development plans and expand our operations. We addressed these by taking advantage of our integrated business model, efficient operations, continued customer focus, and flexible capacity management. Customer focus has provided a key tool to address competitive challenges as well as to successfully enter new markets.

We also took advantage of our flexibility to adapt capacity quickly in response to demand shocks or market opportunities. We actively manage our capacity by transferring capacity between routes or adding new aircraft when necessary. This enabled us to rapidly respond by adding capacity in the Peruvian domestic market during 2004 and supporting the launch of Lan Argentina's domestic operations in 2005, as well as launching the latter's international operations in October 2006.

These opportunistic actions fit in with our long-term development strategy which is aimed at consolidating LAN as the preferred carrier in the Southern Cone. This plan incorporates development of domestic, regional and intercontinental routes in the markets we serve. 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 operations to the South Pacific, Europe and the United States, as well to specific regional routes. We also shifted capacity among our routes in order to better match seasonal patterns in flights to the United States and to other destinations. Further refinements to our itineraries were also implemented in order to improve connectivity between our operations and those of our partners.

We have also enhanced our regional network by selectively adding new destinations and launching new routes. Since 2004, we have been developing an intra-regional hub in Lima. We have launched several routes that enable us to effectively use Lima as a connecting point for passengers traveling between Mexico City, Bogota, 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 2008 we began direct service to Medellin, Colombia. We plan to continue growing our operation in Lima by increasing the number of flight frequencies we operate on these routes and also by adding new destinations.

Our domestic operations have also grown between 2005 and 2007. In Peru, in 2004 we acted to leverage competitive opportunities and significantly increased our market share. In both the Chilean and Peruvian domestic markets, total domestic traffic increased significantly during 2007, driven mainly by new fare structures in line with the implementation of our new model for short haul operations. In 2005, Lan Argentina initiated domestic services in Argentina with service to three cities. By the end of 2007, Lan Argentina was operating to ten destinations in Argentina.

Cargo Business

Our cargo business depends on exports from and imports to South America and is, 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). 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.

During the period between 2005 and 2007, the appreciation of local currencies such as the Brazilian Real and the Chilean Peso has had a significant impact on cargo flows as imports into South America have begun to exceed exports. While high oil prices generated upward pressure in yields in both directions, excess demand on

southbound routes caused southbound fares to rise more in relative terms. Competition has varied between 2005 and 2007, although high oil prices limited the industry's capacity growth since high levels of efficiency were required to maintain profitability.

We responded to these changing conditions in several ways. We closely monitored demand and redesigned our freighter itineraries accordingly. The flexibility of our freighter operations enabled us to accommodate lower demand and avoid unprofitable routes by combining service to several destinations in the same trip. For instance, we increased the number of trips we performed to and from the Atlantic coast of South America in 2003 and 2004 as exports boomed, but as they decelerated we swiftly added stopovers in export-heavy markets in the Pacific to the northbound trips. We adjusted our capacity through the return of wetleased freighter aircraft in order to avoid idle capacity during periods of low demand. In recent years we have also been replacing the wet-leased freighter aircraft with our own modern Boeing 767 freighters. Our expanded route network led to increased diversification and helped us, by allowing us to shift capacity across routes, to partially compensate for reductions in traffic to specific markets. Our cost-effective operations and operating network also gave us a competitive advantage that allowed us to increase market share in certain markets as other competitors reduced the scale of their operations. Overall, these adjustments enabled us to successfully deal with a complicated environment and ultimately led to an improved market position.

Cost Structure

Cost controls were critical to maintaining our profitability over the period from 2005 to 2007, especially as we faced increased fuel prices. In absolute terms, the main drivers of our costs are the size of our operations, fuel prices, fleet costs and exchange rates.

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. For more information see "Quantitative and Qualitative Disclosures About Market Risk—Risk of Fluctuations in Jet Fuel Prices" under Item 11. Personnel expenses are another significant component of our overall costs. Because a significant portion of our labor costs is denominated in pesos, appreciation of the peso 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. However, this cost pressure is mitigated by the partial natural hedge between the currencies of denomination of our total operating revenues and expenses.

Commissions to travel and cargo agents also compose 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 February 2007 we reduced commissions paid to agents in Chile for economy class ticket sales from 6% to 1%.

Fleet related expenses, basically 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.

Fuel prices rose consistently between 2005 and 2007 generating significant cost pressure. In that time period, average prices increased a total of 20%, which led to US\$149 million in additional expenses and contributed to a 9.9% rise in cost per ATK (a key industry metric). Excluding fuel costs, the rise in cost per ATK over this period was 6.0%. Please refer to "GAAP/Non-GAAP Reconciliation" for further details regarding cost per ATK.

Apart from fuel costs, the main causes for the increase in cost per ATK were personnel growth, traffic and revenue growth outpacing capacity growth and a stronger Chilean Peso. Wages and benefits and training costs increased in excess of capacity growth because the expansion of our operations required the anticipated incorporation and training of new personnel and because the Chilean peso has appreciated since 2005. The set-up of Lan Argentina in the second half of 2005 caused additional personnel and training expenses. Revenue and traffic growth similarly impacted commissions, distribution costs and passenger services.

Despite these challenges, our cost structure remained highly competitive due to careful cost management and more efficient asset utilization. For example, we were able to partially offset these cost increases by implementing important reductions in passenger commissions and increasing our aircraft utilization rates.

Higher aircraft utilization has been an important source of improved efficiency. Our long-haul passenger and cargo aircraft are used, on average, approximately 15 hours per day. Our utilization strategy in 2007 was designed in concert with the addition of new routes to our network, which enabled us to leverage our human and

physical assets for increased efficiency. This was especially the case in our domestic operations in Chile and Peru, where we increased aircraft utilization as a result of the itineraries of our new short haul business model, as well as due to the phasing out of the older Boeing 737-200 aircraft on Chilean domestic routes. Utilization of our narrowbody fleet of Airbus A320 Family Aircraft has increased to approximately 11 block hours per day per aircraft.

We have also worked consistently to improve our cost structure. This process has included initiatives such as the modification of short-haul service standards, which were implemented in late 2005 and modified further in 2007 as a result of the new business model on domestic routes, enabling us to reduce passenger service expenses. The key elements of this new business model have been the reduction in sales and distribution costs through higher Internet penetration and reduced agency commissions, a faster turn around time, and increased self check-in service through web check-in and kiosks at airports.

Outlook

Our long-term strategy is aimed at consolidating LAN's position as the main passenger and cargo airline in South America. 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 brand recognition and 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 adequate cost-reduction initiatives. We believe that a focus on flexibility will enable us to adequately react to changing market conditions. Finally, a healthy financial structure will allow us to effectively fund our growth, enhance our strategic development and reinforce our customer appeal.

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 continued implementation of new efficiency-related programs, the implementation of our new business model for short-haul operations, and fuel price levels.

- We plan to increase frequencies on long-haul flights out of Chile, Peru, Ecuador and Argentina, and eventually add new destinations in the United States and Europe. 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 increased gradually during 2007, 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 a competitive cost base.
- We are also working on increasing efficiency by streamlining our support processes, reducing commercial costs, and by continuing with the implementation of our new business model on short-haul operations. Further enhancements should arise from economies of scale, especially as solid growth in the passenger business accompanied by controlled fixed costs will serve to dilute our fixed costs base. In both the passenger and the cargo business, efficiencies are also expected to come from the replacement of older aircraft with new and more fuel efficient Boeing 787 and Boeing 777 models.

Our financial performance will also be highly dependent on the evolution of jet fuel prices, which have risen significantly in recent months and have led to a sharp rise in our fuel expenditures. Although we have devised and implemented a number of strategies to mitigate this impact, including financial hedging and the use of fuel surcharges, it is impossible for us to predict if we will be able to fully protect ourselves against an increase in fuel costs.

Overall, we believe that these initiatives will enable us to successfully respond to growth opportunities, maintain a solid competitive position, and enhance our distinct cost performance.

Operating Results

The following table sets forth certain income statement data for Lan Airlines.

	In US\$ millions				percentag tal revenu		% change		
	2005	2006	2007	2005	2006	2007	06/05	07/06	
Revenues:									
Passenger	1,460.6	1,813.4	2,197.2	58.3	59.8	62.3	24.2	21.2	
Cargo	910.5	1,072.7	1,154.3	36.3	35.4	32.8	17.8	7.6	
Other	135.3	147.9	173.4	5.4	4.8	4.9	9.3	17.2	
Total operating revenues	2,506.4	3,034.0	3,524.9	100.0	100.0	100.0	21.1	16.2	
Expenses:									
Wages and benefits	371.6	443.0	489.6	14.8	14.6	13.9	19.2	10.5	
Aircraft fuel	642.7	764.0	930.2	25.6	25.2	26.4	18.9	21.8	
Commissions to agents	345.4	403.9	402.6	13.8	13.3	11.4	16.9	(0.3)	
Depreciation and amortization	80.5	122.8	153.9	3.2	4.0	4.4	52.5	25.3	
Passenger services	53.2	56.1	71.8	2.1	1.8	2.0	5.5	28.0	
Aircraft rentals	148.2	157.6	158.9	5.9	5.2	4.5	6.3	8.0	
Aircraft maintenance	132.2	117.2	159.1	5.3	3.9	4.5	(11.3)	35.8	
Other rentals and landing fees	301.5	336.8	366.4	12.0	11.1	10.4	11.7	8.8	
Other operating expenses	289.5	329.9	379.1	11.6	10.9	10.8	14.0	14.9	
Total operating expenses	2,364.7	2,731.3	3,111.6	94.3	90.0	88.3	15.5	13.9	
Operating income	141.6	302.6	413.3	5.6	10.0	11.7	113.7	36.6	
Other income and expenses:									
Interest income	12.4	7.9	18.0	0.5	0.3	0.5	(36.3)	127.9	
Interest expense	(39.2)	(60.7)	(76.2)	(1.6)	(2.0)	(2.2)	(54.8)	(25.5)	
Other income-net	58.2	37.1	12.6	2.3	1.2	0.4	(36.3)	(66.0)	
Total other income (expense)	31.5	(15.7)	(45.6)	1.3	(0.5)	(1.3)	(149.8)	(190.5)	
Income before minority interest	173.1	286.9	367.8	6.9	9.5	10.4	65.7	28.2	
Minority interest	1.8	1.2	0.3	0.1	0.0	0.0	(33.3)	(75.0)	
Income before income taxes	174.9	288.1	368.1	7.0	9.5	10.4	65.0	27.8	
Income taxes	(28.3)	(46.8)	(59.8)	(1.1)	(1.5)	(1.7)	(65.4)	(27.8)	
Net income	146.6	241.3	308.3	5.8	8.0	8.7	64.6	27.8	

2007 Compared with 2006

Net Income

Our net income increased 27.8% from US\$241.3 million in 2006 to US\$308.3 million in 2007. This increase is mainly due to a 36.6% increase in operating income as compared to 2006, offset by a 189.7% increase in non-operating expenses.

Operating income increased to US\$413.3 million in 2007 from US\$302.6 million in 2006 as a 16.2% increase in operating revenues outpaced a 13.9% growth in operating expenses. Revenue growth reflected strong capacity expansion and an improvement in demand in the passenger business, growth in import routes into South America in the cargo business, moderate competitive activity and a strong market position, the entrance into new markets, and the expansion of our route network. Operating costs grew mainly due to capacity growth, sales growth, the appreciation of local currencies and high fuel prices.

In 2007 we recorded a US\$45.6 million non-operating expense compared to a US\$15.7 million non-operating expense in 2006. This change reflected higher interest expenses due to increased debt associated with our fleet expansion plan, offset in part by higher interest income as a result of higher cash balances resulting from our equity offering completed in June 2007. In addition, Other Non Operating Income declined 66.0% as a result of a non-recurrent pre-tax benefit of US\$40.3 million recorded in 2006 due to the change in the accounting policy governing LAN's aircraft maintenance expenses.

In the fourth quarter of 2007, LAN recorded a US\$25.0 million reserve in Other Non-Operating Expenses in relation with a European investigation of cargo price-fixing. In February 2006 the European Commission, in conjunction with the Department of Justice of the United States, initiated a global investigation of a large number of international cargo airlines – among them LAN Cargo S.A., LAN's cargo subsidiary – 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 S.A. and LAN of the initiation of proceedings against 25 cargo airlines, among them LAN Cargo S.A., for allegations of anti-competitive behavior in the air freight business. Given the current stage of the proceedings, it is not possible at this time to anticipate with any precision their outcome, although it is expected to be a lengthy judicial process.

Finally, income tax expense increased by 27.6% to US\$59.8 million in 2007, mainly as a result of higher pre-tax income, as the effective tax rate remained at approximately 16.2%.

Revenues

Revenues in 2007 totaled US\$3,524.9 million, a 16.2% increase over revenues of US\$3,034.0 million in 2006. Our consolidated passenger revenues grew 21.2% to US\$2,197.2 million in 2007 from US\$1,813.4 million in 2006, due to a 23.1% increase in passenger traffic, partly offset by a 1.6% decline in yields (from US\$9.3 to US\$9.2). Passenger traffic (as measured in RPKs) increased primarily because of higher demand at key points of sales, expansion on long-haul and regional routes, expansion in the Argentine domestic market and growth in the Peruvian and Chilean domestic market driven by the implementation of LAN's new domestic business model. Passenger yields decreased 1.6% due to fare decreases on regional and domestic routes related to the new business model for shorthaul operations, partly offset by nominal fare increases, improved passenger revenue management and fuel-related fare increases in the fourth quarter of 2007.

Domestic passenger revenues in Chile, which accounted for 16.7% of our total passenger revenues in 2007 and 18.3% in 2006, increased 10.7% to US\$367.5 million in 2007 from US\$332.1 million in 2006. Domestic passenger traffic (as measured in RPKs) increased 23.5%, while passenger capacity (as measured in ASKs) increased 10.5%, resulting in an increase in load factor from 64.9% in 2006 to 72.5% in 2007. Domestic passenger yield declined 10.5% from US\$13.11 in 2006 to US\$11.74 in 2007, driven mainly by the implementation of LAN's new business model in the domestic market.

International passenger revenues, which accounted for 83.3% of total passenger revenues in 2007 and for 81.7% of passenger revenues in 2006, increased 23.4% to US\$1,827.5 million in 2007 from US\$1,481.3 million in 2006. International passenger traffic (as measured in RPKs) increased 23.1%, while passenger capacity (as measured in ASKs) increased 21.1% in 2007, resulting in an improvement in load factor from 75.4% in 2006 to 76.6% in 2007. Total international passenger yield (based on RPKs) increased 0.3% to US\$8.76 in 2007 from US\$8.73 in 2006, driven by nominal fare increases, improved passenger revenue management and fuel-price related fare increases.

Cargo revenues grew 7.6%, to US\$1,154.3 million in 2007 from US\$1,072.7 million in 2006, as traffic increased 4.8% and yields increased 2.7% to US\$42.7 from US\$41.6. International cargo revenues accounted for nearly 98% of total cargo revenues. Cargo traffic increased mainly due to the growth of imports into Latin America. Cargo traffic growth decelerated during the year mainly due to the weakening of export traffic out of South America. Cargo yields increased mainly due to strong demand on southbound routes and to the implementation of certain passenger revenue management initiatives as well as fuel cost pass-through mechanisms.

Other revenues increased 17.3% to US\$173.4 million in 2007 from US\$147.9 million in 2006, driven by increased revenues from on-board sales and aircraft rentals, maintenance and storage, custom brokerage and handling services to third parties, partially offset by the sale in the second quarter of 2007 of the subsidiaries of Lan Logistics Corp, which were not part of the Company's core airline business. In addition, the Company received US\$18.6 million from Airbus related to a change in the delivery schedule of certain Airbus A318 aircraft.

Expenses

Expenses in 2007 totaled US\$3,111.6 million, a 13.9% increase over expenses of US\$2,731.3 million in 2006. System capacity, measured in system ATKs, increased 10.6% between 2006 and 2007. Excluding the impact of higher fuel prices, which resulted in US\$78.5 million of additional expenses compared to 2006, operating costs increased 11.0%. Unit costs (measured as operating costs and interest expenses minus other revenues, per ATK) increased 2.8% in 2007. Excluding fuel, unit costs declined 0.2%. As a percentage of total revenues, consolidated expenses decreased from 90.0% in 2006 to 88.3% in 2007.

Wages and benefits expenses grew 10.5% to US\$489.6 million in 2007 from US\$443.0 million in 2006, mainly driven by increased headcount in line with the expansion in the Company's operations, together with the impact of stronger local currencies and inflation on local currency-denominated wages.

Aircraft fuel expenses in 2007 totaled US\$930.2 million, a 21.8% increase over 2006 aircraft fuel expenses of US\$764.0 million. Fuel expenses rose due to a 9.2% increase in average fuel prices and an 11.5% increase in fuel consumption. To reflect our operational results more clearly, the gains and losses incurred due to fuel hedging activities are classified as a non-operating item.

Commissions to agents (related to both passenger and cargo sales) decreased 0.3% to US\$402.6 million in 2007 from US\$403.9 million in 2006, despite significant revenue growth, due to the fact that the 16.1% increase in traffic revenues (passenger and cargo) was offset by a 2.0 percentage point reduction in average commissions. As a percentage of traffic revenues (passenger and cargo), commissions to agents fell from 14.0% to 12.0%. This reduction was mainly related to a change in the commission structure in the cargo business, lower commissions in the passenger business in Chile, and a rise in passenger revenues relative to cargo revenues (average cargo commissions are higher than passenger commissions). Specifically, the weight of passenger revenues on total revenues increased from 59.8% to 62.3%.

Depreciation and amortization expenses increased 25.3% to US\$153.9 million in 2007 from US\$122.8 million in 2006. Depreciation and amortization increased mainly due to the incorporation into LAN's fleet of three new Boeing 767 aircraft, two Airbus A320 and five Airbus A318 aircraft during 2007. For further information on depreciation policies, refer to "Critical Accounting Policies" below, and Note 2 to our audited consolidated financial statements.

Other rental and landing fees increased 8.8% to US\$366.4 million in 2007 from US\$336.8 million in 2006. This increase resulted mainly from the impact of increased operations on landing fees and handling expenses, partially offset by lower variable aircraft rentals as a result of lower ACMI leases in the cargo business, as well as the termination of certain cargo allotment agreements.

Passenger service expenses totaled US\$71.8 million in 2007 and US\$56.1 million in 2006. This represented a 28.1% increase driven mainly by the 24.9% increase in the number of passengers transported during the period, in addition to higher costs associated with passenger compensations.

Aircraft rental expenses increased 0.8% to US\$158.9 million in 2007 from US\$157.7 million in 2006 as a decrease in the average number of leased aircraft was offset by higher average lease rates and by the incorporation of an additional Airbus A340 into LAN's fleet.

Aircraft maintenance expenses increased 35.7%, from US\$117.2 million in 2006 to US\$159.1 million in 2007, mainly as a result of the expansion in operations, a larger fleet and increased utilization of the fleet, as well as higher maintenance rates per hour due to an escalation in maintenance contracts.

Other operating expenses increased 14.9% to US\$379.1 million in 2007 from US\$329.9 million in 2006. Other operating expenses include sales-related expenses, training, communication, distribution and data processing costs, and banking and non-collectable account expenses. Other operating expenses increased in 2007 due to increased operations, which resulted in increased sales and distribution costs, higher advertising and marketing expenses, and costs related to the Company's on board sales. This was partially offset by the de-consolidation of the costs related to the subsidiaries of Lan Logistic Corp, which were sold during the second quarter of 2007.

Operating Income

Operating income increased 36.6% to US\$413.4 million in 2007 from US\$302.6 million in 2006. Operating margins increased from 10.0% in 2006 to 11.7% in 2007 as a 16.2% increase in total operating revenues outpaced a 13.9% increase in operating expenses. For the full year, revenues per ATK (passengers and cargo) grew 5.0% (from US\$45.5 to US\$47.7), as costs per ATK increased 2.8% (from US\$41.5 to US\$42.7).

Other Income (Expense)

Other expenses increased from US\$15.7 million in 2006 to US\$45.6 million in 2007. Interest income increased 128.5% to US\$18.0 million from US\$7.9 million due to higher average cash balances resulting from the equity offering completed in June 2007. Interest expenses increased 25.5% to US\$76.2 million in 2007 from US\$60.7 million in 2006 due to an increase in average debt related to fleet financing and higher average interest rates. Other income-net decreased 66.0% to US\$12.6 million in 2007 from US\$37.1 million in 2006. This was mainly due to the fact that in 2007 this item included a US\$25.0 million reserve related to the ongoing investigation by the European Commission for allegations of anti-competitive behavior in the cargo business. In 2006, this item included a US\$40.3 million pre-tax, one-time gain related to a change in the Company's aircraft maintenance accounting policy, a US\$6.4 million pre-tax one-time charge related to severance payment charges and a US\$8.1 million provision related to the phase-out of the Boeing 737-200 fleet. In addition, LAN recorded a fuel hedging gain of US\$28.2 million in 2007 compared to a US\$12.9 million gain in 2006, as well as a US\$15.7 million foreign-exchange gain compared to a US\$5.5 million gain in 2006.

Income Taxes

Income tax expense increased 27.6%, amounting to US\$59.8 million in 2007 as compared to US\$46.8 million in 2006. This was mainly the result of a 27.8% increase in pre-tax income, as well as a 0.1% decrease in the average tax rate which reached 16.2% in 2007 as compared to 16.3% in 2006. For more information, see "—Critical Accounting Policies—Deferred Income Taxes" below and Note 14 to our audited consolidated financial statements.

2006 Compared with 2005

Net Income

Our net income increased 64.6% from US\$146.6 million in 2005 to US\$241.3 million in 2006. This increase is mainly due to a 113.7% increase in operating income as compared to 2005, offset in part by a 149.8% decrease in non-operating income.

Operating income increased to US\$302.6 million in 2006 from US\$141.6 million in 2005 as a 21.1% increase in operating revenues outpaced a 15.5% growth in operating expenses. Revenue growth reflected an improvement in demand in the passenger business, growth in import routes into South America in the cargo business, moderate competitive activity and a strong market position, the entrance into new markets, and the expansion of our route network. Operating costs grew mainly due to capacity growth, sales growth and high fuel prices.

In 2006 we recorded a US\$15.7 million non-operating expense compared to a US\$31.5 million non-operating income in 2005. This change reflected higher interest expense due to increased debt associated with our fleet expansion plan, as well as lower income in the Other Income – Net item (as explained under "Other Income (Expense)").

In January 2006, LAN modified the accounting policy governing its aircraft maintenance expenses. Under the new method, heavy aircraft and engine maintenance costs related to our owned aircraft are capitalized and amortized to the next overhaul. This change is driven by the growth of LAN's fleet and operations in recent years. The modification aligns our accounting policy related to aircraft maintenance with that of other major international carriers. The new policy was made effective retroactively from January 1, 2006 and generated a non-operating, non-recurrent pre-tax benefit of US\$40.3 million, due to the elimination in provisions constituted using the previous method. This extraordinary gain was recorded in 2006 as other income under the Other Income – Net item.

Finally, income tax expense increased by 65.4% to US\$46.8 million in 2006, mainly as a result of higher pre-tax income, as the effective tax rate remained at approximately 16.3%.

Revenues

Revenues in 2006 totaled US\$3,034.0 million, a 21.1% increase over revenues of US\$2,506.4 million in 2005.

Our consolidated passenger revenues grew 24.2% to US\$1,813.4 million in 2006 from US\$1,460.6 million in 2005, due to an 11.5% increase in passenger traffic and an 11.4% improvement in yield (from US\$8.4 to US\$9.3). Passenger traffic (as measured in RPKs) increased primarily because of higher demand at key points of sales, expansion on long-haul and regional routes, consolidation in the Peruvian domestic market and expansion into the Argentine domestic market (both of which are classified as international operations). Passenger yields improved as a result of higher average fares due to improved segmentation, fuel-related fare increases and the positive impact of a stronger Chilean peso on fares denominated in Chilean pesos.

Domestic passenger revenues in Chile, which accounted for 18.3% of our total passenger revenues in 2006 and 20.0% in 2005, increased 13.6% to US\$332.1 million in 2006 from US\$292.2 million in 2005. Domestic passenger traffic (as measured in RPKs) increased 3.1%, while passenger capacity (as measured in ASKs) increased 6.6%, resulting in a decrease in load factor from 67.1% in 2005 to 64.9% in 2006. Domestic passenger yield improved 10.2% from US\$11.89 in 2005 to US\$13.11 in 2006, driven mainly by fuel-related fare increases as well as an average appreciation of 5.0% of the Chilean peso.

International passenger revenues, which accounted for 81.7% of total passenger revenues in 2006 and for 80.0% of passenger revenues in 2005, increased 26.8% to US\$1,481.3 million in 2006 from US\$1,168.3 million in 2005. International passenger traffic (as measured in RPKs) increased 12.8%, while passenger capacity (as measured in ASKs) increased 12.3% in 2006, resulting in an improvement in load factor from 75.1% in 2005 to 75.4% in 2006. Total international passenger yield (based on RPKs) increased 12.4% to US\$8.73 in 2006 from US\$7.77 in 2005, driven by nominal fare increases, improved passenger revenue management and fuel-price related fare increases.

Cargo revenues grew 17.8%, to US\$1,072.7 million in 2006 from US\$910.5 million in 2005, as traffic increased 7.8% and yield increased 9.3% to US\$41.6 from US\$38.1. International cargo revenues accounted for nearly 98% of total cargo revenues. Cargo traffic increased mainly due to the growth of imports into Latin America. Cargo traffic growth decelerated during the year mainly due to the weakening of export traffic out of South America. Cargo yields increased mainly due to increased fares on southbound routes through the application of fuel cost pass-through mechanisms.

Other revenues rose 9.3% to US\$147.9 million in 2006 from US\$135.3 million in 2005, mainly due to increased revenues from courier, logistics, warehousing, on-board sales, ground servicing activities and aircraft leasing revenues.

Expenses

Expenses in 2006 totaled US\$2,731.3 million, a 15.5% increase over expenses of US\$2,364.7 million in 2005. System capacity, measured in system ATKs, increased 9.3% between 2005 and 2006. Excluding the impact of higher fuel prices, which resulted in US\$70.9 million of additional expenses compared to 2005, operating costs increased 12.5%. Unit costs (measured as operating costs and interest expenses minus other revenues, per ATK) increased 6.9% in 2006. Excluding the impact of higher fuel prices, unit costs grew 4.1%. As a percentage of total revenues, consolidated expenses decreased from 94.3% in 2005 to 90.0% in 2006.

Wages and benefits expenses grew 19.2% to US\$443.0 million in 2006 from US\$371.6 million in 2005, mainly due to the higher costs in dollar terms caused by the effect of a stronger Chilean peso on wages denominated in Chilean pesos partially offset by a decline in personnel (which we made as part of ongoing efforts), as well as higher provisions for employee incentive programs during 2006.

Aircraft fuel expenses in 2006 totaled US\$764.0 million, an 18.9% increase over 2005 aircraft fuel expenses of US\$642.7 million. Fuel expenses rose due to a 10.2% increase in average fuel prices and a 7.8% increase in fuel consumption. To reflect our operational results more clearly, the gains and losses incurred due to fuel hedging activities are classified as a non-operating item.

Commissions to agents (related to both passenger and cargo sales) increased 16.9% to US\$403.9 million in 2006 from US\$345.4 million in 2005, primarily due to a 21.7% increase in traffic revenues. As a percentage of traffic revenues (passenger and cargo), commissions to agents fell from 14.6% to 14.0%. This decrease is mainly related to lower average passenger commissions and to a rise in passenger revenues relative to cargo revenues (average cargo commissions are higher than passenger commissions). Specifically, the weight of passenger revenues on total revenues increased from 58.3% to 59.8%.

Depreciation and amortization expenses increased 52.5% to US\$122.8 million in 2006 from US\$80.5 million in 2005. Depreciation and amortization increased mainly due to the incorporation of four new Boeing 767-300 passenger aircraft, one new Boeing 767 Freighter aircraft and eight new Airbus A319 aircraft into the fleet during 2006. In addition, this increase is due to the reclassification of certain expenses due to the change in our maintenance accounting policy implemented in January 2006. For further information on depreciation policies, refer to "Critical Accounting Policies" below, and Note 2 to our audited consolidated financial statements.

Other rental and landing fees increased 11.7% to US\$336.8 million in 2006 from US\$301.5 million in 2005. This increase resulted mainly from the impact of increased operations on both landing fees and ground-services.

Passenger service expenses totaled US\$56.1 million in 2006 and US\$53.2 million in 2005. This represented a 5.5% increase as an 11.5% increase in the number of passengers transported was partially mitigated by efficiency gains due to changes in on-board service on short-haul routes.

Aircraft rental expenses increased 6.3%, to US\$157.6 million in 2006 from US\$148.2 million in 2005 primarily due to the full year effect of additional Boeing 767, Airbus A320 and Boeing 737 aircraft incorporated in 2005.

Aircraft maintenance expenses decreased 11.3%, from US\$132.2 million in 2005 to US\$117.2 million in 2006, as efficiency gains related to fleet renewal programs and the reclassification of certain expenses due to the change in the maintenance accounting policy in January 2006 more than compensated for the increase in cost arising from capacity growth.

Other operating expenses increased 14.0% to US\$329.9 million in 2006 from US\$289.5 million in 2005. Other operating expenses include sales-related expenses, training, communication, distribution and data processing costs, and banking and non-collectable account expenses. Other operating expenses increased in 2006 due to increases in booking expenses, cost of goods sold on-board, and higher sales-related costs and taxes.

Operating Income

Operating income increased 113.7% to US\$302.6 million in 2006 from US\$141.6 million in 2005. Operating margins increased from 5.6% in 2005 to 10.0% in 2006 as a 21.1% increase in total operating revenues outpaced a 15.5% increase in operating expenses. For the full year, revenues per ATK (passengers and cargo) grew 11.4% (from US\$40.8 to US\$45.5), as costs per ATK increased 6.9% (from US\$38.8 to US\$41.5).

Other Income (Expense)

Other income (expense) decreased from a US\$31.5 million income in 2005 to a US\$15.7 million expense in 2006. Interest income decreased 36.3% to US\$7.9 million from US\$12.4 million due to lower average cash balances. Interest expenses increased 54.8% to US\$60.7 million in 2006 from US\$39.2 million in 2005 due to an increase in average debt related to fleet financing and higher average interest rates. Other income-net decreased 36.3% to US\$37.1 million in 2006 from US\$58.2 million in 2005 due to lower fuel hedging income (US\$12.9 million in 2006 as compared to US\$51.5 million in 2005), a US\$11.7 million pre-tax one-time expense related to severance payments recorded in 2006, and an US\$8.1 million provision related to the phase-out of the Boeing 737-200 fleet also recorded in 2006. All of this was offset in part by a US\$40.3 million pre-tax extraordinary income related to the write-off of certain provisions as a result of the change in the maintenance accounting policy implemented in January 2006.

Income Taxes

Income tax expense increased 65.4%, amounting to US\$46.8 million in 2006 as compared to US\$28.3 million in 2005. This was mainly the result of a 65.0% increase in pre-tax income, as well as a 0.6% increase in the average tax rate which reached 16.8% in 2006 as compared to 16.2% in 2005. For more information, see "—Critical Accounting Policies—Deferred Income Taxes" below and Note 13 to our audited consolidated financial statements.

U.S. Dollar Presentation and Price-Level Adjustments

General

Lan Airlines and most of our subsidiaries maintain their accounting records and prepare their financial statements in U.S. dollars. For purposes of preparing the audited consolidated financial statements, we translate monetary assets and liabilities denominated in currencies other than U.S. dollars to U.S. dollars at the exchange rate prevailing at the applicable balance sheet date, and we translate income statement accounts at the exchange rate prevailing on the dates on which the revenues and expenses were received, paid or accrued.

Chilean GAAP requires that financial statements prepared in Chilean pesos recognize the effects of inflation. Accordingly, unless we indicate otherwise, we have restated all financial information of our subsidiaries that maintain their accounts in Chilean pesos to eliminate the distorting effects of changes in inflation on non-monetary assets, liabilities and shareholders' equity. We have then translated this financial information to U.S.

dollars, as described above, for purposes of consolidating it into our audited consolidated financial statements. The general price-level gain or loss we record in the income statement under "Other Income (Expense)" indicates the effect of inflation on our subsidiaries' net holdings of monetary assets and liabilities during a period of inflation. We consider assets and liabilities "monetary" for purposes of general price-level accounting if their amounts are fixed by contract or otherwise in terms of number of currency units, regardless of changes in specific prices or in the general price level. Examples of "monetary" assets and liabilities include accounts receivable, accounts payable and cash.

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 (84% in 2007) are in U.S. dollars or in prices pegged to the U.S. dollar and a substantial portion of our expenses (71% in 2007) is denominated in dollars or pegged to the U.S. dollar, in particular fuel costs, landing and overflight fees, aircraft rentals, insurance and aircraft components and supplies. Almost all of our liabilities are denominated in U.S. dollars (94% as of December 31, 2007), including bank loans, air traffic liabilities, and certain amounts payable to our suppliers. As of December 31, 2007, 90% 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 leases 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 gain of US\$6.0 million in 2005, a net foreign exchange gain of US\$5.5 million in 2006 and a net foreign exchange gain of US\$15.7 million in 2007, which are set forth in our income statement under "Other Income (Expense)". For more information, see Notes 2(e) and 22 to our audited consolidated financial statements. Our exchange gains in 2005, 2006 and 2007 were mainly associated with the appreciation of Latin American currencies, primarily that of the Chilean peso against the U.S. dollar.

GAAP/Non-GAAP Reconciliation

We use "Cost per ATK" and "Cost per ATK excluding fuel price variations" in analyzing operating costs on a per unit basis. "ATKs" (available ton kilometers) measure the number of tons of capacity available for the transportation of revenue load (passengers and/or cargo) multiplied by the kilometers flown. 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 ATKs. "Total costs" are calculated by starting with operating costs as defined under Chilean GAAP and making certain adjustments for interest costs and other revenues. The cost component is further adjusted to obtain "costs per ATKs excluding fuel price variations", in order to remove the impact of changes in fuel prices for the year. "Cost per ATK" and "Cost per ATK 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. They are not Chilean GAAP-based measures of performance or liquidity. These metrics should not be considered in isolation or as a substitute for operating costs or as indicators of performance or cash flows as a measure of liquidity.

The table below reconciles operating costs as defined by Chilean GAAP to costs used in the calculation of "Cost per ATK" and "Cost per ATK excluding fuel price variations."

	2005	2006	2007
Cost per ATK			
Operating cost (US\$ thousands)	2,364,717	2,731,338	3,111,552
+ Interest expense (US\$ thousands)	39,191	60,739	76,224
Interest income (US\$ thousands)	12,426	7,897	18,043
– Other revenues (US\$ thousands)	135,316	147,857	173,399
ATK operating costs	2,256,166	2,636,323	2,996,334
Divided by system's ATKs (thousands)	5,810,830	6,349,794	7,023,085
= Cost per ATK (US\$ cents)	38.83	41.52	42.66
Cost per ATK excluding fuel price variations			
ATK operating costs (thousands)	2,256,166	2,636,323	2,996,334
– Actual fuel expenses (US\$ thousands)	642,696	763,951	930,208
+ (Gallons consumed) times (previous year's fuel price)	455,265	693,062	851,660
ATK operating costs excluding fuel price variations	2,068,736	2,565,434	2,917,786
Divided by system's ATKs (thousands)	5,810,830	6,349,794	7,023,085
= Cost per ATK excluding fuel price variations (US\$ cents)	35.60	40.40	41.55

In addition, we use revenues per ASK or ATK, as applicable, in analyzing revenues on a per unit basis. To obtain our unit revenues, which are used by our management in the analysis of our results, we divide our passenger revenues by our total ASKs and our cargo revenues by our total ATKs. We use our revenues as defined under Chilean GAAP 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 a Chilean GAAP-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:

	2005	2006	2007
Passenger Revenues (US\$ million)	1,460.6	1,813.4	2,197.2
ASK	23,687.3	26,400.0	31,556.1
Passenger Revenues/ASK (US\$ cents)	6.2	6.9	7.0
Cargo Revenues (US\$ million)	910.5	1,072.7	1,154.3
ATK	3,213.8	3,399.1	3,632.8
Cargo Revenues/ATK (US\$ cents)	28.3	31.6	31.8

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 (Chile and Argentina) spring and summer, than in the second and third quarters. Since Peru and Ecuador have different seasonal patterns, the expansion into those markets has led to stronger passenger revenues in the second and third quarters, therefore moderating the overall seasonality of our passenger business. Our cargo revenues generally are higher in the fourth quarter, which correspond to the harvest season in the southern hemisphere.

Critical Accounting Policies

A summary of our significant accounting policies is included in Note 2 to our audited 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. The preparation of financial statements requires management to make certain estimates and assumptions. 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.

Revenue Recognition

The amount of passenger ticket sales not yet recognized as revenue is reflected as air traffic liability. Commissions related to such unearned revenue are shown net of the 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 historical experiences. 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, exchange 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.

Events and circumstances outside of historical fare sale activity or historical customer travel patterns can result in actual refunds, exchanges or forfeited tickets differing significantly from estimates. We evaluate our estimates periodically. If actual refunds, exchanges or forfeitures fall outside of this range, we review our estimates and assumptions and adjust "Air traffic liability" and "Passenger revenue" as necessary. Our estimation techniques have been consistently applied from year to year; however, as with any estimates, actual refund and exchange activity may vary from estimated amounts. Furthermore, we believe it is unlikely that materially different estimates for future refunds, exchanges and forfeited tickets would be reported.

Property and Equipment

The key judgments we must make under the property and equipment policy include the estimation of the useful lives of our various asset types, expected residual values, the election to utilize primarily the straight-line method for recording depreciation, management's judgment regarding appropriate capitalization or expensing of costs related to fixed assets, and our determination that no impairment exists.

Property and equipment are stated at cost and are depreciated by the straight-line method based on the estimated useful lives of the assets. In estimating the lives and expected residual values of our aircraft, we have primarily relied upon actual experience with the same or similar aircraft types and recommendations from the manufacturers of the aircraft we operate. Aircraft estimated useful lives are based on the number of hours flown and cycles flown (a cycle is one take-off and landing). We have made a conversion into years based on both our historical and anticipated future utilization of the aircraft.

We also enter into capital lease agreements relating to aircraft and certain buildings and equipment, which have bargain purchase options at the end of each contract. These assets are not our legal property, because we cannot dispose of them until the purchase option is exercised. These assets are recorded at their fair value on the date of the lease agreement, which is determined by discounting the amounts payable in installments and the purchase option at the interest rate implicit, or explicit, in the contract. The corresponding leasing obligations are presented under long-term liabilities and under the current portion of long-term leasing obligations, net of the corresponding deferred interest.

Property and equipment assets are evaluated for possible impairment, as applicable. Factors that would indicate potential impairment may include, but are not limited to, significant decreases in the market value of long-lived assets, a significant change in the long-lived asset's physical condition and operating or cash flow losses associated with the use of the long-lived asset. This process requires our estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the appropriate asset's carrying values are written down to net realizable value and the amount of the write-down is charged against the results of continuing operations.

Expenditures that substantially improve and/or increase the useful life of facilities, engines and equipment are capitalized. Minor and other unscheduled maintenance costs of aircraft and engines are charged to income as incurred. Costs of major programmed maintenance for leased aircraft are accrued based on the use of the aircraft and engines (flying hours). Our estimation of this accrual and the evaluation of whether an expenditure related to property and equipment substantially improves and/or increases the useful life of an asset and is appropriately capitalized as an addition to the asset's cost basis or is expensed as normal maintenance and repair expense can significantly affect results of operations for a given period, as well as our financial position.

Maintenance

Effective January 2006, the Company decided to change the method of accounting for heavy aircraft and engine maintenance costs related to its owned aircraft. Under the new method, these costs incurred will be capitalized and amortized to the next overhaul while all other minor maintenance costs will be expensed as incurred. The cumulative effect of this change on net income for the year 2006 is an increase in non-operating income by US\$ 40.3 million. For more information see Notes 2(p) and 3 to our audited consolidated financial statements.

Goodwill

Management also must exercise judgment in assessing goodwill and negative goodwill for impairment. Goodwill arises from the excess of the purchase price of companies acquired over their net book value. We amortize costs in excess of book value of net assets (and the excess of book value over cost) of our businesses using the straight-line method over a period not to exceed 20 years. This period is based on management's assumption regarding the estimated period of recovery regarding these investments. This assumption takes into consideration various factors including, but not limited to, significant decreases in the market value of the investment, significant changes in legal or regulatory provisions and how these may impact the value of an investment and rates of returns used in calculating operating or cash flow losses associated with the use of our assets. We review the recorded value of our goodwill annually, or sooner if changes in circumstances indicate that the carrying amount may exceed fair value. Recoverability of the carrying value of the asset is determined by comparing net book value, including goodwill, to fair value based on the estimated future net cash flows of the relevant assets.

Derivative Instruments Used For Aircraft Fuel

We utilize financial derivative instruments to manage the price risk of changing aircraft fuel prices and interest rates. As a portion of our financial derivative instruments are not traded on a market exchange, we estimate their fair values with the assistance of third parties determined by the use of present value methods or standard option value models, with assumptions about commodity prices based on those observed in underlying markets. In addition, as there is no reliable forward market for jet fuel, we must estimate the future prices of jet fuel in order to measure the effectiveness of the hedging instruments in offsetting changes to those prices. Forward jet fuel prices are estimated by observing similar commodity futures prices (such as crude oil) and adjusted based on variations to those like commodities. As the majority of our fuel hedges settle within 18 months, the variation between estimates and actual prices are recognized in a short period of time.

Deferred Income Taxes

Effective January 1, 2000, the effects of deferred income taxes arising from temporary differences between the basis of assets and liabilities for tax and financial statement purposes are recorded in accordance with Technical Bulletin No. 60 of the Chilean Institute of Accountants. The effects of deferred income taxes at January 1, 2000, which were not previously recorded, are recognized in income beginning in 2000 as the temporary differences reverse. Under Technical Bulletin No. 60, deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. In making this determination, we consider both positive and negative evidence and make certain assumptions, including projections of taxable income. Changes in these assumptions may have a material impact on results.

Stock options plans

Effective January 1, 2007 the Company accounts for stock-based compensation plans in accordance with the International Financial Reporting Standard No. 2 share-based payment. Therefore, the fair value of the options granted as wages and benefits will be recorded on a straight-line basis during the period from the date of the granting of those options to the date that those options become vested.

Liquidity and Capital Resources

In recent years, we have been able to meet our working capital and capital expenditure requirements through cash from our operations, proceeds of long-term bank loans, loans from related parties and gains from financial transactions.

Our cash and cash equivalents totaled US\$445.6 million as of December 31, 2007, US\$199.5 million as of December 31, 2006 and US\$111.3 million as of December 31, 2005. In June 2007 LAN announced the successful completion of its equity offering, raising a total of US\$320 million in the Chilean and United States markets. Additionally, we held US\$22 million as of December 31, 2007, US\$20.4 million as of December 31, 2006 and US\$48.0 million as of December 31, 2005 in marketable securities not considered to be cash equivalents under Chilean GAAP, which consisted mainly of bonds. In 2005, 2006 and 2007 we were able to invest a portion of our cash balance in such items. We hold significantly all of our cash and cash equivalents in U.S. dollars or U.S. dollar-based instruments. We generally only hold cash and cash equivalents in currencies other than dollars to fulfill short-term obligations that are denominated in local currencies. The increase in our cash and cash equivalents in 2007 as compared to 2006 was primarily due to higher cash flows from operating activities and our equity offering.

As of December 31, 2007, we had a working capital deficit (that is, our current liabilities exceeded our current assets) of US\$29 million. As of December 31, 2006, we had a working capital deficit of US\$170 million. In December 31, 2005, we had a working capital deficit of US\$105.2 million. Our working capital deficit in 2007 was mainly related to our air traffic liability and accounts payable. Our air traffic liability refers to tickets that we have sold but which have not yet been used for travel. We recognize the price paid for the ticket as revenue when the tickets are flown. Except in the case of refunds, most of our air traffic liability will not result in cash outflows. Both liabilities arise in our ordinary course of business and, although they fluctuate mainly due to seasonal factors, they are generally proportional to our revenues. We believe this kind of working capital deficit presents no major constraint to our operations or growth strategy.

Net cash inflows from operating activities were US\$707 million in 2007, US\$490.3 million in 2006 and US\$276.9 million in 2005, and are derived primarily from providing air passenger and cargo transportation to customers. Operating cash outflows are primarily related to the recurring expenses of operating our airline. Net cash inflows increased in 2007 mainly due to an increase in the collection of trade account receivables.

Net cash used in investing activities was US\$844.3 million in 2007, US\$905.7 million in 2006 and US\$560.4 million in 2005. Cash capital expenditures were US\$839.9 million in 2007, US\$920.4 million in 2006 and US\$592.4 million in 2005, mainly reflecting the partial acquisitions of property and equipment.

Our capital expenditures for 2007 were mainly composed of:

- cash contributions for pre-delivery deposits related to aircraft that will be incorporated into our fleet in 2008 and 2009;
- the acquisition of three Boeing 767-300 passenger aircraft, five Airbus A318 passenger aircraft and two Airbus A320 passenger aircraft;
- the initial pre-delivery deposits for the future Boeing B787 Dreamliner and Boeing B777 Freighter aircraft to be delivered between 2011 and 2016;
- the financing of the 15% of the delivered aircraft; and
- the acquisition of aircraft spare parts and spare engines.

Our capital expenditures for 2006 were mainly composed of:

- cash contributions for pre-delivery deposits related to aircraft that will be incorporated into our fleet in 2008 and 2009;
- the acquisition of four Boeing 767-300 passenger aircraft, one Boeing 767 Freighter aircraft and eight Airbus A319 passenger aircraft;
- the financing of the 15% of the delivered aircraft (with the exception of the Boeing 767 delivered in March 2006); and
- the acquisition of aircraft spare parts and spare engines.

Our capital expenditures for 2005 were composed primarily of cash distributions for pre-delivery deposits related to aircraft that were incorporated into our fleet in 2006 and 2007 and will be incorporated in 2008, and the acquisition of two Airbus 319 passenger aircraft and two Boeing 767 Freighter aircraft. Net cash used in investing activities in 2005 also included US\$39.0 million in investments of financial instruments, consisting primarily of marketable securities. For more information about current and future capital expenditures, see "Capital Expenditures" under Item 5. The difference between net cash used in investing activities and cash capital expenditures during 2006 and 2007 relates mainly to the investment in and sale of financial instruments.

Net cash inflows from financing activities were US\$383.4 million in 2007, compared to net cash used in financing activities of US\$503.7 million in 2006 and US\$177.9 million in 2005. In 2007, our main uses of cash were US\$205.5 million in loan payments and dividends payments for a total of US\$210.9 million in 2006, our main uses of cash were US\$223.4 million in loan payments and dividends payments for a total of US\$84.9 million. In 2005, our main uses of cash were US\$35.5 million in loan payments and dividends payments for a total of US\$43.5 million. Net cash inflows from financing activities increased mainly due to a higher amount in the loans obtained, reflecting the expansion in our fleet.

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, 2007, we maintained US\$325 million in short-term credit lines with both local and foreign banks.

We have contractual obligations and commitments primarily related to the payment of debt, lease arrangements and for the future incorporation of aircraft to our fleet. As of December 31, 2007 we have financed the acquisition of ten Boeing 767-300 passenger aircraft and eight Boeing 767-300 Freighters through syndicated loans provided by international financial institutions with the support of partial guarantees issued by the Ex-Im Bank with repayment profiles of either 12 or 15 years. The Ex-Im Bank guarantees support 85% of the net purchase price and are secured with a first priority mortgage on the aircraft in favor of a security trustee on behalf of Ex-Im Bank. The documentation for each loan follows standard market forms for this type of financing, including standard events of default. We have financed the remaining 15% of the net purchase price with commercial loans or with our own funds. Our Ex-Im Bank supported financings amortize on a quarterly basis, are denominated in U.S. dollars and, while some have fixed interest rates, others bear interest at a floating rate linked to U.S. dollar LIBOR. Through the use of interest rate swaps, we have effectively converted almost all of our floating rate debt under these loans into fixed rate debt. Between 2004 and 2007, LAN sold its ownership in the entities borrowing some of these loans and they were therefore reclassified as financial leases. As of December 31, 2007, the total amount outstanding under our Ex-Im Bank-supported financings totaled US\$977.1 million. We have additional syndicated loans to support the acquisition of five Boeing 767-300 passenger aircraft to be delivered in 2008. We plan to finance 85% of the net purchase price of these aircraft with intended Ex-Im Bank-supported loans and to use internal funds to pay for the remaining 15% of the net purchase price. See "Quantitative and Qualitative Disclosures About Market Risk—Risk of Fluctuations in Interest Rates" under Item 11 for more information.

In 2000, to finance our Airbus aircraft, we entered into a US\$1.3 billion umbrella credit facility with a syndicate of international financial institutions under which we borrowed in the form of separate loans in connection with the specific financing requirements of each Airbus aircraft (including pre-delivery and long-term financings). This umbrella facility provides for guarantees from the English, French and German export credit agencies and contains customary terms for the industry, including standard events of default. Loans under the facility are denominated in U.S. dollars and bear interest at floating rates linked to LIBOR. The majority of these loans have been converted into fixed rate loans through interest rate swaps. As of December 31, 2005, we had drawn US\$938 million under the facility. Some of the loans drawn under the facility mature 12 years from the delivery date of the corresponding aircraft and others have longer repayment periods, maturing 18 years after the initial drawdown. In connection with the facility, we have also incorporated Airbus aircraft into our fleet through operating leases, financial leases and tax leases. This financing facility covered the aircraft that we were scheduled to acquire through December 31, 2006 pursuant to the purchase agreements signed with Airbus in 1998 and 1999. However, we terminated this facility in late 2005 as we decided to negotiate a new facility to support the 32 Airbus A320-Family Aircraft that were partly received in 2006, 2007 and which we are to receive in 2008 and the first quarter of 2009 pursuant to our previous orders and the new purchase agreement we signed in 2005. This new facility, arranged in early 2006, provides us with guarantees from the export credit agencies for 85% of the net purchase price of each aircraft. The remaining 15% of the net purchase price will be funded internally.

Our total long-term debt (including capital leases) as of December 31, 2007 was US\$1,646 million compared to US\$1,372 million in 2006. The increase in long-term debt during 2007 relates mainly to the incorporation of debt-financed fixed assets as well as the financing of predelivery payments related to five Boeing aircraft to be delivered in 2008. We have minimum lease payment obligations primarily associated with our aircraft leases. As of December 31, 2007, we had 39 aircraft under operating leases, and we had minimum lease payment obligations of US\$676.2 million compared to US\$735.6 million as of December 31, 2006. Minimum lease payment obligations decreased as the effect of the incorporation of new aircraft under lease agreements and the extension of several lease contracts was offset by the consumption of one year of lease-payments. The average interest rate of our long-term debt was 5.28% as of December 31, 2007. 95.7% of our debt effectively 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 March 31, 2008, we also had purchase obligations for eight Airbus A318s, 11 Airbus A319, 11 Airbus A320s, eight Boeing 767-300 passenger aircraft, two Boeing 777-200 freighters, and 26 Boeing 787 passenger aircraft, amounting to a combined total of US\$5,989 million, with delivery between 2008 and 2016.

The following table sets forth our material expected obligations and commitments as of December 31, 2007.

		Payments	due by p	eriod, as o	of Decemb	er 31, 2007	
	Total	2008	2009	2010	2011	2012	Thereafter
			(in	US\$ mill	ions)		
Principal debt payments	1,246.9	89.2	93.7	98.4	103.3	109.7	752.6
Interest debt payments	397.7	62.2	55.9	52.0	47.7	42.8	137.1
Capital leases ⁽¹⁾	344.8	66.2	64.4	76.3	35.2	45.3	57.3
Operating leases ⁽²⁾	676.2	147.7	129.0	112.6	109.2	98.9	78.9
Purchase obligations	6,014.6	837.7	362.4	248.8	521.5	720.6	3,323.6
Total	8,680.2	1,203.1	705.5	588.1	816.9	1,017.3	4,349.5

⁽¹⁾ Includes interests.

Capital Expenditures

Over the last three years our cash capital expenditures were US\$592.4 million in 2005, US\$920.4 million in 2006, and US\$839.6 million in 2007, which mainly reflect our acquisition of aircraft and aircraft-related equipment, IT equipment and support infrastructure, and the funding of pre-delivery deposits.

The following chart sets forth our estimate, as of March 31, 2008, of our future capital expenditures for 2008, 2009, 2010, 2011 and 2012:

	1	Expenditui	res by year, as of Marcl	h 31, 2007	
	2008	2009	2010 (in US\$ millions)	2011	2012
Expenditures on aircraft	838	363	249	522	721
Other expenditures ⁽¹⁾	170	201	209	233	269
Total	1,008	564	458	755	990

⁽¹⁾ 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 "Business of the Company — Fleet" under Item 4 above. Principally, we have projected our capital expenditures based on:

- the delivery of 14 Airbus A320-Family Aircraft in 2008, three in 2009, six in 2010 and nine in 2011;
- the delivery of five Boeing B767-300 passenger aircraft in 2008 and three in 2009;
- the delivery of one Boeing B777-Freigther aircraft in 2011 and one in 2012;
- the expected delivery of four Boeing B787-9 passenger aircraft in 2012; and
- the improvements to our buildings and plants as part of the two-year capital expenditure plan earmarked in 2007 (and totaling approximately US\$7 million).

We expect that cash generated from operations, short-term credit-lines and the long-term syndicated loans already negotiated with various banks will be sufficient to meet our cash requirements in the foreseeable future, although events that materially affect our operating results could also have a negative impact on our liquidity.

Credit Card Receivables Securitization

We have raised a total of US\$100.0 million through two similar transactions involving the private placement of certificates backed by our credit card receivables. In these transactions, we sold our right to receive certain present and future U.S. dollar payment obligations, referred to as future credit card receivables, arising from the purchase of passenger tickets and related services in the United States through American Express, Diners Club, Discover, Visa and MasterCard to Pelican Finance Ltd. ("Pelican"). In the first transaction, completed in March 1999, we sold US\$60.0 million of our future credit card receivables to Pelican which then issued notes to a United States trust, backed by payments received on these payment obligations, which in turn issued trust certificates, backed by payments received on the notes, to investors. This transaction had a term of seven years and our sale of these receivables authorized Pelican to collect payments on them until March 2006. Final payment for this

⁽²⁾ Includes aircraft leases and other non-cancelable leases.

transaction was made in June 2006. In August 2002, we entered into a similar sale of future credit card receivables to Pelican for an additional US\$40.0 million. This transaction has a term of seven years, with a four year grace period on principal payments. Our sale of these receivables authorizes Pelican to collect payments on them until the earlier of the date the notes issued by Pelican are fully redeemed and August 2009.

Off-Balance Sheet Arrangements

We record payments made under operating leases as expenses, and none of our operating lease obligations are reflected on our balance sheet. We are responsible for all maintenance, insurance and other costs associated with operating these aircraft. We have not made any residual value or similar guarantees to our lessors. We have made certain guarantees and indemnities to other unrelated parties that are not reflected on our balance sheet, but we believe that these will not have a significant impact on our results of operations or financial condition.

We have no other off-balance sheet arrangements. See Notes 1 and 23 to our audited consolidated financial statements for a more detailed discussion of contingencies, including guarantees.

Differences between Chilean GAAP and U.S. GAAP

Our audited consolidated financial statements are prepared in accordance with Chilean GAAP, which differs in certain significant respects from U.S. GAAP. See Note 27 to our audited consolidated financial statements for a discussion of these differences and their effect on our results of operations.

Our net income determined under U.S. GAAP would have been US\$322.0 million in 2007, US\$201.6 million in 2006 and US\$156.5 million in 2005, as compared with net income under Chilean GAAP of US\$308.3 million in 2007, US\$241.3 million in 2006 and US\$146.6 million in 2005. These differences could be material to the financial information presented in accordance with Chilean GAAP. The main differences affecting the determination of net income include the different treatment of expenses for amortization of goodwill, adjustments for differences in the deferred tax provision as calculated under U.S. GAAP, the ineffectiveness of certain derivative instruments resulting in additional adjustments under Chilean GAAP; and, certain expenses related to derivative instruments that do not qualify as hedging relationships under U.S. GAAP. In 2007, the main differences affecting the determination of net income were the effect of the adoption of FSP AIR-1 related to the accounting for heavy aircraft and engine maintenance costs on leased aircraft, and the effect of late delivery fees received by the Company due to the non-delivery of an aircraft or equipment by a stated delivery date.

Shareholders' equity determined under U.S. GAAP would have been US\$1,010.7 million as of December 31, 2007; US\$658.3 million as of December 31, 2006; and US\$600.5 million as of December 31, 2005 as compared with shareholders' equity under Chilean GAAP of US\$988.0 million as of December 31, 2007; US\$626.3 million as of December 31, 2006; and US\$502.7 million as of December 31, 2005, principally due to differences in purchase accounting adjustments, adjustments for the provision for deferred income taxes, and goodwill amortization.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The administration of Lan Airlines is conducted by its board of directors which, in accordance with Lan Airlines' bylaws, consists of nine directors who are elected every two years for two-year terms at annual regular shareholders' meetings, 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.

The current board of directors was elected at the annual shareholders' meeting held on April 10, 2008. Its term expires in April 2010. The following are Lan Airlines' directors and senior management as of April 10, 2008:

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Directors	Position
Jorge Awad Mehech ⁽¹⁾	Director / Chairman
Darío Calderón González	Director
José Cox Donoso	Director
Juan José Cueto Plaza ⁽²⁾	Director
Juan Cueto Sierra ⁽²⁾	Director
Ramón Eblen Kadis ⁽³⁾	Director
Bernardo Fontaine Talavera	Director
Andrés Navarro Haeussler	Director
Ignacio Guerrero Gutiérrez	Director
Senior Management	Position
Senior Management Enrique Cueto Plaza ⁽²⁾	Position Chief Executive Officer
Enrique Cueto Plaza ⁽²⁾	Chief Executive Officer
Enrique Cueto Plaza ⁽²⁾ Ignacio Cueto Plaza ⁽²⁾	Chief Executive Officer President and Chief Operating Officer
Enrique Cueto Plaza ⁽²⁾ Ignacio Cueto Plaza ⁽²⁾ Alejandro de la Fuente Goic	Chief Executive Officer President and Chief Operating Officer Chief Financial Officer
Enrique Cueto Plaza ⁽²⁾ Ignacio Cueto Plaza ⁽²⁾ Alejandro de la Fuente Goic Armando Valdivieso Montes	Chief Executive Officer President and Chief Operating Officer Chief Financial Officer Chief Executive Officer-Passenger
Enrique Cueto Plaza ⁽²⁾ Ignacio Cueto Plaza ⁽²⁾ Alejandro de la Fuente Goic Armando Valdivieso Montes Cristián Ureta Larraín	Chief Executive Officer President and Chief Operating Officer Chief Financial Officer Chief Executive Officer-Passenger Chief Executive Officer-Cargo
Enrique Cueto Plaza ⁽²⁾ Ignacio Cueto Plaza ⁽²⁾ Alejandro de la Fuente Goic Armando Valdivieso Montes Cristián Ureta Larraín Carlos Prado Cánepa	Chief Executive Officer President and Chief Operating Officer Chief Financial Officer Chief Executive Officer-Passenger Chief Executive Officer-Cargo Senior Vice President, Corporate Investment

Mr. Jorge Awad Mehech was re-elected chairman of the board of directors in May 2008.

Mr. Ramón Eblen Kadis is a member of the Eblen Group, which is defined in "Item 7" as a "Principal Shareholder."

Biographical Information

Set forth below are brief biographical descriptions of Lan Airlines' directors and senior management.

Directors

Mr. Jorge Awad Mehech, 62 years old, has served as chairman and member of Lan Airlines' board of directors since July 2001. Mr. Awad had previously served as chairman of our board of directors from 1994 to October 2000. Mr. Awad's current term as chairman ends on the date of the annual shareholders' meeting to be held in 2010. He held the position of Senior Vice President of Fast Air from 1979 to 1993. Mr. Awad currently serves on the boards of directors of several other Chilean companies, including Banco de Chile, Envases del Pacifico S.A., Edyce S.A. and Universidad de Talca. He is also a board member of ICARE (Instituto Chileno de Administracion Racional de Empresas), a Chilean organization seeking to promote private enterprise. As of March 31, 2008, according to shareholder registration data in Chile, Mr. Awad shared in the beneficial ownership of Lan Airlines, through Inversiones y Asesorías Fabiola S.A., of 201,784 common shares (0.06% of Lan Airlines' outstanding shares).

Mr. Darío Calderón González, 61 years old, has served on Lan Airlines' board of directors since 1994. Mr. Calderón's term as a director ends on the date of the annual shareholders' meeting to be held in 2010. Mr. Calderón has been a partner in Calderón y Cía., a Chilean law firm, since 1970. Mr. Calderón currently serves on the board of directors of other Chilean companies, including Integramedica S.A., Imprenta A Molina Flores S.A., Inmobiliaria Cumbres S.A., and Calzados Gino S.A.

²⁾ Messrs. Ignacio, Juan José and Enrique Cueto Plaza are brothers, and Mr. Juan Cueto Sierra is their father. All four are members of the Cueto Group (as defined in "Item 7"), one of the Controlling Shareholders.

Mr. José Cox Donoso, 53 years old, has served on Lan Airlines' board of directors from April 1994 to June 1995 and from September 1995 to the present. Mr. Cox's term as a director ends on the date of the annual shareholders' meeting to be held in 2010. Mr. Cox has also served as chairman of the board of directors of Lan Cargo since September 1995. In addition, Mr. Cox has served on the board of directors of another Chilean company, CMB-Prime Asset Managing Corp., since September 1993. Mr. Cox is also chairman of the Chilean Electronic Stock Exchange. As of March 31, 2008, according to shareholder registration data in Chile, Mr. Cox shared in the beneficial ownership of Lan Airlines, through Asesorías e Inversiones Ilihue Limitada., 2,654,324 common shares of Lan Airlines (0.78% of Lan Airlines' outstanding shares).

Mr. Juan José Cueto Plaza, 48 years old, has served on Lan Airlines' board of directors since 1994. Mr. Cueto's term as a director ends on the date of the annual shareholders' meeting to be held in 2010. 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 Forestal Copihue S.A. and Minera Michilla S.A. Mr. Cueto is the son of Mr. Juan Cueto Sierra, a director of Lan Airlines, and the brother of Messrs. Enrique and Ignacio Cueto Plaza, Chief Executive Officer Chief Operating Officer of Lan Airlines, respectively. Mr. Cueto is a member of the Cueto Group (one of Lan Airlines' Controlling Shareholders). As of March 31, 2008, Mr. Cueto shared in the beneficial ownership of 86,383,567 common shares of Lan Airlines (25.5% of Lan Airlines' outstanding shares) held by the Cueto Group. For more information see "Item 7. Controlling Shareholders and Related Party Transactions".

Mr. Juan Cueto Sierra, 78 years old, was one of the founders of Fast Air in 1978 and has served on Lan Airlines' board of directors since 1998. Mr. Cueto's term as a director ends on the date of the annual shareholders' meeting to be held in 2010. Mr. Cueto has wide experience in a range of business activities. Mr. Cueto is the father of Messrs. Juan José, Enrique and Ignacio Cueto Plaza, Director, Chief Executive Officer and Chief Operating Officer of Lan Airlines, respectively. As of March 31, 2008, Mr. Cueto shared in the beneficial ownership of 86,383,567 common shares of Lan Airlines (25.5% of Lan Airlines' outstanding shares) held by the Cueto Group. For more information see "Item 7. Controlling Shareholders and Related Party Transactions".

Mr. Ramón Eblen Kadis, 63 years old, has served on Lan Airlines' board of directors since June 1994. Mr. Eblen's term as a director ends on the date of the annual shareholders' meeting to be held in 2010. Mr. Eblen has served as President of Comercial Los Lagos Ltda., Inversiones Santa Blanca S.A., and TJC Chile S.A. Mr. Eblen is a member of the Eblen Group (a major shareholder of Lan Airlines). As of March 31, 2008, Mr. Eblen shared in the beneficial ownership of 31,778,049 common shares of Lan Airlines (approximately 9.38% of Lan Airlines' outstanding shares) held by the Eblen Group. For more information see "Item 7. Controlling Shareholders and Related Party Transactions".

Mr. Andrés Navarro Haeussler, 59 years old, joined Lan Airlines' board of directors in April 2004. Mr. Navarro's term as a director ends on the date of the annual shareholders' meeting to be held in 2010. Mr. Navarro holds a Civil Engineering degree from Universidad Católica de Chile. He is the president and founder of Sonda S.A., a leading IT services provider in Latin America, which has operations in 11 Latin American countries, including Mexico, Brazil, Argentina, Chile and Colombia. This company had its IPO during 2006 and is listed in the Santiago Stock Exchange. He is also the Chairman of the Board of Clínica Las Condes and of Inmobiliaria y Constructora Aconcagua S.A. and member of the board of Fundación Teleton, a non-profit organization.

Mr. Ignacio Guerrero, 55 years old, joined Lan Airlines' board of directors in April 2008. Mr. Guerrero's term ends on the date of the annual shareholders' meeting to be held in 2010. Mr. Guerrero holds an MBA degree from Harvard Business School and an Economics degree from Catholic University in Santiago, Chile. Mr. Guerrero has extensive experience in the banking and financial fields, having worked as a commercial banker for Banco de Chile and as an investment banker for Citibank N.A. and for NMB Bank, New York. From 1990 to 1994, he served as CFO of Codelco Chile, one of the largest copper mining companies in the world. Mr. Guerrero is currently a partner at CMB Chile, an investment company focused on asset management and private equity.

Bernardo Fontaine Talavera, 43 years old, has served on Lan Airlines' board of directors since April 2005. Mr. Fontaine's term ends on the date of the annual shareholders' meeting to be held in 2010. Mr. Fontaine has held various responsibilities on the financial services branch of Falabella, a major Chilean retailer, and served as Executive Director of CMR Falabella and Vice-Chairman of the Board of Banco Falabella. Mr. Fontaine also served as head of the M&A Corporate Finance division of Citicorp-Citibank Chile. Mr. Fontaine currently serves on the

boards of Almagro S.A., Loginsa S.A. and Polygon S.A. He is also the general manager of Tres Mares S.A., which owned, together with other related holding companies, as of March 31, 2008, 7,222,593 shares of Lan Airlines S.A. (2.1% of Lan Airlines' outstanding shares).

Senior Management

Mr. Enrique Cueto Plaza, 49 years old, is Lan Airlines' Chief Executive Officer, and has held this position since 1994. From 1993 to 1994, Mr. Cueto served on Lan Airlines' board of directors. From 1983 to 1993, Mr. Cueto was Chief Executive Officer of Fast Air, a Chilean Cargo airline. Mr. Cueto has indepth knowledge of passenger and cargo airline management, both in commercial and operational aspects, gained during his 22 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 son of Mr. Juan Cueto Sierra, a member of the board of Lan Airlines, and the brother of Messrs. Juan José and Ignacio Cueto Plaza, member of the board and President and Chief Operating Officer of Lan Airlines, respectively. Mr. Cueto is also a member of the Cueto Group (one of Lan Airlines' Controlling Shareholders). As of March 31, 2008, Mr. Cueto shared in the beneficial ownership of 86,383,567 common shares of Lan Airlines (25.5% of Lan Airlines' outstanding shares) held by the Cueto Group. For more information see "Item 7. Controlling Shareholders and Related Party Transactions".

Mr. Ignacio Cueto Plaza, 44 years old, is Lan Airlines' President and Chief Operating Officer. Until being promoted to his current position in 2005, Mr. Cueto served as Chief Executive Officer-Passenger Business, a position he assumed in 1999. Mr. Cueto served on the board of directors of Lan Airlines and Ladeco from 1995 to 1997 and from 1994 to 1997, respectively. In addition, Mr. Cueto served as Chief Executive Officer of Fast Air from 1993 to 1995 and as President of the LanCargo Group from 1995 to 1998. 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 son of Mr. Juan Cueto Sierra, director of Lan Airlines, and the brother of Messrs. Juan José and Enrique Cueto Plaza, Director and Chief Executive Officer of Lan Airlines, respectively. Mr. Cueto is also a member of the Cueto Group (one of Lan Airlines' Controlling Shareholders). As of March 31, 2008, Mr. Cueto shared in the beneficial ownership of 86,383,567 common shares of Lan Airlines (25.5% of Lan Airlines' outstanding shares) held by the Cueto Group. For more information see "Item 7. Controlling Shareholders and Related Party Transactions".

Mr. Alejandro de la Fuente Goic, 49 years old, is Lan Airlines' Chief Financial Officer, and has held this position since October 1995. Mr. de la Fuente joined Lan Airlines in April 1995. Prior to joining Lan Airlines, Mr. de la Fuente served as Chief Financial Officer of Chiquita Frupac Ltd., a subsidiary of Chiquita Brands Inc., beginning in 1992. As of March 31, 2008, Mr. de la Fuente owned 37,383 common shares of Lan Airlines (0.01% of Lan Airlines' outstanding shares).

Mr. Armando Valdivieso Montes, 45 years old, is Lan Airlines' Chief Executive Officer-Passenger, a position he assumed in 2006. Between 1997 and 2005 he served as Chief Executive Officer-Cargo Business. 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 March 31, 2008, according to shareholder registration data in Chile, Mr. Valdivieso owned 59,704 common shares of Lan Airlines (0.02% of Lan Airlines' outstanding shares).

Mr. Cristian Ureta, 45 years old, is Lan Airlines' Chief Executive Officer-Cargo, a position he assumed in 2005. Mr. Ureta has a Engineering degree from Pontificia Universidad Catolica and a Special Executive Program from Stanford University. Between 2002 and 2005 Mr. Ureta served as Production Vice President for Lan Cargo. Between 1998 and 2002 he was Lan Cargo's Planning and Development Vice President. Prior to that, Mr. Ureta served as General Director and Commercial Director at MAS Air, and as Service Manager for Fast Air.

Mr. Carlos Prado Cánepa, 58 years old, is Lan Airlines' Senior Vice President, Corporate Investments, and has held this position since July 1998. From 1992 to 1998, Mr. Prado served as Lan Airlines' Senior Vice President, Technical. From 1986 to 1992, he served as Chief Executive Officer of Exim Air S.A. From 1982 to 1986, Mr. Prado served as our Vice President, Cargo, and from 1981 to 1982 as our Fuel Manager.

Mr. Marco Jofré Marín, 44 years old, is Lan Airlines' Senior Vice President, Operations and Engineering. Mr. Jofré has been responsible for Operations since August 1998 and for Engineering and Maintenance since May 2002. From 1997 to 1998, Mr. Jofré served as Executive Vice President of Fast Air, from 1992 to 1997 as Planning Director of Fast Air and from 1990 to 1992 as Vice President Services, North America of Fast Air Miami. Currently, Mr. Jofré also serves as a director of LLTT (Lufthansa LAN Technical Training). As of March 31, 2008, according to shareholder registration data in Chile, Mr. Jofré owned 25,588 common shares of Lan Airlines (0.01% of Lan Airlines' outstanding shares).

Mr. Enrique Elsaca Hirmas, 40 years old, is Lan Airlines' Senior Vice President, Strategic Planning, a position he assumed in July 2004. Mr. Elsaca has a degree in industrial engineering from Pontificia Universidad Catolica de Chile, as well as a Master in Business Administration from Massachusetts Institute of Technology. Prior to joining Lan Airlines, Mr. Elsaca served as Real Estate and Development Manager of Cencosud, Chile's second largest retail group. From 1997 to 1999, Mr. Elsaca worked at Booz Allen & Hamilton in Latin America, and from 1991 to 1995, Mr. Elsaca held various positions in Esso Chile, a subsidiary of Exxon.

Mr. Emilio del Real Sota, 43 years old, is Lan Airlines' Senior Vice President Human Resources, a position he assumed 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 DYS, 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.

Compensation

For the year ended December 31, 2007, the aggregate amount of compensation we paid to all executives and senior managers was US\$48.4 million, which did not include US\$10.9 million paid as bonuses. Our variable compensation plan is based on our corporate profits, and team and individual performance.

Under Chilean law, Lan Airlines 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 Lan Airlines 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*, or the SVS, 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.

Lan Airlines' directors are paid 24 UF per meeting (56 UF for the chairman of the board). Lan Airlines 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.

On April 5, 2007, the extraordinary shareholders meeting approved a capital increase of 22,090,910 shares. The same meeting designated 10% of the approved capital increase (2,209,091 shares) for purposes of a proposed employee stock option compensation plan. The shareholders' meeting authorized our board of directors to elaborate the compensation plan.

As set forth in further detail in the following table, in 2007 the members of our board of directors currently in office received fees and salaries in the aggregate amount of US\$138,241.5.

Board Members	Fees (US\$) ⁽¹⁾
Jorge Awad Mehech	36,377.1
Ramón Eblen Kadis	21,825.8
José Cox Donoso	20,028.1
Darío Calderón González	10,913.5
Andrés Navarro Haeussler	9,138.1
Juan José Cueto Plaza	10,913.5
Juan Cueto Sierra	10,025.8
Bernardo Fontaine Talavera	10,913.5
Sebastián Piñera Echenique	8,106.2
Total	138,241.5

⁽¹⁾ Includes fees paid to members of the board of directors' committee, as described below.

As required by Chilean law, Lan Airlines 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.

Board of Directors' Committee and Audit Committee

Pursuant to Chilean Corporation Law, as amended by Law No. 19705, Lan Airlines must have a board of directors' committee composed of no less than three board members. Lan Airlines has established a three-person committee of its board of directors, which, among other duties, is responsible for:

- examining the reports of Lan Airlines' external auditors, the balance sheets and other financial statements submitted by Lan Airlines' 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 Lan Airlines' 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, as amended by Law No. 19705, 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.

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 Securities Exchange Act of 1934. 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 Securities Exchange Act of 1934.

As of March 31, 2008, 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 Securities Exchange Act of 1934. As of March 31, 2008, the committee members were Mr. Jorge Awad Mehech, Mr. José Cox Donoso and Mr. Ramón Eblen Kadis. We pay each member of the committee 24 UFs per meeting.

New York Stock Exchange Corporate Governance Comparison

The disclosure of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the New York Stock Exchange listing standards is posted on our website and can be accessed at www.lan.com.

Employees

General

The following table sets forth the number of employees in various positions at Lan Airlines, Lan Cargo and our other subsidiaries.

	As c	As of December 31		
Employees ⁽¹⁾	2005	2006	2007	
Administrative	3,222	2,928	3,247	
Sales	2,057	1,906	2,014	
Maintenance	1,977	1,892	1,922	
Operations	4,727	4,826	4,940	
Cabin crew	2,101	2,043	2,494	
Cockpit crew	1,015	1,029	1,180	
Total	15,099	14,624	15,797	

In 2007, approximately 65% of our employees worked in Chile, 33% in other Latin American countries and 2% in the rest of the world.

We have a performance-related pay structure for our administrative, management and flight personnel, including performance-based bonuses and pay scales that reward foreign language proficiency among counter, technical and administrative personnel. During 2007, over 90% of our employees were eligible to receive performance related bonus payments that are linked to personal, team and corporate performance.

We provide our employees with medical insurance and also grant other benefits, such as free and discounted airline tickets, to our permanent employees. We have never offered stock options to our employees in the past. On April 5, 2007, the extraordinary shareholders meeting approved a capital increase of 22,090,910 shares. The same meeting designated 10% of the approved capital increase (2,209,091 shares) for purposes of a proposed employee stock option compensation plan. The shareholders' meeting authorized our board of directors to elaborate the compensation plan.

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.

One of our main goals for 2007 was the communication of our four principal values (safety and security, achievement, efficiency and warmth) to our employees. The campaign included internal training sessions, internal memoranda and posters to explain the meaning of each value and how employees can further these values in their daily work. An internal survey conducted after three months of the campaign showed that 80% of our employees are familiar with the values and how they should be reflected in their work.

Training

Some of our populations, 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 invested US\$6.3 million in training in 2005, US\$7.1 million in 2006 and US\$8.0 in 2007. We generally recruit our pilots from the Academia de Ciencias Aeronáuticas (at the Universidad Técnica Federico Santa María), aeroclubs and the armed forces. Before being promoted to the position of captain, first officers must have logged at least 4,000 flight hours and received the approval of a special pilots' committee. We provide ground-school training in Santiago, as well as in Lima and Quito for our Peruvian and Ecuadorian crews. 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. This training center includes two Airbus A320 and one Boeing 767 Full Flight simulators plus one MFTD A320/340 simulator. Our pilot staff also receives simulator training at sites in the United States and Brazil.

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. Chilean 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, 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 40 to 50 days depending on the aircraft types and continuing training lasts up to five to six days.

In December 1997, Lan Airlines and Lufthansa Technical Training GmbH created Lufthansa Lan Airlines Technical Training S.A. in Santiago to provide ourselves and third parties with technical training services and amenities, primarily for mechanics.

During 2007, 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.

Labor Relations

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.

The collective bargaining agreement between Lan Express and its pilots' union expires in November 2008. Three collective contracts are in place between Lan Airlines and its pilots (either through a union or employee groups). These contracts were negotiated in 2005 and early 2006 and expire between May 2009 and January 2010. Lan Cargo is also a party to an employment agreement with its pilots that expires in April 2012.

Lan Airlines has also entered into collective bargaining agreements covering the majority of its flight attendants that expire at various times, ranging from August 2009 to October 2011. Lan Airlines expects to renew collective bargaining agreements with its maintenance personnel in June 2008 for a period of four years. The collective bargaining agreement with maintenance personnel working for Lan Express, one of our Chilean subsidiaries, will expire in 2011. The agreement with the union representing our administrative personnel expires in August 2009.

The majority of Lan Argentina's employees belong to industry-wide unions. Currently, labor relations are stable. In 2005, Lan Argentina hired employees from another airline and agreed to maintain their employment conditions and labor stability until September 2008.

We believe we generally have 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.

ITEM 7. CONTROLLING SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Controlling Shareholders

Pursuant to agreements signed in July 2004, two shareholder groups control the Company. These shareholder groups are:

- the Cueto Group, which includes Mr. Juan Cueto Sierra, Mr. Juan José Cueto Plaza, Mr. Ignacio Cueto Plaza, Mr. Enrique Cueto Plaza and certain members of their family; and
- the Piñera Group, which includes Mr. Sebastián Piñera Echenique and certain members of his family.

We collectively refer to these shareholder groups as "Controlling Shareholders". As of March 31, 2008, our Controlling Shareholders owned 51.84% of our voting common shares. While the common shares owned by the Controlling Shareholders do not have different voting rights than the common shares owned by our other shareholders, these Controlling Shareholders are entitled to elect a majority of the members of our board of directors and are in a position to direct our management and to control substantially all matters that are to be decided by a vote of shareholders.

The agreements signed by our Controlling Shareholders provide for a joint-action agreement and a right of first refusal agreement in connection with 45.0% of our common shares. Under the joint-action agreement, the Controlling Shareholders agreed to coordinate their actions on all matters pertaining to the Company's management, both at shareholders' meetings and meetings of the board of directors. Under the right of first refusal agreement between the groups, the shares included under this agreement are subject to reciprocal rights of first refusal in connection with any future sale to a third party.

As of March 31, 2008, a third shareholder group, which includes our director Ramón Eblen Cadiz, owned 9.38% of our common shares. Because this group can influence our management, we have classified this group as a "Principal Shareholder".

The table below sets forth the beneficial ownership of common shares as of March 31, 2008, broken down between our Controlling Shareholders, other principal shareholder, and minority shareholders.

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	(as of Marc	ownership th 31, 2008)
	Number of shares of common stock beneficially owned	Percentage of common stock beneficially owned
Shareholder		
Cueto Group		
Inversiones Costa Verde Limitada y Compañía en Comandita por Acciones	77,445,407	22.86%
Inversiones Mineras del Cantábrico	8,938,160	2.64%
Total	86,383,567	25.50%
Piñera Group		
Inversiones Santa Cecilia S.A.	24,767,920	7.31%
Axxion S.A.	64,477,874	19.03%
Total	89,245,794	26.34%
Principal Shareholder	31,778,049	9.38%
Others	131,383,499	38.78%
Total	338,790,909	100.00%

On January 10 and January 11, 2007, the SVS publicly announced the initiation of an administrative investigation to determine whether the purchase of shares of LAN on July 24, 2006 made by Juan Jose Cueto, through Inversiones Mineras del Cantábrico S.A., and by Sebastian Piñera Echenique, through Inversiones Santa Cecilia S.A., respectively, had breached an obligation not to acquire shares of LAN until the financial statements became publicly available. The Company was not a party to these investigations. On July 6, 2007, the SVS fined Sebastian Piñera Echenique 19,470 Unidades de Fomento (approximately US\$690,000) and fined Juan José Cueto 1,620 Unidades de Fomento (approximately US\$58,000) for allegedly violating, through certain affiliates, Article 165, paragraph 1 of the Securities Market Law. The SVS ruled that, though neither Mr. Piñera nor Mr. Cueto had used any privileged information, the Company's financial statements should be considered to be privileged information per se and thus created a duty to abstain from trading the securities prior to the disclosure of the financial statements.

As of March 31, 2008, investors outside of Chile held 8.19% of our capital stock in the form of ADSs, and other minority investors held 30.59% 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, 2008, we had 1,175 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.

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. 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.

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. Such transactions, none of which is individually material, are summarized in Note 15 to our audited consolidated financial statements for the fiscal year ended December 31, 2007.

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

See Item 18, "Financial Statements" and pages F-1 through F-52.

Other Financial Information

Legal and Arbitration Proceedings

We are involved in routine litigation and other proceedings relating to the ordinary course of our business. On July 30, 1997, the Chilean Antitrust Commission imposed a fine on us of US\$345,000 in connection with a complaint filed by DAP Airlines, or DAP, alleging that we employed anti-competitive tactics by reducing our prices on certain of our routes and refusing to perform maintenance services on DAP aircraft. On January 8, 1998, DAP filed a demand for indemnification against Lan Airlines, National Airlines and Lan Cargo, jointly and severally, in the amount of Ch\$6.4 billion (US\$12.9 million according to the observed exchange rate as of December 31, 2007). In June 2000, the courts ruled in favor of DAP and we appealed the decision before the Supreme Court of Justice. The Supreme Court confirmed the first ruling in favor of DAP in an amount of Ch\$500 million (US\$1 million according to the observed exchange rate as of December 31, 2007). We appealed the amount fixed by the Supreme Court, contending that the amount was based on certain miscalculations, and requested a final amount of Ch\$250 million (US\$500,000 according to the observed exchange rate as of December 31, 2007). DAP simultaneously appealed and contended that the final amount should be Ch\$2 billion (US\$4 million according to the observed exchange rate as of December 31, 2007). Both appeal processes are currently pending. There is no set period of time within which the Supreme Court must decide the appeals.

In February 2006 the European Commission, in conjunction with the Department of Justice of the United States, initiated a global investigation of a large number of international cargo airlines – among them LAN Cargo S.A., LAN's cargo subsidiary – 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 S.A. and LAN of the initiation of proceedings against 25 cargo airlines, among them LAN Cargo S.A., for allegations of anti-competitive behavior in the air freight business. Given the current stage of the proceedings, it is not possible at this time to anticipate with any precision their outcome, although it is expected to be a lengthy judicial process. Notwithstanding the above, in the fourth quarter of 2007, LAN recorded a US\$25.0 million reserve in Other Non-Operating Expenses in relation with the European investigation.

The investigation by the U.S. Department of Justice prompted the filing of numerous civil class actions against many airlines, including Lan Cargo and Lan Airlines, in Canada and the United States. A total of 54 civil actions naming numerous carriers were filed in the United States. These cases have since been consolidated in the

United States District Court, Eastern District of New York. The original complaint was subsequently amended to include additional airlines, including Absa. Four civil actions have been filed in Canada that include Lan Cargo as a defendant. It is not possible at this time to anticipate with any precision the outcome of these proceedings.

On April 5, 2008, Brazilian authorities notified Absa of the initiation of administrative proceedings before the Conselho Administrativo de Defesa Econômica against several cargo airlines and airline officers, among them Absa, for allegations of anticompetitive practices regarding fuel surcharges in the air cargo business. Given the current stage of the proceedings, it is not possible at this time to anticipate with any precision their outcome, although it is expected to be a lengthy process. This investigation and the related proceedings do not imply that Absa has been charged with or has engaged in any prohibited activity.

The New Zealand Commerce Commission has also initiated an investigation into potential anti-competitive activities in the international air cargo markets and has requested information and documentation from LAN, which LAN has already submitted. It is not possible at this time to anticipate with any precision the outcome of the investigation, though it is noted that LAN has relatively limited cargo operations to and from New Zealand.

On April 26, 2006, a proceeding was filed against Lan Airlines and Lan Cargo before the Chilean Antitrust Court relative to the alleged abusive exercise of their dominant position in the air cargo business to and from Punta Arenas, Chile, and in the customs storage business in that city, where Lan Airlines participates through its subsidiary Fast Air Almacenes de Carga S.A. Each of Lan Airlines and Lan Cargo paid a fine of 2,000 Unidades Tributarias Mensuales (equal to US\$138,000 according to the observed exchange rate as of December 31, 2007).

In January 2007 we announced that we had provided, through our wholly owned subsidiary, Atlantic Aviation Investments LLC, a total of US\$17.1 million in financing to Brazilian company VRG LINHAS AEREAS S.A., or New Varig, convertible into shares of New Varig. On March 28, 2007, Gol announced that it was acquiring 100% of the equity participation in New Varig. Pursuant to the terms of the relevant loan agreements, upon the sale of New Varig to GOL, we sought repayment of the principal of the loans plus interest from Varig Logistica S.A. ("VarigLog"), the parent company of New Varig. VarigLog failed to respond to our demands for repayment and we subsequently filed a lawsuit in New York State court on August 29, 2007, seeking repayment of the outstanding principal plus interest. The Court denied a motion filed by VarigLog to dismiss our lawsuit and the parties started to engage in formal discovery. Following VarigLog's cessation of participation in the discovery process, the Court gave us permission to file a motion seeking summary judgment on all of our claims against VarigLog. Our motion is currently pending before the Court.

Dividend Policy

In accordance with Chilean law, Lan Airlines must distribute cash dividends equal to at least 30% of its annual consolidated net income calculated in accordance with Chilean GAAP, 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, Lan Airlines 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 Lan Airlines' 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 Lan Airlines.

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 "Chilean Taxation—Cash Dividends and Other Distributions" under Item 10). 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.

ITEM 9. THE OFFER AND LISTING

Stock Price History

The principal trading market for our common shares is the Santiago Stock Exchange. The common shares have been listed on the Santiago Stock Exchange under the symbol "LAN" since 1989, and the ADSs have been listed on The New York Stock Exchange under the symbol "LFL" since November 7, 1997. The common shares also trade on the *Bolsa de Valores de Valores de Valores de Valores de Chile*. 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 Santiago Stock Exchange for the common shares and the high and low closing prices on The New York Stock Exchange 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.

Year ended December 31,	Ch\$ per Common Share Low High		US\$ pe	r ADS High
2003	735.00	2,110.10		17.75
2004	755.00	2,110.10	0.10	17.75
First Quarter	2,010.00	2,300.00	16.86	19.80
Second Quarter	2,170.00	2,505.00	16.85	20.60
Third Quarter	2,350.10	3,006.20	18.58	25.00
Fourth Quarter	2,710.00	3,650.00	22.30	32.90
2005				
First Quarter	3,420.00	4,170.00	30.25	35.98
Second Quarter	3,885.00	4,370.00	33.54	38.05
Third Quarter	3,240.00	4,280.00	30.69	37.55
Fourth Quarter	3,346.90	3,845.90	31.31	37.55
2006				
First Quarter	3,780.00	4,250.00	36.24	40.85
Second Quarter	3,470.00	4,149.90	31.37	39.76
Third Quarter	3,250.40	4,120.00	29.85	38.55
Fourth Quarter	4,155.00	5,867.00	38.60	55.34
2007				
First Quarter	5,880.00	8,275.00	54.90	75.25
Second Quarter	7,489.90	8,859.20	69.58	84.15
Third Quarter ⁽¹⁾	7,568.40	8,879.60	13.72	17.13
Fourth Quarter	6,560.60	8,340.40	13.03	16.64
2008				
Monthly Prices				
January, 2008	4,966.40	6,809.90	11.08	13.77
February, 2008	5,900.40	6,860.00	12.38	14.71
March, 2008	5,535.50	6,281.20	12.51	14.25
April, 2008				

Source: Santiago Stock Exchange and the New York Stock Exchange.

As of March 31, 2008, a total of 338,790,909 common shares were outstanding, including 27,730,095 common shares represented by ADSs.

Trading

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

In August 2007, the ADR to shares ratio was changed from 5:1 to 1:1.

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 Santiago Stock Exchange is Chile's principal exchange and accounts for approximately 85.2% of securities traded in Chile. Approximately 14.4% 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 Santiago Stock Exchange. In 1991, the Santiago Stock Exchange 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 Santiago Stock Exchange has an electronic system of trade, called *Telepregón*, which operates continuously for stocks trading in high volumes from 9:30 a.m. to 4:30 p.m. 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 Santiago Stock Exchange Off-Shore Market began operations. In the Off-Shore Market, publicly offered foreign securities are traded and quoted in U.S. dollars.

ITEM 10. ADDITIONAL INFORMATION

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

Lan Airlines is a publicly held stock corporation (*sociedad anónima abierta*) incorporated under the laws of Chile. Lan Airlines 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 (*Registra (Registra de Comercio del Conservador de Bienes Raices 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. Article 22 of the Chilean Corporation Law states that the purchaser of shares of a company implicitly accepts its by-laws and any 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. Finally, Decree-Law 3500, 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 for establishing publicly held corporations. Article 2 of the Chilean Corporation Law defines publicly held corporations as corporations:

- with 500 or more shareholders;
- in which 100 or more shareholders own at least 10% of the subscribed capital (excluding any direct or indirect individual holdings exceeding 10%);
 and

which have voluntary registered their shares in the Security Register of the SVS.

The framework of the Chilean securities market is regulated by the Chilean exchange entity, 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. Both the Chilean Corporation Law and the Securities Market Law state rules and requirements for establishing publicly held corporations. 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 Article 12 of the Securities Market Law and Circular 585 of the SVS, 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, beneficial owners of ADSs will be required to report to the SVS and the Chilean stock exchanges within two stock exchange business days:

- any direct or indirect acquisition or sale of shares that results in the holder's acquiring or disposing, directly or indirectly, of 10% or more of the corporation's total subscribed shares; and
- any direct or indirect acquisition or sale of shares or options to buy or sell shares, in any amount, if made by a holder of 10% or more of a publicly held corporation's total subscribed shares, or if made by a director, liquidator, principal officer, general manager or manager of such corporation.

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. The potential acquiror must first 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 securities are listed, stating, among other things, the person or entity purchasing or selling and the price and conditions of any negotiations.

The potential acquiror must also inform the public of its planned acquisition at least ten business days prior to the date on which the transaction is to close, and in any event, as soon as negotiations regarding the change of control begin (*i.e.*, when information and documents concerning the target are delivered to the potential acquiror). Notice is made through a filing with the SVS, the relevant Chilean stock exchanges and any companies controlling or controlled by the target corporation and through a notice published in two Chilean newspapers, and must also 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.

A beneficial owner of ADSs intending to acquire control of Lan Airlines 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 a person 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 listed operating company if such person intends to take control of the company (whether listed or not) controlling such operating company, to the extent that the operating company represents 75.0% or more of the consolidated net assets of the holding company.

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 12 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 for issued shares, the shares are registered in that investor's name, even without payment therefore, 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. 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). Shares issued but not paid for within the period determined by the extraordinary shareholders' meeting for their payment (which in any case cannot exceed three years from the date of such shareholders' meeting which authorizes the increase in capital) will be canceled and will no longer be available for issuance by us. Fully paid shares are not subject to further calls or assessments or to liabilities of Lan Airlines.

As of March 31, 2008, our share capital consisted of 338,790,909 common shares, all of which were subscribed and fully paid. Chilean law recognizes the right 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.

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. 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 Securities and Exchange Commission, 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 ADRs 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 exercisable, freely transferable or waived by shareholders during a 30-day period commencing upon publication of the official notice announcing the start of the preemptive rights period in the newspaper designated by the shareholders. The preemptive right of the shareholders is the pro rata amount of the shares registered in their name in the shareholders' registry 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 30-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 30-day period and an additional 30-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 30-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 in which a director is interested (including a transaction in which a director has an indirect interest) must be conducted on an arm's-length basis and must satisfy certain disclosure requirements. These transactions include transactions involving a director's spouse or close relatives, transactions involving other companies on whose board such director also serves or transactions with other companies where the director controls 10% of such company (directly or indirectly). Corporations may enter into transactions in which a director is interested if the transaction has been previously approved by the board of directors (which must be disclosed at the next shareholders' meeting) and is consistent with standards of fairness similar to those that normally prevail in the market. Transactions which do not meet these conditions are valid and enforceable, but each director who approved the transaction is jointly and severally liable for damages suffered by the company, the shareholders or any interested third parties, and the director who directly or indirectly benefits from the transaction must pay all benefits received from such transaction to the corporation. The directors are also subject to fines and administrative sanctions.

Whenever a transaction in which a director is interested exceeds 1% of the net worth of the company and exceeds the equivalent of 2,000 UF (approximately US\$79,000 as of the date of this annual report) or whenever such a transaction exceeds 20,000 UF, the board of directors of the company must determine whether the transaction complies with arms'-length conditions similar to those prevailing in the market. If the board of directors is unable to determine those conditions, the board, without the vote of the interested director, may approve or reject the transaction or may appoint two independent experts to provide an opinion. The experts' reports must indicate the terms of the transaction and in the case of non-cash assets, must indicate the planned method of payment. Experts' valuation reports must be made available to the shareholders and to the board of directors for a period of 20 business days. The board of directors may decide to approve or reject the proposed transaction only after this 20-day period has expired. If shareholders representing 5% of the voting shares determine, within the 20-day period, that the transaction is not favorable to the corporation's interests or that the reports of the experts are substantially different, those shareholders may require the board of directors to call an extraordinary shareholders' meeting. Approval of the transaction then requires the affirmative vote of two-thirds of the voting shares of the company.

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 (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). Lan Airlines' 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 ordinary annual meeting of our shareholders was held on April 10, 2008. 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% of the issued voting shares or by the SVS.

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 15 days and not more than 20 days in advance of the scheduled meeting. Notice also must be mailed not less than 15 days in advance of the meeting to each shareholder and to the SVS and the Chilean stock exchanges. Currently, we publish our official notice in the newspaper *La Tercera*.

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 a quorum is not present, the meeting can be reconvened, and at a 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 proxy to attend and vote on his 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. 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 or 50% or more of our liabilities;
- 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 four 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;

- 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, either including or not including our liabilities, or the submittal of, or changes to, any business plan that contemplates the conveyance of assets in an amount that exceeds the percentage mentioned above;
- 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.

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.

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 15-day period before the scheduled meeting. No later than the first notice summoning an ordinary shareholder's meeting, the board of directors of a publicly held corporation shall send to every shareholder 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 that has required of the company such sending. 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. 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.

Dividend and Liquidation Rights

In accordance with Chilean Law, Lan Airlines must distribute an annual cash dividend equal to at least 30% of its annual net income calculated in accordance with Chilean GAAP, 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, Lan Airlines 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 Lan Airlines.

Lan Airlines may grant an option to its shareholders to receive any dividend in excess of 30% of net income in cash, in its own shares or in shares of publicly held corporations held by it. 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, 30 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*, or the National Corporation of Firefighters.

In the event of Lan Airlines' 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 60 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 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 enumerated below, dissenting 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 30 days. Dissenting shareholders must perfect their withdrawal rights by tendering their stock to the company within 30 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 transaccion 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 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 creation of preferential rights for a class of shares or an 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; 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 30 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 30 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.

Registration and Transfers

The *Depósito Central de Valores*, or the DCV, acts as Lan Airlines' 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.

Material Contracts

In 2005, we entered into Amendment No.2 and Amendment No.3 to the purchase agreement entered into in 1998 with Airbus S.A.S. (formerly known as Airbus Industrie) for acquisition of 32 Airbus A-320 Family Aircraft to be delivered in 2006, 2007 and 2008. These Amendments provided us with the option of purchasing 15 additional aircraft in the future. During 2007, seven deliveries took place (five A318 and two A320 aircraft). The estimated gross value of the Airbus aircraft for which we have firm commitments to take delivery under the Amendments is US\$960 million.

In 2005 and 2006 we also agreed to purchase a total of 15 Boeing 767-300 passenger and freighter aircraft, of which three passenger aircraft were delivered in 2007. The remaining aircraft are scheduled for delivery in 2008. We have the option to convert some of the orders from the passenger version to the freighter version or vice versa with certain notice. The estimated gross value (at list prices) of the Boeing aircraft for which we have firm commitments to take delivery under these contracts is US\$1.1 billion.

In December 2006, we entered into a Supplemental Agreement to the Purchase Agreement entered into with the Boeing Company for the acquisition of three additional Boeing 767-300 passenger aircraft. Delivery is scheduled to take place in 2009.

In March 2007, we entered into Amendment No.3 to the First A340 Purchase Agreement with Airbus S.A.S. for the cancellation of two A340 aircraft scheduled for delivery in November 2008, and Amendment No.3 to the Second A320 Family Purchase Agreement with Airbus S.A.S. for the conversion of 15 options to purchase aircraft into firm orders. The net increase in capital expenditures related to these agreements is US\$315 million.

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.

On July 3, 2007, we entered into a Purchase Agreement with the Boeing Company for the acquisition of two Boeing 777-Freighter aircraft. Delivery is scheduled to take place in 2010 and 2011.

Finally, on October 29, 2007, we entered into a Purchase Agreement with the Boeing Company for the acquisition of 26 Boeing 787-8 and 787-9 aircraft to be delivered between 2012 and 2016. This Purchase Agreement provides us with the option of purchasing ten additional aircraft to be delivered in 2017 and 2018.

The net increase in capital expenditures related to the Purchase Agreements entered into with the Boeing Company in 2007 is US\$3.7 million.

For more information, see "Information on the Company—Fleet—Fleet Leasing and Financing Arrangements" under Item 4.

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 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 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 and we are party to such agreement.

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 currencies to Chile; and
- mandatory conversion of foreign currencies 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 Compendium of Foreign Exchange Regulations and that the transaction be conducted exclusively through the Formal Exchange Market.

However, all contracts executed under the provisions of Chapter XXVI (including the foreign investment contract among Lan Airlines, the Central Bank of Chile and the ADS depositary, or the Foreign Investment Contract), remain in full force and effect and continue to be governed by the provisions, and continue to be subject to the restrictions, set forth in Chapter XXVI at the time of its abrogation. Our Foreign Investment Contract guarantees 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).

The guarantee of access to the Formal Exchange Market under the Foreign Investment Contract requires compliance of the following conditions:

- the funds to purchase the common shares underlying the ADSs are brought into Chile and converted into Chilean pesos through the Formal Exchange Market;
- the purchase of the underlying common shares is made on a Chilean stock exchange; and
- within five business days from conversion of the funds into Chilean pesos, the Central Bank of Chile is informed that the conversion funds were used to purchase the underlying common shares.

The following is a summary of material provisions of the Foreign Investment Contract, a form of which was filed as an exhibit to the registration statement on Form F-1 (File No. 333-7750) that we filed on October 10, 1997 in connection with our November 6, 1997 offering. This summary is not complete and is qualified in its entirety by reference to Chapter XXVI and the Foreign Investment Contract.

Under Chapter XXVI and the Foreign Investment Contract, the Central Bank of Chile agreed to grant to the depositary, on behalf of ADR holders, and to any investor not residing or domiciled in Chile who withdraws common shares upon surrender of ADRs, access to the Formal Exchange Market to convert Chilean pesos into U.S. dollars (and to remit those dollars outside Chile) in respect of common shares represented by ADSs or withdrawn shares, including amounts received as:

- cash dividends;
- proceeds from the sale in Chile of withdrawn shares or from shares distributed as a result of a liquidation, merger or consolidation of Lan Airlines (subject to receipt by the Central Bank of Chile of a certificate from the holder of the withdrawn shares or the distributed shares (or from an institution authorized by the Central Bank of Chile) that the holder's residence and domicile are outside of Chile, and a certificate from a Chilean stock exchange (or from a brokerage or securities firm established in Chile) that the withdrawn shares or the distributed shares were sold on a Chilean stock exchange);
- proceeds from the sale in Chile of preemptive rights to subscribe for additional common shares;
- proceeds from the liquidation, merger or consolidation of Lan Airlines;
- proceeds from the sale in Chile of common shares received as a dividend; and
- other distributions, including those in respect of any recapitalization resulting from holding common shares represented by ADSs or withdrawn shares.

Chapter XXVI provides that access to the Formal Exchange Market in connection with dividend payments is conditioned on our certifying to the Central Bank of Chile that a dividend payment has been made and that any applicable tax has been withheld. We agreed to provide this certification. Chapter XXVI also provides that access to the Formal Exchange Market in connection with the sale of withdrawn shares, or distribution on them, is conditioned upon receipt by the Central Bank of Chile of a certification by the depositary or custodian, as the case may be, that the common shares have been withdrawn in exchange for delivery of the appropriate ADRs and receipt of a waiver of the benefit of the Foreign Investment Contract with respect to them (except in connection with the proposed sale of the common shares) until the withdrawn shares are redeposited.

Chapter XXVI and the Foreign Investment Contract provide that a person who brings foreign currency into Chile to purchase common shares pursuant to the Foreign Investment Contract must convert that foreign currency into Chilean pesos on the date of entry into Chile, and must invest in common shares within five banking business days in order to receive the benefits of the Foreign Investment Contract. If a person does not invest in common shares within that period, that person can access the Formal Exchange Market to reacquire foreign currency, provided that the request is presented to the Central Bank of Chile within seven banking business days of the initial conversion into pesos. Common shares acquired as described above may be deposited in exchange for ADRs and will receive the benefits of the Foreign Investment Contract, subject to:

- receipt by the Central Bank of Chile of a certificate from the depositary that the common shares have been deposited and that the related ADRs have been issued; and
- receipt by the custodian of a declaration from the person making the deposit waiving the benefits of the Foreign Investment Contract with respect to the deposited common shares.

Access to the Formal Exchange Market under any of the circumstances described above is not automatic. Pursuant to Chapter XXVI, such access required approval of the Central Bank of Chile based on a request presented through a banking institution established in Chile. The Foreign Investment Contract provides that if the Central Bank of Chile has not acted on the request within seven banking days, the request is deemed approved.

Under current Chilean law, the Foreign Investment Contract cannot be changed unilaterally by the Central Bank of Chile. We cannot guarantee, however, 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. On March 15, 2007, the Council of the Central Bank of Chile agreed to grant to the Chilean companies that increased their capital stock between the date of the agreement and August 31, 2007 the option to request, on a one-time only basis, the application of Chapter XXVI to those shares issued and actually paid before August 31, 2008 (assuming prior fulfillment of the requirements of the Central Bank of Chile).

Voting Rights

Holders of our 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. 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.

We cannot assure holders that they receive the voting materials in time to ensure that they can instruct the depositary 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.

Chilean Taxation

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. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS ABOUT THE CHILEAN TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF ADSs OR SHARES.

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. There is no income tax treaty in force between Chile and the United States.

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 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. Currently, the First Category Tax rate is 17%. 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%, an effective First Category Tax rate of 17% the actual payment of such First Category Tax at that 17% rate 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 (17% of Ch\$100)	(17.00)
Net distributable income	83.00
Dividend distributed (30% of net distributable income)	24.90
First category increase	5.10
Withholding Tax (35% of the sum of Ch\$24.9 dividend plus Ch\$5.1 First Category Tax paid)	(10.50)
Credit for 17% of First Category Tax	5.10
Net tax withheld	(5.40)
Net dividend received	19.50
Effective dividend withholding rate	21.69%

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:

(Withholding Tax rate) – (First Category Tax effective rate) 1 – (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%, will be 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%, and from 2004 onwards, the First Category Tax rate is 17%, which results in an effective rate of Withholding Tax of 21.69%.

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;
- 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 (currently imposed at a rate of 17%) 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 17% 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 $N^{\circ}224$ (issued on January 30, 2008) confirmed that capital gains stemming from the sale of shares with high stockmarket 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 200 Unidades de Fomento (US\$9,030 as of March 31, 2008) 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;
- 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 Santiago Stock Exchange 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

The following is a summary of certain U.S. federal income tax considerations that may be relevant to the purchase, ownership and disposition of our common shares and ADSs by a beneficial owner that is: (i) a citizen or resident of the United States; (ii) a U.S. domestic corporation; (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust (or otherwise if the trust has a valid election in effect under current Treasury regulations to be treated as a U.S. person). For purposes of this discussion, we refer to these owners of common shares and ADSs as U.S. Holders. If a partnership holds common shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A prospective investor who is a partner of a partnership holding our preferred shares or ADSs should consult its own tax advisor.

This summary is not a comprehensive discussion of all of the tax considerations that may be relevant to your decision to purchase ADSs or common shares. In particular, this discussion is directed only to U.S. Holders that will hold ADSs or common shares as capital assets and it does not address any special U.S. federal income tax consequences that may be applicable to U.S. Holders that are subject to special treatment under the U.S. Internal Revenue Code of 1986, as amended, commonly referred to as the "Code", such as banks, brokers or dealers in securities or currencies, traders in securities electing to mark to market, financial institutions, life insurance companies, tax exempt entities, holders that own or are treated as owning 10% or more of our voting common shares, persons holding common shares or ADSs as part of a hedging or conversion transaction or a straddle, or persons whose functional currency is not the U.S. dollar. Prospective purchasers are advised to satisfy themselves as to the overall U.S. federal, state and local tax consequences of their ownership of ADRs and the underlying common shares by consulting their own tax advisers.

The statements of U.S. federal income tax laws set out below are based on the laws in force as of the date hereof and may be subject to changes in U.S. federal income tax law occurring after that date, including changes that may have retroactive effect.

ADRs

In general, if you are a U.S. Holder of ADRs evidencing our ADSs, you will be treated, for U.S. federal income tax purposes, as the beneficial owner of the underlying common shares that are represented by those ADSs and evidenced by those ADRs.

Taxation of Dividends

If you are a U.S. Holder, distributions of cash or property (other than common stock, if any, distributed pro rata to all of our shareholders, including holders of ADSs) paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) with respect to common shares or ADSs, including the net amount of the Chilean Withholding Tax withheld on the distribution (after taking into account the credit for the First Category Tax), will be includible in your gross income as ordinary income on the day on which you receive the dividends, in the case of common shares, or the date the depositary receives the dividends, in the case of common shares represented by ADSs, and will not be eligible for the dividends-received deduction allowed to corporations under the Code. If you are a U.S. Holder, dividends paid in pesos generally will be includible in your gross income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day you receive the dividends, in the case of common shares, or the date the depositary receives the dividends, in the case of common shares represented by ADSs. U.S. Holders should consult their own tax advisers regarding the treatment of foreign currency gain or loss, if any, on any pesos received which are converted into U.S. dollars after they are received. To

the extent that the amount of any distribution exceeds our current and accumulated earnings and profits as determined for U.S. federal income tax purposes, such excess amounts will be treated first as a nontaxable return of capital to the extent of such U.S. Holder's tax basis in the common shares or ADSs and, thereafter, as capital gain.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends". Dividends paid on the ADSs will be treated as qualified dividends 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 passive foreign investment company (or "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. Moreover, based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC, for U.S. federal income tax purposes with respect to our 2005 or 2006 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2007 taxable year. However, there can be no assurance in this regard because the PFIC determination is made annually and is based on the portion of our assets (including goodwill) and income that is characterized as passive under the PFIC rules.

Based on existing guidance, it is not clear whether dividends received with respect to the common shares will be treated as qualified dividends, because the common shares are not themselves listed on a U.S. exchange. In addition, the U.S. Treasury has announced its intention to promulgate rules pursuant to which U.S. Holders of ADSs or common shares and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

Subject to generally applicable limitations and conditions under the Code, Chilean Withholding Tax withheld from dividends (after taking into account the credit for the First Category Tax, when it is available) will be treated as a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability. If the amount of Chilean Withholding Tax initially withheld from a dividend is determined to be excessive, however (as described above under "Taxation—Chilean Taxation—Cash Dividends and Other Distributions), the excess tax will not be creditable. For purposes of calculating the foreign tax credit, dividends paid on the common shares will generally constitute foreign source "passive income," U.S. Holders are not allowed foreign tax credits for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed foreign tax credits in respect of arrangements in which their expected economic profit is insubstantial. U.S. Holders should consult their own advisers concerning the implications of these rules in light of their particular circumstances.

U.S. Holders that receive distributions of additional common shares or rights to subscribe for common shares as part of a pro rata distribution to all our shareholders generally will not be subject to U.S. federal income tax in respect of the distributions.

Taxation of Capital Gains or Losses

If you are a U.S. Holder, gain or loss realized on the sale, exchange or other taxable disposition of ADSs or common shares, generally will be capital gain or loss and generally will be long-term capital gain or loss if the ADSs or common shares have been held for more than one year. Long-term capital gain realized by a U.S. Holders, including individuals, generally is subject to a maximum tax rate of 15%. The deductibility of capital losses is subject to significant limitations.

Any gain or loss a U.S. Holder realizes on such a sale, exchange or other taxable disposition will generally be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Consequently, in the case of a disposition of common shares (which, unlike a disposition of ADSs, could be taxable in Chile), a U.S. Holder generally would not be able to utilize foreign tax credits in respect of any Chilean tax imposed on the disposition

(see "Taxation—Chilean Taxation—Capital Gains) unless the U.S. Holder has other income from foreign sources, in the appropriate category, for purposes of the foreign tax credit limitation rules. U.S. Holders should consult their own tax advisers regarding the application of the foreign tax credit limitation rules to their investment in, and disposition of, the ADSs and common shares.

Deposits and withdrawals of common shares by U.S. Holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

Backup Withholding and Information Reporting

Dividends paid on, and proceeds from the sale or other disposition of, the ADSs or common shares to a U.S. Holder generally may be subject to the information reporting requirements of the Code and may be subject to backup withholding unless the U.S. Holder provides an accurate taxpayer identification number and makes any other required certification or otherwise establishes an exemption. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that certain required information is timely furnished to the U.S. Internal Revenue Service.

A holder that is a foreign corporation or a non-resident alien individual may be required to comply with certification and identification procedures in order to establish its exemption from information reporting and backup withholding.

HOLDERS OF ADSs OR COMMON SHARES SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE CHILEAN, U.S. FEDERAL INCOME OR OTHER TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF ADSs OR COMMON SHARES, INCLUDING, IN PARTICULAR, THE EFFECT OF ANY NON-U.S., STATE OR LOCAL TAX LAWS.

Documents on Display

We are subject to the information requirements of the Securities Exchange Act of 1934, 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.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

We face market risk exposure in three main areas:

- jet fuel price fluctuations;
- interest rate fluctuations; and
- exchange rate fluctuations.

We periodically review our exposure to risks arising from these fluctuations and determine at the level of senior management how to hedge these risks. We manage jet fuel price fluctuation risk through hedging transactions in the foreign derivatives market. We have also entered into hedging transactions with respect to interest rates and exchange rates in order to control our exposure to fluctuations in interest rates and the relative values of foreign currencies, respectively. We do not enter into forward contracts, swaps, collars or other derivatives for speculative purposes. The derivative instruments we hold are not leveraged, and we hold them only for purposes of offsetting market exposure.

Risk of Fluctuations in Jet Fuel Prices

Jet fuel price fluctuations are largely dependent on supply and demand for crude oil in the world, OPEC decisions, refinery capacities, stock levels of crude oil and global political factors. In order to minimize the risk of jet fuel price fluctuations, we enter into hedging contracts in the jet fuel market or in the West Texas Intermediate, or WTI, market. Our decision to enter into these contracts, whether in the jet fuel market or in the WTI market, depends on the relative price of each commodity at the trade date.

We enter into swap contracts to hedge our exposure to fluctuations in fuel prices that allow us to fix the price of future jet fuel purchases. We also purchase call options, which allow us to purchase fuel at a predetermined price. Additionally, we use combinations of call and put options that allow us to establish a range of prices, also known as a costless collar, in which the price that we pay for jet fuel is limited by a minimum and maximum price.

Under costless collar contracts, for any price that is above the predetermined ceiling price, we receive the difference between the market price and the ceiling price for a given quantity of jet fuel. For any price below the predetermined floor price, we pay the difference between the market price and the floor price. Pursuant to swap contracts, we pay or receive, depending on the case, the difference between the agreed fixed price and the floating market price calculated on the notional amounts of such contracts.

We are exposed to fuel hedging transaction losses if the other parties to our hedging contracts fail to perform. To manage this credit risk, we select counterparties based on their credit ratings and limit our exposure to each counterparty based on defined guidelines. We also monitor our relative market position with each counterparty periodically. For more information see "—Our operations are subject to fluctuations in the supply and cost of jet fuel which could materially impact our business" under Item 3.

During 2005, 2006 and 2007 we entered into a mix of costless collar contracts, call option contracts and jet fuel swap contracts with investment banks and other financial entities for notional fuel purchases of 175.4 million gallons, 148.5 million gallons and 124.9 million gallons respectively (which represent 51.9%, 40.7% and 30.3% respectively, of our total fuel consumption). The combined result of these contracts was a gain of US\$51.5 million in 2005, a gain of US\$12.9 million in 2006 and a gain of US\$28.2 million in 2007. The fair value of our outstanding swap contracts was estimated at positive US\$11.2 million as of December 31, 2005, at negative US\$4.2 million as of December 31, 2006 and at positive US\$4.4 million as of December 31, 2007.

Gains and losses on the hedging contracts referred to above are recognized as a non-operating item (on the other income-net line) in our income statement when the underlying fuel being hedged is consumed. Premiums paid to enter into hedging contracts are recorded as prepaid expenses and are amortized and included in our results of operations over the respective contract periods.

According to Chilean GAAP, the positive fair value of these jet fuel derivatives is reflected in the balance sheet as other short-term assets and the negative fair value is reflected in other short-term liabilities.

Risk of Fluctuations in Interest Rates

The major interest rate risk we face is a rise in the London Interbank Offered Rate, or LIBOR, because we had, as of December 31, 2007, US\$1.540 million in principal amount of LIBOR-based interest-bearing long-term debt outstanding, which has been hedged as explained below. As of December 31, 2007, 4.3% of our long-term banking debt was exposed to interest rate fluctuations.

In May 2001, we entered into six swap contracts in order to hedge our floating rate-exposure on US\$331 million of our debt. Pursuant to these contracts, we pay or receive, depending on the case, the difference between the agreed fixed rate and the floating rate, calculated on the notional amount of each contract. In October 2005, the Company entered into two interest rate swap contracts in order to hedge the LIBOR exposure of the financing of two Airbus A319 aircraft delivered in 2005.

In July 2003, we purchased four interest rate cap contracts for a total notional amount of US\$127,753,000. These caps are intended to limit the Company's exposure arising from variable-rate debt. Under Chilean and US GAAP, these 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 match perfectly. The fair value of these contracts has been estimated at US\$1,256,000.

Also in July 2003, the Company purchased an additional two interest rate cap contracts. These caps are intended to limit the exposure of LIBOR-linked operational lease payments on aircraft received during 2004. The fair value of these contracts at year-end amounted to US\$752,000.

In April 2004, the Company purchased an additional two interest rate cap contracts. These caps are intended to limit the exposure of LIBOR-linked operational lease payments on aircraft received during 2005. The fair value of these contracts at year-end amounted to US\$643,000.

In 2005, the Company purchased three additional interest rate Cap contracts. These contracts are intended to limit the exposure of LIBOR-linked financing on aircraft delivered in 2005 and 2006. The fair value of these contracts at year-end amounted US\$214,000.

The premium on the caps was allocated to individual caplets and is recognized in the income statement throughout the term of each contract for Chilean and US GAAP purposes. Under FAS 133, 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 US GAAP purposes, there was no amount of ineffectiveness recorded in earnings because the change in fair value of the perfect hypothetical option was greater then the change in the fair value of the Company's option. Under Chilean GAAP, the caps are accounted for as cash flow hedges and no ineffectiveness was determined.

In the first half of 2006, the Company also entered into ten receive-floating, pay-fixed interest rate swap contracts in order to hedge the variable interest payments on existing debt of approximately US\$46.7 million related to the unhedged portion of existing financing. Additionally, in May 2006 the Company entered into 32 forward starting interest rate swap contracts in order to hedge the LIBOR exposure of the financing of 32 A320-Family Aircraft to be delivered in 2006, 2007 and 2008. Of these 32 contracts, 25 were contracted directly with the debt provider and therefore may be converted into fixed interest rate debt, while the remaining seven swaps were contracted with a different institution. As of December 2007, 15 of those aircraft have already been delivered to the Company. Of those 15 aircraft, 13 were converted into fixed interest rate debt, and two remain as variable interest rate debt, hedged with an interest rate swap. The fair value at the receivement date will be reclassified from other comprehensive income to the income statement over the term of the loan.

In June 2006 the Company entered into 11 forward starting interest rate swap contracts in order to hedge the LIBOR exposure of the financing of 11 B767-300 ER aircraft to be delivered in 2006, 2007 and 2008. Six of those aircraft have already been received by the Company, and the corresponding derivatives have been converted into fixed rate debt. The fair value at the receivement date will be reclassified from other comprehensive income to the income statement over the term of the loan. As of December 2007, the remaining five contracts were still forward starting interest rate swaps.

In August 2007 the Company entered into three forward starting interest rate swaps contracts in order to hedge the LIBOR exposure of the financing of three B767-300 ER aircraft to be delivered in 2009. In September 2007 the Company entered into another three forward starting interest rate swaps contracts in order to hedge the LIBOR exposure of the financing of three Airbus A320 aircraft to be delivered in 2010.

As of December 31, 2007, the fair value of all the aforementioned interest rate swaps was estimated to be a negative US\$54.8 million.

According to Chilean GAAP, the positive fair value of these interest rate swaps is reflected in the balance sheet as other long-term assets and the negative fair value of these agreements is reflected as other long-term liabilities.

The utilization of the aforementioned hedging instruments, combined with fixed interest rate financing for two Boeing 767-300 F aircraft delivered in 2001, 11 Boeing 767-300 passenger and Freighter aircraft delivered in 2005 and 2006 and 15 Airbus A320-Family Aircraft delivered in 2006 and 2007, has enabled us to limit the impact that interest rate fluctuation might otherwise have on 95.7% of our interest-bearing long-term debt.

As of December 2007, the average interest of all of our outstanding interest-bearing long-term debt rate is 5.28%

The following table summarizes our principal payment obligations on our interest-bearing long-term debt and capital leases as of December 31, 2007 and the related average interest rates. The average interest rates for U.S. dollar liabilities are calculated based on the prevailing interest rate on December 31, 2007 for each loan.

	Principa	l paymen	t obligati	ons by ye	ar of exp	ected ma	aturity ⁽¹⁾
			(in U	JS\$ millio	ons)		
	Average						
	interest						
<u>Liabilities</u>	rate ⁽²⁾	2008	2009	2010	2011	2012	Thereafter
U.S. dollars	5.28%	141.5	148.1	166.3	131.5	149.8	803.1

¹⁾ At cost, which approximates market value.

Risk of Variation in Foreign Currency Exchange Rates

During 2007, 84% of our operating revenues and 71% of our operating expenses were denominated in U.S. dollars, creating a partial natural hedge with one another. However, because we conduct business in local currencies in several countries, we face the risk of variation in foreign currency exchange rates. For more information, see Note 24 to our audited consolidated financial statements. A depreciation of the Chilean peso, the Brazilian real, the Argentine peso, the Mexican nuevo peso, the Peruvian nuevo sol or the European euro against the U.S. dollar could have a material adverse effect on us because we have revenues and receivables denominated in those currencies. As a part of our risk management policy, we regularly monitor our exposure to variations in the exchange rates of these different currencies. In order to reduce the impact of foreign exchange rate fluctuations, we enter into foreign exchange hedging contracts from time to time. As of December 31, 2007 we had foreign exchange forward contracts for a notional amount of US\$132 million with a market value as of December 31, 2007 of a negative US\$1.5 million.

In March 2008, the Company entered into foreign exchange swaps for a notional amount of US\$100 million in order to hedge future cash flows of euro and Chilean pesos. For accounting purposes, the market value of this position was reflected as a non operating cost, with a market value of negative US\$3.8 million.

Our foreign currency exchange exposure pertaining to our balance sheet as of December 31, 2007 was as follows:

	US	% of	Chilean	% of	Other	% of	
	dollars	total	pesos	total	currencies	total	Total
Current assets	732,038	66.92	221,559	20.25	140,306	12.83	1,093,903
Other assets	2,780,841	99.04	12,196	0.43	14,802	0.53	2,807,839
Total assets	3,512,879	90.03	233,755	5.99	155,108	3.98	3,901,742
Current liabilities	971,167	86.51	78,260	6.97	73,178	6.52	1,122,605
Long-term liabilities	1,776,272	99.46	7,918	0.44	1,706	0.10	1,785,896
Total liabilities and shareholders' equity	3,740,680	95.87	86,178	2.21	74,884	1.92	3,901,742

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

⁽²⁾ Average interest rate means the average prevailing interest rate on December 31, 2007 on our debt.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Controls and Procedures. We carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2007. 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 our evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures, as of December 31, 2007, were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, 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.

(b) Management's annual report on internal control over financial reporting.

Lan Airlines' 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, 2007 based on the criteria established in Internal Control—"Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and, based on such criteria, Lan Airlines' management has concluded that, as of December 31, 2007, the Company's internal control over financial reporting is effective.

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. The Company's internal control over financial reporting effectiveness as of December 31, 2007 has been audited by PricewaterhouseCoopers Consultores, Auditores y Companía Limitada, an independent registered public accounting firm, as stated in their report which appears herein.

- $(c) \ \textit{Attestation report of the registered public accounting firm}. \ See \ page \ F-X \ of \ our \ audited \ consolidated \ financial \ statements.$
- (d) Changes in internal control over financial reporting. There has been no change in our internal control over financial reporting during 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has designated Mr. José Cox Donoso, an independent director as required by the Chilean Corporation Law and applicable New York Stock Exchange listing standards, as an "audit committee financial expert" within the meaning of this Item 16A. See "Item 6. Directors, Senior Management and Employees—Directors."

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics, 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. Upon request, in writing or orally, by telephone or by e-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, telephone (56-2) 565-3944, email: gisela.escobar@lan.com, we will provide any person with a copy of our code of ethics 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 at www.lan.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit and Non-Audit Fees

The following table sets forth the fees billed to us by our independent auditors, PricewaterhouseCoopers, during the fiscal years (ended December 31) 2005, 2006 and 2007:

	Year	Year ended December 3		
	2005	2006	2007	
	(in tho	usands of U	S dollars)	
Audit fees	717.8	900.7	1,069.5	
Audit-related fees	36.1	93.8	0.0	
Tax fees	80.7	81.5	8.3	
Other fees	1.9	0.0	107.7	
Total fees	836.5	1,076.0	1,185.5	

Audit fees in the above table are the aggregate fees billed by PricewaterhouseCoopers in connection with the audit of our annual consolidated financial statements, as well as the review of other filings and fees related to the audit of the effectiveness of the Company's internal controls over financial reporting required by the Sarbanes-Oxley Act of 2002.

Audit-related fees in the above table are fees billed by PricewaterhouseCoopers mainly for due diligence services related to potential acquisitions and mergers.

Tax fees in the above table are fees billed by PricewaterhouseCoopers for tax advice and tax planning services.

Other fees in the above table are fees billed by PricewaterhouseCoopers primarily for training services in International Financial Reporting Standards (IFRS).

Board of Directors' Committee Pre-Approval Policies and Procedures

Since January 2004, LAN complies with the SEC regulation regarding what type of additional services PriceWaterhouseCoopers is authorized to offer to us. In addition to this, our Board of Directors' Committee decided to automatically authorize those 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 those services together. In case the amount is larger than that, then it will need the approval of the Board of Directors' Committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Neither we nor any affiliated purchaser has engaged in share repurchases during the year ended December 31, 2006.

PART III

ITEM 17. FINANCIAL STATEMENTS

Our financial statements have been prepared in accordance with Item 18 hereof.

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 through F-52, incorporated herein. The following is an index of the financial statements.

Consolidated Financial Statements for Lan Airlines S.A. and Subsidiaries

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Consolidated Balance Sheets at December 31, 2006 and 2007	F-4
Consolidated Statement of Income for the years ended December 31, 2005, 2006 and 2007	F-6
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ITEM 19. EXHIBITS

Documents filed as exhibits to this annual report:

Exhibit No.	Description
1.1	By-laws of Lan Airlines S.A.
2.1	Amended and Restated Deposit Agreement among LanChile, The Bank of New York, and all registered holders from time to time of any American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on June 14, 2004).
2.2	Foreign Investment Contract among the Central Bank of Chile, LanChile and Citibank, N.A., as depositary, relating to the foreign exchange treatment of holders of ADSs (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on June 14, 2004).
2.3	Foreign Investment Contract Assignment Agreement among the Central Bank of Chile, LanChile, Citibank N.A., as assignor, and The Bank of New York, as assignee, relating to the foreign exchange treatment of holders of ADSs (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on June 14, 2004).
2.4	Right of First Refusal Agreement among Inversiones Santa Cecilia S.A., Bancard S.A., Inversiones Costa Verde, S.A., Inmobiliaria e Inversiones Asturias S.A., Inversiones Aéreas CGP S.A., Inversiones Aéreas CGP DOS S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on June 14, 2004).
2.5	Supplement to Right of First Refusal Agreement among Inversiones Costa Verde Limitada y Compañía en Comandita por Acciones, Inversiones Santa Cecilia S.A., Axxion S.A., Inversiones Aéreas CGP S.A. and Inversiones Aéreas CGP DOS S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on June 30, 2005).
2.6	Joint Action Agreement among Inversiones Costa Verde Limitada y Compañía en Comandita por Acciones, Inversiones Santa Cecilia S.A., and Axxion S.A. (incorporated by reference to our annual report on Form 20-F (File No. 001-14728) filed on June 30, 2005).
4.1	Purchase Agreements between Lan Chile S.A. and Airbus Industrie relating to Airbus A320-Family Aircraft and Airbus A340 series 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	Amendments No. 2 and 3, Letter Agreements No. 1, 2, 3, 4, 5, 6A, 6B, 7, 8 to Amendment No. 2, Side Letters to Amendment No. 2 and Side Letter to Amendment No. 3 to the Second A320F Purchase Agreement dated March 20, 1998 as amended and restated, between Lan Airlines S.A. (formerly known as Lan Chile S.A.) and Airbus S.A.S. (as successor to Airbus Industrie) (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).
4.1.2	Amendment No. 3 to the Second A320 Family Purchase Agreement between Lan Airlines S.A. and Airbus S.A.S. dated as of March 6, 2007 (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	Purchase Agreement No. 2126 between Lan Chile S.A. 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).
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Exhibit No.	Description
4.2.1	Supplemental Agreements No. 16, 17, 18, 19, 20, 21 and 22 to the Purchase Agreement No. 2126 between Lan Airlines (formerly known as Lan Chile S.A.) and The Boeing Company, relating to Model 767-316ER, Model 767-38EF, and Model 767-316F Aircraft, dated as of January 30, 1998 (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 to the Purchase Agreement No. 2126 between Lan Airlines and The Boeing Company dated as of March 6, 2007 (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).
4.3	Aircraft Lease Common Terms Agreement between GE Commercial Aviation Services Limited and Lan Cargo S.A., dated April 30, 2007; Aircraft Lease Agreements between Wells Fargo Bank Northwest N.A., as owner trustee, and Lan Cargo S.A., dated 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 Boeing Company and Lan Airlines S.A. relating to Boeing Model 777-FREIGHTER aircraft dated July 3, 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.
4.5	Purchase Agreement No 3256 between The Boeing Company and Lan Airlines S.A. relating to Boeing Model 787-8 and 787-9 aircraft dated 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.
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.
15.1	Valuation and Qualifying Accounts.
15.2	Consent of PricewaterhouseCoopers

SIGNATURES

The registrant hereby certifies that it meets all of 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.

LAN AIRLINES S.A.

/s/ Alejandro de la Fuente Goic

Name: Alejandro de la Fuente Goic Title: Chief Financial Officer

Date: June 25, 2008

LAN AIRLINES S.A.

Consolidated financial statements

December 31, 2007

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Report of Independent Registered Public Accounting Firm Consolidated balance sheets Consolidated statements of income Consolidated statements of cash flows Notes to the consolidated financial statements

Ch\$ - Chilean pesos US\$ - United States dollars

ThUS\$ - Thousands of United States dollars

UF - The UF is a Chilean inflation-indexed, peso-denominated monetary unit which is set daily in advance based on the previous month's inflation

rate



Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and of cash flows present fairly, in all material respects, the financial position of LAN Airlines S.A. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in Chile. In addition, in our opinion, the financial statement schedule appearing under Exhibit 15.1 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), The Company's management is responsible for these financial statements and financial statement schedule, 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 Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on these financial statements, on the financial statement schedule and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2007 and 2006). 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.

Accounting principles generally accepted in Chile vary in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). Information relating to the nature and effect of such differences is presented in Note 27 to the consolidated financial statements.

As discussed in Note 3, the Company changed its method of accounting for heavy aircraft and engine maintenance costs associated with its owned aircraft in 2006.

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 February 29, 2008

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	At Decen	
	2007	2006
ASSETS	(In thousan	ds of US\$)
<u>100E10</u>		
CURRENT ASSETS		
Cash	11,506	9,565
Time deposits	308,585	148,977
Marketable securities (Note 4)	147,952	60,069
Trade accounts receivable and other, net (Note 5)	468,301	356,512
Notes and accounts receivable from related companies (Note 15)	226	4,765
Inventories (Note 6)	58,097	46,827
Prepaid and recoverable taxes	68,623	34,048
Prepaid expenses (Note 7)	12,949	26,786
Deferred income tax assets (Note 14)	4,624	6,435
Other current assets (Note 8)	13,040	12,324
Total current assets	1,093,903	706,308
PROPERTY AND EQUIPMENT (net) (Note 9)	2,351,605	1,855,915
OTHER ASSETS		
Investments in related companies (Note 10)	1,482	1,845
Goodwill (Note 10)	36,022	43,469
Notes and accounts receivable from related companies (Note 15)	_	51
Long-term accounts receivable (Note 5)	12,171	28,915
Advances for purchases of aircraft and other deposits (Note 11)	316,443	237,853
Other (Note 12)	90,116	54,433
Total other assets	456,234	366,566
Total assets	3,901,742	2,928,789

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	At Decer	nber 31 <u>,</u>
	2007	2006
LIABILITIES AND SHAREHOLDERS' EQUITY	(In thousan	ds of US\$)
LIABILITIES AND SHAREHOLDERS EQUITE		
CURRENT LIABILITIES		
Short-term loans from financial institutions	<u> </u>	8,996
Current portion of long-term loans from financial institutions (Note 16)	102,153	89,883
Current portion of long-term leasing obligations (Note 18)	61,960	43,070
Securitization obligation (Note 17)	12,826	11,970
Dividends payable	120,073	67,789
Accounts payable	322,897	260,947
Notes and accounts payable to related companies (Note 15)	357	301
Air traffic liability and other unearned income	325,669	265,307
Other current liabilities (Note 13)	176,670	128,020
Total current liabilities	1,122,605	876,283
	_,,	0. 0,200
LONG-TERM LIABILITIES		
Loans from financial institutions (Note 16)	1,228,650	1,031,082
Securitization obligation (Note 17)	6,752	19,578
Other creditors	52,400	22,004
Provisions (Note 13)	94,441	45,892
Obligations under capital leases (Note 18)	233,768	176,433
Deferred income tax liabilities (Note 14)	169,885	126,886
· · · · · · · · · · · · · · · · · · ·		
Total long-term liabilities	1,785,896	1,421,875
	•	
MINORITY INTEREST	5,189	4,311
COMMITMENTS AND CONTINGENCIES (Note 23)		
COMMINDENS (NOC. 25)		
SHAREHOLDERS' EQUITY (Note 19)		
Common stock (338,790,909 shares)	453,444	134,303
Reserves	(52)	2,620
Retained earnings	534,660	489,397
Total shareholders' equity	988,052	626,320
zour samenoracio equity	300,002	020,520
Total liabilities and shareholders' equity	3,901,742	2,928,789
rotal natitues and shareholders equity	3,501,742	2,320,709

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	For the years ended December 31, 2007 2006 2005		
	2007	2005	
REVENUES	(1)	n thousands of US\$	5)
Passenger	2,197,201	1,813,373	1,460,584
Cargo	1,154,323	1,072,730	910,453
Other (Note 20)	173,399	147,857	135,316
Total operating revenues (Note 25)	3,524,923	3,033,960	2,506,353
	, ,		
EXPENSES			
Wages and benefits (Note 21)	(489,550)	(442,967)	(371,596)
Aircraft fuel	(930,208)	(763,951)	(642,696)
Commissions to agents	(402,577)	(403,899)	(345,387)
Depreciation and amortization	(153,852)	(122,802)	(80,456)
Passenger services	(71,844)	(56,077)	(53,176)
Aircraft rentals	(158,917)	(157,681)	(148,202)
Aircraft maintenance	(159,063)	(117,206)	(132,198)
Other rentals and landing fees	(366,418)	(336,821)	(301,544)
Other operating expenses	(379,123)	(329,934)	(289,462)
Total operating expenses	(3,111,552)	(2,731,338)	(2,364,717)
Operating income	413,371	302,622	141,636
OTHER INCOME AND EXPENSES			
Interest income	18,043	7,897	12,426
Interest expense	(76,224)	(60,739)	(39,191)
Other income - net (Note 22)	12,619	37,113	58,234
Total other income (expense)	(45,562)	(15,729)	31,469
Income before minority interest	367,809	286,893	173,105
Minority interest	289	1,244	1,754
Income before income taxes	368,098	288,137	174,859
Income taxes (Note 14)	(59,775)	(46,837)	(28,258)
NET INCOME	308,323	241,300	146,601

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

		For the years ended December 31,		
	2007	2006 n thousands of USS	2005	
CASH FLOWS FROM OPERATING ACTIVITIES	(II	i tilousanus or CS.	,	
Collection of trade accounts receivable	3,535,542	2,951,595	2,213,947	
Interest income	15,150	6,358	11,679	
Other income received	37,698	24,936	65,139	
Payments to suppliers and personnel	(2,743,171)	(2,371,090)	(1,938,117)	
Interest paid	(73,633)	(60,107)	(36,630)	
Income tax paid	(16,316)	(14,581)	(1,782)	
Other expenses paid	(12,231)	(11,592)	(1,724)	
Value-added tax and similar payments	(36,021)	(35,265)	(35,575)	
Net cash provided by operating activities	707,018	490,254	276,937	
CASH FLOWS FROM FINANCING ACTIVITIES				
Loans obtained	495,324	821,324	268,501	
Dividend payments	(210,868)	(84,910)	(43,536)	
Loans repaid	(205,536)	(223,415)	(35,481)	
Issuance of stock	319,141	_	` — ´	
Issuance of stock expenses	(2,672)	_	_	
Other	(11,970)	(9,282)	(11,596)	
Net cash provided by financing activities	383,419	503,717	177,888	
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	(839,851)	(920,429)	(592,410)	
Proceeds from sales of property and equipment	219	7,620	1,694	
Sale of financial instruments and other investments	14,105	28,057	77,981	
Other investments	(94)	(2,238)	(5,624)	
Investments in financial instruments	(16,343)	_	(38,978)	
Other	(2,354)	(18,756)	(3,085)	
Net cash used in investing activities	(844,318)	(905,746)	(560,422)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	246,119	88,225	(105,597)	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	199,496	111,271	216,868	
CASH AND CASH EQUIVALENTS AT END OF YEAR	445,615	199,496	111,271	

LAN AIRLINES S.A. AND SUBSIDIARIES

RECONCILIATION OF NET INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES

		r the years end December 31,	
	2007 (In t	2006 thousands of U	2005 (S\$)
NET INCOME FOR THE YEAR	308,323	241,300	146,601
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Depreciation	143,796	115,939	73,969
(Gain) Loss on sales of investments	(1,128)	29	
(Gain) Loss on sales and retirements of property and equipment	(1,203)	(1,133)	(1,511)
Proportional share of results of equity method investments	5,086	(598)	(583)
Amortization of goodwill	2,994	3,318	3,216
Minority interest	(289)	(1,244)	(1,754)
Write-offs and provisions	7,689	20,902	10,827
Foreign exchange gains	(16,714)	(5,675)	(6,270)
Other	1,120	(51,574)	106
CHANGES IN ASSETS AND LIABILITIES			
(Increase) decrease in accounts receivable – trade	8,770	(47,099)	(26,083)
(Increase) decrease in inventories	(9,345)	(9,175)	(9,526)
(Increase) decrease in other assets	101,628	36,640	(29,649)
(Decrease) increase in accounts payable	111,382	160,734	99,843
(Decrease) increase in other liabilities	44,909	27,890	17,751
Net cash provided by operating activities	707,018	490,254	276,937

LAN AIRLINES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2007

NOTE 1 - THE COMPANY

Lan Airlines S.A., formerly Lan Chile S.A., ("Lan" or the "Company") is the largest domestic and international passenger/cargo air carrier in Chile and one of the leading airlines in Latin America. "Lan" makes reference to the consolidated entity that includes LAN Airlines, LAN Express, LAN Peru, LAN Ecuador, and LAN Argentina, as well as LAN Cargo and its affiliates. The LAN Alliance serves 15 destinations in Chile, 12 destinations in Peru, ten destinations in Argentina, two destinations in Ecuador, 15 destinations in other Latin American countries and the Caribbean, three destinations in the United States, two destinations in Europe and four destinations in the South Pacific, as well as 60 additional international destinations through its various code-share agreements. As of year end 2007, LAN's fleet is composed of 73 passenger aircraft and 10 dedicated freighters.

LAN is a member of oneworld TM, the world's leading global airline alliance. It has bilateral commercial agreements with oneworld TM partners American Airlines, British Airways, Iberia, Qantas, Alaska Airlines, AeroMexico, Mexicana, TAM and Korean Air.

The Company is a Chilean corporation ("Sociedad Anónima Abierta") whose common stock is listed on the Santiago Stock Exchange, the Chilean Electronic Stock Exchange, and the Valparaiso Stock Exchange and whose American Depositary Receipts are traded on the New York Stock Exchange. Accordingly, the Company is subject to the regulations of both the Chilean Superintendency of Securities and Insurance (the "Superintendency") and the U.S. Securities and Exchange Commission.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

a) Presentation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Chile, which include the accounting standards of the Superintendency. The preparation of financial statements in accordance with generally accepted accounting principles in Chile ("Chilean GAAP") requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

The Company has issued its statutory consolidated financial statements in Spanish and in conformity with Chilean GAAP, which include certain notes and additional information required by the Superintendency for statutory purposes. Management believes that these additional notes and information are not essential for the complete understanding of the consolidated financial statements and, accordingly, these notes and additional information have been excluded from the accompanying consolidated financial statements.

b) Consolidation

The consolidated financial statements for the years 2007, 2006 and 2005 include the following subsidiaries:

		December 31		
		2007	2006	2005
Pe	rcentage of direct and indirect ownership:			
	Lan Perú S.A.	70.00	70.00	70.00
	Inversiones Lan S.A. and subsidiaries	99.71	99.71	99.71
	Lan Cargo S.A. (formerly Lan Chile Cargo S.A.) and subsidiaries	99.90	99.90	99.89
	Inmobiliaria Aeronáutica S.A.	100.00	100.00	100.00
	Comercial Masterhouse S.A.	100.00	100.00	100.00
	Sistemas de Distribución Amadeus Chile S.A.	100.00	100.00	100.00
	Lan Card S.A.	100.00	100.00	100.00
	Lan Pax Group S.A. and subsidiaries	100.00	100.00	100.00
	Lan Cargo Group S.A.			100.00
	Línea Aérea Nacional Chile S.A.	100.00	100.00	100.00
	Lan Chile Investments Limited and subsidiaries	100.00	100.00	100.00

The effects of significant transactions between the subsidiaries and subsidiaries with the holding company have been eliminated in the consolidation and the participation of minority shareholders is shown in these consolidated financial statements as minority interest in the Consolidated Balance Sheets and Consolidated Statements of Income.

c) Use of estimates

The preparation of the consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses and the disclosure of contingent liabilities. Management makes its best estimate of the ultimate outcome for these items based on historical trends and other information available when the financial statements are prepared. Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available to management. Areas where the nature of the estimate makes it reasonably possible that actual results could differ from amounts estimated include: impairment assessments on long-lived assets (including goodwill), inventory obsolescence, engine overhaul provisions, tax liabilities and the associated deferred tax effects, contingent liabilities and other liabilities.

d) Price-level restatements

The financial statements of certain subsidiaries have been restated through the application of monetary correction rules in accordance with Chilean GAAP to show the effects of changes in the purchasing power of the Chilean peso, using indicators published by the Chilean National Institute of Statistics.

e) Foreign currency transactions

LAN and certain subsidiaries are authorized to maintain their accounting records and prepare their consolidated financial statements in US dollars. Because the US dollar is the functional and reporting currency, assets and liabilities denominated in other currencies are remeasured to US dollars at the exchange rates prevailing on December 31 of each year except for inventory, property and equipment, other assets and air traffic liability, which are remeasured at historical exchange rates. Revenues and expenses are generally translated at the exchange rates on the dates of the transactions.

Foreign currency transaction gains and losses are included in the Consolidated Statements of Income in Other income (expense)—net. The Company recorded a net foreign currency gain of ThUS\$ 15,700, ThUS\$5,536 and ThUS\$ 6,004 for the years ended 2007, 2006 and 2005, respectively.

f) Time deposits

Time deposits are stated at cost plus accrued interest at year-end.

g) Marketable securities

Marketable securities include investments in bonds and mutual funds. Bonds are stated at the lower of cost plus accrued interest or market value plus accrued interest and mutual funds are stated at market value based on year-end quoted values.

h) Allowance for bad debts

The Company maintains an allowance for bad debts based on an analysis of the aging of the outstanding balances as well as other relevant information. Other relevant information includes detailed analysis of our customers' payment history, an analysis of the current economic and commercial environment and all relevant available public information regarding our clients and the current business environment. Our policy for determining past due accounts focuses on the aging of the receivable balance and the different forms of payment used by debtos. Receivable balances are written off against the allowance for bad debts once they are deemed uncollectible and all collection efforts and available legal measures have been exhausted.

i) Inventories

Inventories represent spare parts and materials that are expected to be consumed and used either by the Company or through third-party maintenance services within one year. Inventories are stated at the lower of cost (determined by the average cost method) or market.

j) Other current assets

Other current assets include primarily the fair value of hedged forecasted jet fuel derivative contracts in unrealized loss positions and restricted funds associated with aircraft leases.

k) Property and equipment

Property and equipment are stated at cost and are depreciated by the straight-line method to their estimated residual values based on the estimated useful lives of the assets. Aircraft and engines are depreciated based on estimated useful life ranging from 10 to 20 years and utilizing a salvage value based on a residual value percentage of the cost of the asset.

The residual values and basis of depreciation used for the principal asset classifications are:

Asset classification	Residual Value (%)	Basis of depreciation
Boeing 767-300 F aircraft	36	Useful life (15 years)
Boeing 767-300 ER aircraft	36	Useful life (15 years)
Boeing 737-200 ADV aircraft	15	Useful life (until December 31, 2008)
Boeing 767-200 ER aircraft	36	Useful life (15 years)
Airbus A-320	20	Useful life (20 years)
Airbus A-319	20	Useful life (20 years)
Airbus A-318	20	Useful life (20 years)
Engines 767	36	Useful life (15 years)
Engines 737	15	Useful life (until December 31, 2008)
Engines Airbus A-318	20	Useful life (20 years)
Engines Airbus A-320	20	Useful life (20 years)
Engines Airbus A-340	36	Useful life (15 years)
Rotating parts	20	Useful life (15 years)
Buildings	_	Useful life (10-50 years)
Communications and computer equipment	_	Useful life (5-10 years)
Furniture and office equipment	_	Useful life (3-10 years)

Property and equipment include the revaluation increment arising from the technical appraisals of certain assets carried out in prior years in accordance with instructions issued by the Superintendency.

Inventories of materials and spare parts, net of provisions for obsolescence, included under other fixed assets within Property and equipment, are stated at their average cost.

The Company has entered into capital lease agreements related to eight aircraft and certain buildings and equipment which have bargain purchase options at the end of each contract. These assets are not the legal property of the Company, because it cannot dispose of them until the purchase option is exercised. The assets are recorded at their fair value on the date of the lease agreement.

The corresponding leasing obligations are presented under long-term liabilities and under the current portion of long-term leasing obligations.

Impairment losses on long-lived assets used in operations are recorded when events and circumstances indicate that the assets may be impaired and the undiscounted future cash flows estimated to be generated by these assets are less than the assets' net book value. If an impairment occurs, the loss is measured by comparing the fair value of the asset to its carrying amount. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable.

Under Chilean GAAP, spare parts which are not anticipated to be consumed within the next 12 months are included in property, plant and equipment. Spare parts are not depreciated, irrespective of whether they are included in fixed assets or inventory and they are expensed upon their usage in maintenance. All spare parts are recorded at the lower of cost or market value.

Spare parts included in the Consolidated Balance Sheet are classified as follows:

	At	1,	
	2007	2006	2005
	(In th	nousands of	US\$)
Inventories	50,740	39,734	34,789
Property and equipment	21,536	18,466	18,330
Total	72,276	58,200	53,119

l) Investments in related companies

Investments in related companies are included in Other assets using the equity method when they represent between 20% and 50% of the voting stock of the investee, or when a Company has a significant influence in the operations of the investment. Accordingly, the Company's proportional share in the net income (or loss) of each investee is recognized on an accrual basis, after eliminating any unrealized profits or losses from transactions with the investees in Other income (expense)—net in the Consolidated Statements of Income.

m) Goodwill

Under Chilean GAAP, effective January 1, 2004, Technical Bulletin N° 72 ("TB 72") requires the determination of goodwill and negative goodwill based on the fair value of the acquired company. Prior to January 1, 2004, goodwill included the excess of the purchase price of companies acquired over their net book value; negative goodwill was established when the net book value exceeded the purchase price of companies acquired. Goodwill and negative goodwill also arise from the purchase of investments accounted for by the equity method.

Goodwill and negative goodwill are amortized over 20 years considering the expected period of return of the investment. The Company evaluates the recoverability of goodwill on a periodic basis.

n) Sale leaseback

Gains on sale leaseback transactions are deferred and recognized over the terms of the lease agreements.

o) Air traffic liability and revenue recognition policy

Passenger ticket sales are recorded as a current liability when sold as air traffic liability in the Consolidated Balance Sheets. Air traffic liability at December 31, 2007 and 2006 amounted to ThUS\$323,078 and ThUS\$ 263,408, respectively.

Passenger and cargo revenues are recognized when the transportation service is provided, which, in the case of passenger revenues reduces the air traffic liability. Commissions payable related to such unearned earnings are shown net of the air traffic liability. Other revenues include aircraft leases, courier, logistic and ground services, duty free sales, and storage and customs brokering. These other revenues are recognized when services are provided.

p) Aircraft and engine maintenance costs

Until December 31, 2005, all maintenance provisions were recorded based on technical reviews considering the aircraft and engines use expressed in cycles and total flight hours of an aircraft. Unscheduled maintenance of aircraft and engines were charged to income as incurred.

Effective January 1, 2006, for owned aircraft, costs incurred for heavy aircraft and engine maintenance are capitalized and amortized to the next overhaul. For leased aircraft, provisions continue to be accrued in advance based on lease terms and technical reviews considering the aircraft and engines use expressed in cycles and total flight hours of an aircraft.

q) Lease Aircraft Return Costs

The majority of leased aircraft return costs are maintenance and overhaul costs. The airframe and engine overhaul expenses associated with leased aircraft are accrued as part of our overhaul provision included in Other liabilities and reflected in provisions in the Consolidated Balance Sheet. Such provisions are based on the flight hours incurred by the leased aircraft and also take into consideration the lease terms and the date of incorporation of the aircraft into our fleet. The actual direct costs of physically returning the planes and related administration costs are expensed when incurred.

r) Deferred income tax

Effective January 1, 2000, the effects of deferred income taxes arising from temporary differences between the basis of assets and liabilities for tax and financial statement purposes are recorded in accordance with Technical Bulletin No. 60 of the Chilean Institute of Accountants and based on the enacted income tax rate which will be in effect when the temporary differences reverse. The effects of deferred income taxes at January 1, 2000 which were not previously recorded are recognized in income beginning in 2000 as the temporary differences reverse.

In order to mitigate the effects of recording deferred income taxes that under the prior income tax accounting standard were not expected to be realized, Technical Bulletin No. 60 provided for a period of transition. Under this transition period, the full effect of using the liability method is not recorded in income at the same time the deferred taxes are recorded in the balance sheet. Under this transitional provision, a contra asset or liability account ("complementary accounts") have been recorded offsetting the effects of the deferred tax assets and liabilities not recorded prior to January 1, 2000. Such complementary accounts are amortized to income over the estimated average reversal periods corresponding to underlying temporary differences to which the deferred tax asset or liability relates.

Deferred income tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The valuation allowance should be sufficient to reduce the deferred income tax asset to an amount that is more likely than not to be realized.

s) Lan Pass awards and Lan Corporate

The estimated incremental cost of providing free travel awards under the Lan Pass and Lan Corporate programs are accrued based on the accumulated kilometers for each passenger at the end of each year and by the conditions established by the program and are included in Other current liabilities in the Consolidated Balance Sheets.

t) Employee vacations

The cost of employee vacations is recognized as an expense on an accrual basis as the vacations are earned by employees and are included in Other current liabilities in the Consolidated Balance Sheets.

u) Derivative instruments

The Company enters into hedging contracts including interest rate swap agreements, interest rate cap agreements, forward exchange contracts, jet fuel swap agreements, and jet fuel options. The contracts are accounted for in accordance with Technical Bulletin No. 57, "Accounting for Derivative Contracts" ("TB 57") of the Chilean Institute of Accountants. Under TB 57 all derivative instruments are recognized on the consolidated balance sheet at their fair value. Derivative instruments are accounted for as follows:

Hedgeforecasted transaction:

The derivative instrument is stated at its fair value on the consolidated balance sheet and any change in the fair value is recognized on the consolidated balance sheet as an unrealized gain or loss in other assets, other liabilities, current or long term, as applicable. When the contract is settled, the unrealized gain or loss on the instrument is recognized in earnings in Other income (expense)—net in the Consolidated Statements of Income.

Firm commitments hedging contracts:

The hedged item and derivative instrument are measured at fair value on the consolidated balance sheet. Unrealized gains and losses are recorded in earnings in Other income (expense) - net in the Consolidated Statements of Income if the net effect is a loss and deferred and recognized when the contract is settled if it is a gain. The unrecognized gains associated with the derivative instrument are included in other liabilities, current or long term, as applicable.

v) Cash and cash equivalents

The Company considers all short-term, highly-liquid investment securities with original maturities of three months or less to be cash equivalents for purposes of the Consolidated Statement of Cash Flows:

2005
\$)
11,733
34,519
65,019
111,271

Under Chilean GAAP, certain assets (specifically, bonds as of December 31, 2007, 2006 and 2005) are classified as marketable securities in the Consolidated Balance Sheet, but are not considered cash and cash equivalents for purposes of the consolidated statement of cash flows.

w) Capitalized interest

Interest paid on borrowings used to acquire new aircraft is capitalized as an additional cost of the related assets until the aircraft is received. Interest is capitalized based on the Company's weighted-average interest rate on long-term debt, or if applicable, the interest rate related to specific borrowings. Interest capitalization ends when the property or equipment is ready for service or its intended use. The Company capitalized ThUS\$ 4,560, ThUS\$ 2,193 and ThUS\$ 1,575 of interest during 2007, 2006 and 2005, respectively.

x) Advertising costs

The Company expenses advertising costs as Other operating expenses in the period incurred. Advertising expense totaled ThUS\$ 37,532, ThUS\$23,459, and ThUS\$19,490 during 2007, 2006 and 2005, respectively.

y) Stock issuance costs

Stock issuance costs are those incurred by the parent company, which are related to the issuance and placement of unsubscribed shares, including placement fees, legal counseling, accounting advice, financial consulting, printing and recording or registration fees. Such costs have been recorded in the Stock issuance and placement cost account, as part of Shareholders equity under the Other reserves caption.

Stock issuance and placement costs have been recorded pursuant to Circular Letters No. 1736 and 1370, issued by the Superintendency.

z) Stock options plans

Effective January 1, 2007 the Company accounts for stock-based compensation plans in accordance with the International Financial Reporting Standard No. 2 Share-based payment, showing the effect of recording the fair value of the options granted as wages and benefits on a straight-line basis over the period between the date of granting of these options to the date that these become vested.

aa) Intangibles

Disbursements for the development of internal use software are charged to the results of operations as incurred. External direct costs of materials and services rendered in developing an enterprise resource planning system (an SAP R/3 system) and interest costs incurred during development are capitalized. Payroll related costs were not significant and have been expensed. Training costs and data conversion costs are expensed as incurred.

ab) Reclassifications

Certain 2005 and 2006 amounts in the accompanying consolidated financial statements have been reclassified to conform to the 2007 presentation. The reclassifications had no material effect on the previously reported presentation of consolidated net income or shareholders' equity.

NOTE 3 - ACCOUNTING CHANGES

As indicated in Note 2 p), effective January 1, 2006, the Company changed its method of accounting for heavy aircraft and engine maintenance costs associated with its owned aircraft. Previously, the Company accrued a liability for these costs in its consolidated balance sheet under the caption "Provisions", for both short and long – term. Such provision was established based on the total cycles and flight hours flown by an aircraft since its incorporation into the Company's fleet, or since its last repair. Under the new method, the costs incurred in heavy owned aircraft and engine maintenance are capitalized and amortized to the next overhaul.

The cumulative effect of this accounting change at January 1, 2006, increased non–operating income by US\$40.3 million, as it is described in Note 22. For the accounting year 2006, this change resulted in a ThUS\$3,121 reduction to Operating expenses in the Consolidated Statement of Income.

NOTE 4 - MARKETABLE SECURITIES

Marketable securities include the following:

	At Decem	ıber 31,
	2007	2006
	(In thousand	ds of US\$)
Bonds	22,428	20,415
Defined-term mutual funds	125,524	39,654
Total	147,952	60,069

Bonds recorded at December 31, 2007 are summarized as follows:

				At Decembe	er 31, 2007		
	Dat	Date of		Date of		Carrying	Market
	Purchase	Maturity	Interest rate	amount	Value		
			%	(In thousan	ds of US\$)		
Chilean bonds	09/10/2004	12/05/2008	7.58	1,402	1,433		
Foreign bonds	07/26/2006	12/03/2008	9.04	21,026	21,463		
Total				22,428	22,896		

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

Short-term

	At Decer	nber 31,
	2007	2006
	(In thousan	ids of US\$)
Accounts receivable – passenger services	97,232	97,350
Accounts receivable – cargo services	163,758	117,165
Advances for purchases of aircraft	120,906	91,234
Other accounts receivable	86,405	50,763
Total	468,301	356,512

Accounts receivable are shown net of an allowance for bad debts of ThUS\$21,946 at December 31, 2007 and ThUS\$ 28,364 at December 31, 2006.

Included in short term accounts receivable as of December 31, 2007 are a total of approximately US\$17.1 million from the Brazilian company VRG LINHAS AEREAS S.A. and a total of US\$8.7 million from Florida West International Airways INC.- reclassified from balances with related companies since the participation that the subsidiary Lan Cargo S.A. had, was sold in December 2007. See Note 10.

Long-term

Long-term accounts receivable at December 31, 2007 and 2006 amounted to ThUS\$12,171 and ThUS\$28,915, respectively.

NOTE 6 - INVENTORIES

Inventories are summarized as follows:

	At Decei	mber 31,
	2007	2006
	(In thousar	nds of US\$)
Spare parts and materials used for maintenance ⁽¹⁾	50,740	39,734
Aircraft for sale ⁽²⁾	2,947	3,862
Duty-free inventories	4,410	3,231
Total	58,097	46,827

⁽¹⁾ Spare parts and materials for sale are shown net of provision for market value adjustment of ThUS\$3,264 at December 31, 2007 and ThUS\$2,121 at December 31, 2006.

NOTE 7 - PREPAID EXPENSES

Prepaid expenses include the following:

	At Decer	nber 31,
	2007	2006
	(In thousan	ds of US\$)
Prepaid insurance on aircraft	4,475	15,030
Prepaid rentals on aircraft and costs of receiving leased aircraft	6,715	8,720
Prepaid advertising services	708	1,040
Other	1,051	1,996
Total	12,949	26,786

Costs of receiving aircraft include all costs incurred by the Company and its subsidiaries in order for them to be operational. Such costs are deferred and amortized to operating expenses over the term of the specified contract. Costs of returning leased aircraft, excluding maintenance and overhaul, are expensed as incurred.

NOTE 8 - OTHER CURRENT ASSETS

Other current assets consist of the following:

	At Decen	nber 31,
	2007	2006
	(In thousan	ids of US\$)
Restricted funds associated with aircraft leases and purchases and other deposits	3,634	357
Fair value of derivative contracts	6,280	7,778
Other	3,126	4,189
Total	13,040	12,324

⁽²⁾ Corresponding to 4 Boeing 737 Aircraft shown net of a provision for retirement of ThUS\$1,390 at December 31, 2007.

NOTE 9 - PROPERTY AND EQUIPMENT AND FLEET COMPOSITION

a) Property and equipment

Property and equipment are summarized as follows:

	At Decen	nber 51,
	2007	2006
	(In thousan	ds of US\$)
Flight equipment:		
Boeing 767 aircraft under capital lease	638,534	461,845
Boeing 737 – 200ADV aircraft	13,836	27,498
Boeing 767 – 200ER aircraft		70,574
Boeing 767 – 300ER aircraft	678,159	334,248
Boeing 767 – 300F freighter aircraft	273,343	459,659
Airbus A-318 aircraft	140,900	
Airbus A-319 aircraft	342,147	342,142
Airbus A-320 aircraft	225,980	145,939
Engines and rotating parts	397,764	277,278
Spare parts	21,536	18,466
Other	43,694	42,662
Land and buildings:		
Land	14,424	10,739
Buildings	64,313	62,175
Other installations	40,164	38,175
Construction in progress	1,513	2,270
Other fixed assets:		
Communication and computer equipment	74,588	72,763
Furniture and office equipment	16,270	15,910
Other	63,159	54,105
Property and equipment (gross)	3,050,324	2,436,448
Less Accumulated depreciation	(698,719)	(580,533)
Property and equipment (net)	2,351,605	1,855,915

At December 31.

In June 30, 2006, the Company sold its ownership in Seagull Leasing LLC, who owns a Boeing 767-300F aircraft and is leasing the aircraft to Lan Cargo S.A. The existing financial leasing contract between Seagull and Lan Cargo S.A regarding this aircraft remained unchanged. As a result of the sale transaction, this aircraft has been reclassified from owned Property and equipment to Property and equipment under capital lease.

In March 31, 2007, Lan Cargo S.A. sold its stake in the Bluebird Leasing LLC permanent establishment, which owns two Boeing 767-300F aircraft. The operation was carried out while keeping in effect the financial leasing agreements such entity had originally entered into with Lan Cargo S.A. for the aforementioned aircraft. As a result of the latter, the aircraft, which had been recorded under Machinery and equipment, have been reclassified to Other fixed assets. Consequently, the debt associated with such operation has been reclassified from Short and long-term bank obligations to both current portion of long term leasing obligations and Obligation under capital leases, respectively.

Included in Property and equipment at December 31, 2007 and 2006, are ThUS\$638,534 and ThUS\$461,845 of equipment under capital leases with accumulated depreciation aggregating ThUS\$236,007 and ThUS\$163,098, respectively.

Depreciation expense for the years ended December 31, 2007, 2006 and 2005, amounted to ThUS\$ 143,796, ThUS\$115,939 and ThUS\$ 73,969, respectively.

The balance of spare parts is presented net of a provision for obsolescence amounting to ThUS\$9,646 at December 31, 2007 and ThUS\$ 16,975 at December 31, 2006

As of December 31, 2007, Property and equipment is shown net of a provision for retirement of ThUS\$ 5,400 for Boeing 737 aircraft.

In 2002, the Company entered into a sale-leaseback transaction. Under this arrangement, engines were sold for ThUS\$13,100 and leased backed over a 7-year operating lease agreement. The gain on the sale of ThUS\$6,883 is being amortized over the term of the operating lease agreement.

b) Fleet composition

At December 31, 2007, the fleet of the Company consists of 86 aircraft, of which 46 aircraft are owned by, or under capital lease to, the Company and 40 aircraft are leased under operating leases.

Aircraft owned:

<u>Aircraft</u>	Model	Use	2007	2006
Boeing 737 (*)	200ADV	Passenger	5	6
Boeing 737	200ADV	Freight	1	1
Boeing 767	300ER	Passenger	10	7
Boeing 767	300F	Freight	8	8
Boeing 767 (**)	200ER	Passenger	1	1
Airbus A-318	100	Passenger	5	_
Airbus A-319	100	Passenger	10	10
Airbus A-320	200	Passenger	6	4
Total owned			46	37

^(*) One of these aircraft is leased to Pluna Lineas Aereas Uruguayas S.A. and other aircraft is leased to Sky Services S.A.

Leased aircraft under operating leases:

Aircraft	Model	Use	2007	2006
Boeing 767	300ER	Passenger	12	13
Boeing 767	300F	Freight	1	1
Boeing 737	200ADV	Passenger	6	10
Airbus A-319	100	Passenger	5	5
Airbus A-320	200	Passenger	11	11
Airbus A-340	300	Passenger	5	4
Total leased			40	44
Total owned and leased			86	81

NOTE 10 - INVESTMENTS IN RELATED COMPANIES AND GOODWILL

a) Investments in related companies

Investments in related companies accounted for by the equity method are summarized as follows:

		age of ow		Book v invest	ment		ome (los	ss)
<u>Company</u>	<u>2007</u> %	<u>2006</u> %	<u>2005</u> %	2007	2006	2007 (In thous		2005 US\$)
Concesionaria Chucumata S.A.	16.7	16.7	16.7	119	250	123	135	160
Lufthansa Lan Chile Technical Training S.A.	50	50	50	702	609	224	196	152
Austral Sociedad Concesionaria S.A.	20	20	20	661	886	257	173	173
Florida West International Airways Inc.(1)	_	25	25	_	_	(497)	76	79
Lanlogistics, Corp (2)	_	_	_	_	_	(5,193)	_	_
Choice Air Courier del Perú S.A. ⁽¹⁾	_	50	50	_	100	_	18	19
Total				1,482	1,845	(5,086)	598	583

⁽¹⁾ During 2007, these entities were sold.

^(**) Leased to Aerovías de México S.A.

⁽²⁾ During 2007, this entity was dissolved.

b) Goodwill and negative goodwill

The changes in Goodwill and negative goodwill during the years 2007 and 2006 were as follows:

Company	Balance January 1, 2007	Additions and deductions	Amortization	Balance December 31, 2007
Goodwill on purchase of:		(In thou	sands of US\$)	
Lan Cargo S.A. (Ex Lan Chile Cargo S.A.)	19,004	<u></u>	(1,810)	17,194
Prime Airport Service Inc.	405		(36)	369
Mas Investment Limited	2,544	<u></u>	(181)	2,363
Air Cargo Limited	595	_	(42)	553
Promotora Aérea Latinoamericana S.A.	1,295	_	(84)	1,211
Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.)	4,296	_	(294)	4,002
Aerolinheas Brasileiras S.A.	2,157	_	(143)	2,014
Skyworld International Couriers, Inc. ⁽¹⁾	3,826	(3,826)	_	
Lan Box, Inc. (1)	1,796	(1,796)	_	_
SkyBox Services Corp. ⁽¹⁾	639	(639)	_	_
H.G.A. Rampas y Servicios A. de Guayaquil S.A.	35	—	(2)	33
H.G.A. Rampas del Ecuador S.A.	34	_	(2)	32
Inversora Cordillera S.A.	6,226	1,754	(363)	7,617
Lan Argentina S.A. (Ex – Aero 2000 S.A.)	688	(17)	(37)	634
Total Goodwill	43,540	(4,524)	(2,994)	36,022
Negative goodwill on purchase of:	43,340	(4,324)	(2,334)	30,022
Choice Air Courier del Perú S.A. ⁽¹⁾	(71)	71		
	(71)	71 71		
Total Negative Goodwill	(71)			
Total	43,469	(4,453)	(2,994)	36,022
<u>Company</u>	Balance January 1, 2006	Additions and <u>deductions</u>	Amortization	Balance December 31, 2006
	January 1,	and deductions	Amortization ands of US\$)	December 31,
Goodwill on purchase of:	January 1, 2006	and deductions	ands of US\$)	December 31, 2006
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.)	January 1,	and deductions	(1,810)	December 31,
Goodwill on purchase of:	January 1, 2006 20,814 440	and <u>deductions</u> (In thous —	ands of US\$)	December 31, 2006 19,004 405
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc.	January 1, 2006 20,814	and <u>deductions</u> (In thous —	(1,810) (35) (181)	December 31, 2006
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited	20,814 440 2,725	and <u>deductions</u> (In thous —	(1,810) (35)	19,004 405 2,544 597
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited	20,814 440 2,725 640	and <u>deductions</u> (In thous —	(1,810) (35) (181) (43)	19,004 405 2,544
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A.	20,814 440 2,725 640 1,379	and <u>deductions</u> (In thous — — — — —	(1,810) (35) (181) (43) (84)	19,004 405 2,544 597 1,295
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A. Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.)	20,814 440 2,725 640 1,379 4,590	and <u>deductions</u> (In thous — — — — —	(1,810) (35) (181) (43) (84) (294)	19,004 405 2,544 597 1,295 4,296
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A. Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.) Aerolinheas Brasileiras S.A.	20,814 440 2,725 640 1,379 4,590 2,300	and <u>deductions</u> (In thous — — — — — — — — — — —	(1,810) (35) (181) (43) (84) (294) (143)	19,004 405 2,544 597 1,295 4,296 2,157
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A. Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.) Aerolinheas Brasileiras S.A. Skyworld International Couriers, Inc.	20,814 440 2,725 640 1,379 4,590 2,300 4,078	and <u>deductions</u> (In thous — — — — — — — — — — —	(1,810) (35) (181) (43) (84) (294) (143) (254)	19,004 405 2,544 597 1,295 4,296 2,157 3,824
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A. Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.) Aerolinheas Brasileiras S.A. Skyworld International Couriers, Inc. Lan Box, Inc.	20,814 440 2,725 640 1,379 4,590 2,300 4,078 1,902	and <u>deductions</u> (In thous	(1,810) (35) (181) (43) (84) (294) (143) (254) (106) (54)	19,004 405 2,544 597 1,295 4,296 2,157 3,824 1,796
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A. Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.) Aerolinheas Brasileiras S.A. Skyworld International Couriers, Inc. Lan Box, Inc. SkyBox Services Corp.	20,814 440 2,725 640 1,379 4,590 2,300 4,078 1,902 693	and <u>deductions</u> (In thous	(1,810) (35) (181) (43) (84) (294) (143) (254) (106)	19,004 405 2,544 597 1,295 4,296 2,157 3,824 1,796 639
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A. Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.) Aerolinheas Brasileiras S.A. Skyworld International Couriers, Inc. Lan Box, Inc. SkyBox Services Corp. H.G.A. Rampas y Servicios A. de Guayaquil S.A.	20,814 440 2,725 640 1,379 4,590 2,300 4,078 1,902 693 36	and deductions (In thous	(1,810) (35) (181) (43) (84) (294) (143) (254) (106) (54) (2)	19,004 405 2,544 597 1,295 4,296 2,157 3,824 1,796 639 35
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A. Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.) Aerolinheas Brasileiras S.A. Skyworld International Couriers, Inc. Lan Box, Inc. SkyBox Services Corp. H.G.A. Rampas y Servicios A. de Guayaquil S.A. H.G.A. Rampas del Ecuador S.A.	20,814 440 2,725 640 1,379 4,590 2,300 4,078 1,902 693 36 36	and deductions (In thous	(1,810) (35) (181) (43) (84) (294) (143) (254) (106) (54) (2)	19,004 405 2,544 597 1,295 4,296 2,157 3,824 1,796 639 35
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A. Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.) Aerolinheas Brasileiras S.A. Skyworld International Couriers, Inc. Lan Box, Inc. SkyBox Services Corp. H.G.A. Rampas y Servicios A. de Guayaquil S.A. H.G.A. Rampas del Ecuador S.A. Inversora Cordillera S.A.	20,814 440 2,725 640 1,379 4,590 2,300 4,078 1,902 693 36 36 4,633 660	and deductions (In thous	(1,810) (35) (181) (43) (84) (294) (143) (254) (106) (54) (2) (2) (280) (35)	19,004 405 2,544 597 1,295 4,296 2,157 3,824 1,796 639 35 34 6,226 688
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A. Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.) Aerolinheas Brasileiras S.A. Skyworld International Couriers, Inc. Lan Box, Inc. SkyBox Services Corp. H.G.A. Rampas y Servicios A. de Guayaquil S.A. H.G.A. Rampas del Ecuador S.A. Inversora Cordillera S.A. Lan Argentina S.A. (Ex Aero 2000 S.A.) Total Goodwill	20,814 440 2,725 640 1,379 4,590 2,300 4,078 1,902 693 36 36 4,633	and deductions (In thous	(1,810) (35) (181) (43) (84) (294) (143) (254) (106) (54) (2) (2) (280)	19,004 405 2,544 597 1,295 4,296 2,157 3,824 1,796 639 35 34 6,226
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A. Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.) Aerolinheas Brasileiras S.A. Skyworld International Couriers, Inc. Lan Box, Inc. SkyBox Services Corp. H.G.A. Rampas y Servicios A. de Guayaquil S.A. H.G.A. Rampas del Ecuador S.A. Inversora Cordillera S.A. Lan Argentina S.A. (Ex Aero 2000 S.A.) Total Goodwill Negative goodwill on purchase of:	20,814 440 2,725 640 1,379 4,590 2,300 4,078 1,902 693 36 4,633 660 44,926	and deductions (In thous	(1,810) (35) (181) (43) (84) (294) (143) (254) (106) (54) (2) (2) (280) (35) (3,323)	19,004 405 2,544 597 1,295 4,296 2,157 3,824 1,796 639 35 34 6,226 688 43,540
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A. Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.) Aerolinheas Brasileiras S.A. Skyworld International Couriers, Inc. Lan Box, Inc. SkyBox Services Corp. H.G.A. Rampas y Servicios A. de Guayaquil S.A. H.G.A. Rampas del Ecuador S.A. Inversora Cordillera S.A. Lan Argentina S.A. (Ex Aero 2000 S.A.) Total Goodwill Negative goodwill on purchase of: Choice Air Courier del Perú S.A.	20,814 440 2,725 640 1,379 4,590 2,300 4,078 1,902 693 36 4,633 660 44,926	and deductions (In thous	(1,810) (35) (181) (43) (84) (294) (143) (254) (106) (54) (2) (2) (280) (35) (3,323)	19,004 405 2,544 597 1,295 4,296 2,157 3,824 1,796 639 35 34 6,226 688
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A. Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.) Aerolinheas Brasileiras S.A. Skyworld International Couriers, Inc. Lan Box, Inc. SkyBox Services Corp. H.G.A. Rampas y Servicios A. de Guayaquil S.A. H.G.A. Rampas del Ecuador S.A. Inversora Cordillera S.A. Lan Argentina S.A. (Ex Aero 2000 S.A.) Total Goodwill Negative goodwill on purchase of: Choice Air Courier del Perú S.A. Americonsult de Guatemala S.A.	20,814 440 2,725 640 1,379 4,590 2,300 4,078 1,902 693 36 4,633 660 44,926 (73) (102)	and deductions (In thous In the International Internation	(1,810) (35) (181) (43) (84) (294) (143) (254) (106) (54) (2) (2) (280) (35) (3,323)	19,004 405 2,544 597 1,295 4,296 2,157 3,824 1,796 639 35 34 6,226 688 43,540
Goodwill on purchase of: Lan Cargo S.A. (Ex Lan Chile Cargo S.A.) Prime Airport Service Inc. Mas Investment Limited Air Cargo Limited Promotora Aérea Latinoamericana S.A. Inversiones Aéreas S.A. (purchase of interest in Lan Perú S.A.) Aerolinheas Brasileiras S.A. Skyworld International Couriers, Inc. Lan Box, Inc. SkyBox Services Corp. H.G.A. Rampas y Servicios A. de Guayaquil S.A. H.G.A. Rampas del Ecuador S.A. Inversora Cordillera S.A. Lan Argentina S.A. (Ex Aero 2000 S.A.) Total Goodwill Negative goodwill on purchase of: Choice Air Courier del Perú S.A.	20,814 440 2,725 640 1,379 4,590 2,300 4,078 1,902 693 36 4,633 660 44,926	and deductions (In thous	(1,810) (35) (181) (43) (84) (294) (143) (254) (106) (54) (2) (2) (280) (35) (3,323)	19,004 405 2,544 597 1,295 4,296 2,157 3,824 1,796 639 35 34 6,226 688 43,540

During 2007 these entities were sold.

c) Acquisitions and other information

LanLogistics, Corp.

On May 16, 2007, Lan Logistic Corp. (an affiliate of Lan Cargo S.A.) sold all its stake in Skyworld International Couriers Inc. and Lanbox Inc. Previously, Lan Logistic Corp. had sold its stake in All Cargo Net on April 30, 2007. All such operations resulted in a loss after sale amounting to MUS\$ 4.252.

Due to the aforementioned, the negative goodwill which Lan Logistics Corp. had recorded in the purchase of such investments was included in the determination of the loss on the sale of such investment.

On December 20, 2007, the Corporate Division of the State of Delaware authorized the dissolution of Lan Logistics Corporation (a LAN Cargo S.A. affiliate).

Mas Investment Limited (Bahamas)

On February 10, 2006, Aerotransportes Mas de Carga S.A. sold 99% ownership of Sociedad Americansult de Guatemala S.A. As a result of this, the negative goodwill originated in the purchase of that investment was reversed to Income.

Lan Pax Group S.A.

On April 13, 2005, Lan Pax Group S.A. acquired 49% ownership and obtained control of Inversora Cordillera S.A. On April 14, 2005, the newly acquired and consolidated subsidiary Inversora Cordillera S.A. acquired 95% ownership of Aero 2000 S.A. (currently Lan Argentina S.A.). In a separate transaction Lan Pax Group S.A. acquired an additional 2.45% of Aero 2000 S.A. These transactions were accounted for as purchases resulting in ThUS\$5,499 in goodwill allocated ThUS\$ 4,815 to Inversora Cordillera S.A. and ThUS\$ 684 to Aero 2000 S.A.

On November 16, 2005, in a separate transaction, Lan Pax Group S.A. and Inversora Cordillera S.A., both consolidated subsidiaries of the Company, formed the entity Siventas S.A. with Lan Pax Group S.A. having 95% ownership and Inversora Cordillera S.A. having 5% ownership. As of December 31, 2006 the capital for this entity had not been entirely contributed. Both companies are required to make capital contributions prior to 2008.

On December 23, 2005, Lan Pax group S.A. took part in the share increase offering of its consolidated subsidiary Inversora Cordillera S.A. It invested ThUS\$ 281 maintaining its current ownership percentage of 49%. No goodwill was recorded.

On August 17, 2006, Lan Pax Group S.A., acquired 1.55% of Lan Argentina S.A. (ex—Aero 2000 S.A.) for ThUS\$ 70 equivalent to 29.140 shares, increasing its ownership from 2.45% to 4%. Additionally, Lan Pax Group S.A. made a capital contribution increase of ThUS\$ 94. This transaction generated goodwill amounting to ThUS\$ 63.

On August 17, 2006, Lan Pax Group S.A. acquired 31% of Inversora Cordillera S.A. for ThUS\$ 1,872 equivalent to 4,116,818 shares, increasing its ownership interest from 49% to 80%. In addition it made a contribution for capital increase for ThUS\$ 7,488. As a result of this transaction, Lan Pax Group S.A. recorded goodwill amounting to ThUS\$ 1,873.

On September 29, 2006, Atlantic Aviation Investments LLC was incorporated, where Lan Pax Group S.A. has 99% ownership (990 shares), equivalent to US\$ 990.

On October 10, 2006, Perdiz Leasing Limited was incorporated, where Lan Pax Group S.A. has an ownership of 99% (99 shares), equivalent to US\$ 99.

On December 22, 2006, Lan Pax Group S.A. and Inversora Cordillera S.A., both consolidated subsidiaries of the Company, took part in the share increase offering of Lan Argentina S.A. for ThUS\$ 296 and ThUS\$ 7,026, maintaining their current ownership percentage of 4% and 95%, respectively.

On August 28, 2007, the Lan Pax Group S.A. affiliate took part in the capital increase at Inversora Cordillera S.A. for an amount of MUS\$ 18.526, increasing its stake from 80% to 90.52% Such operation generated goodwill amounting to MUS\$ 1.754.

On August 28, 2007, the Lan Pax Group S.A. affiliate participated in the capital increase at Lan Argentina S.A. (formerly known as Aero 2000 S.A.) for MUS\$ 904, keeping its 4% stake in the company.

On August 28, 2007, the Inversora Cordillera S.A. affiliate participated in the capital increase at Lan Argentina S.A. (formerly known as Aero 2000 S.A.) for MUS\$ 18.742, keeping its 95% stake in the company.

On June 20, 2007, the Lan Pax Group S.A. affiliate, took part in the capital increase at Inversora Cordillera S.A. for MUS\$ 2.543, keeping its 80% stake in the company.

On June 20, 2007, the Inversora Cordillera S.A. affiliate participated in the capital increase at Lan Argentina S.A. (formerly known as Aero 2000) for MUS\$ 2.503, keeping its 95% stake in the company.

On December 20, 2007, an agreement was reached at the Extraordinary Shareholders Meeting to reduce the capital of the Lan Argentina S.A. affiliate (formerly known as Aero 2000 S.A.). Such reduction was made proportional to each shareholder's stake. The capital, which was originally made up by 11'068,484 nominal shares, was reduced to 6,176,253 nominal shares.

Lan Courier S.A.

On December 15, 2006, Lan Airlines S.A. sold its 99.99% ownership in Lan Courier S.A. to Lan Cargo S.A. and Inversiones Lan S.A. (99.98% and 0.01%, respectively), for ThUS\$ 5,638, equivalent to 8,837,860 shares. On a consolidated basis no goodwill or negative goodwill was recognized for this transaction.

Lan Cargo S.A.

On November 4, 2005, Lan Airlines S.A. acquired 15,000 shares from its affiliated Lan Cargo S.A. increasing its ownership interest from 99.86462% to 99.88875%.

On April 27, 2007, the Lan Cargo S.A. affiliate made a distribution of dividends for an amount of MUS\$ 30.833.

On April 28, 2006, the Lan Cargo S.A. affiliate made a distribution of dividends for an amount of MUS\$ 5.934.

On December 20, 2007, the Air Cargo Limited Corporation, an affiliate of Lan Cargo Overseas Limited, sold all its stake at Florida West International Airways Inc., an operation that generated profits amounting to MUS\$ 1.128.

At the closing of these financial statements, the Company decided to sell Sociedad Terminal de Exportación Internacional S.A. ("International Export Terminal Corporation"). On January 2, 2008, the Company sold all its stake in Sociedad Terminal de Exportación Internacional S.A. This operation resulted in a gain after sale amounting to MUS\$ 1,636.

Lan Perú S.A.

In May 2007, the Lan Perú S.A. affiliate made a distribution of dividends to Lan Airlines S.A. for an amount of MUS\$ 737 and to Inversiones Aéreas S.A. for MUS\$ 329.

NOTE 11 - ADVANCES FOR PURCHASES OF AIRCRAFT AND OTHER DEPOSITS

Advances for purchases of aircraft and other deposits are summarized as follows:

At Decer	nber 31,
2007	2006
(In thousan	ds of US\$)
300,094	224,520
13,781	10,020
2,568	3,313
316,443	237,853
	2007 (In thousan 300,094 13,781 2,568

NOTE 12 - OTHER ASSETS

Other assets are summarized as follows:

	At Decen	nber 31,
	2007	2006
	(In thousan	ds of US\$)
Unrealized losses on derivative contracts ⁽¹⁾	57,177	26,828
Intangibles and other	32,939	27,605
Total	90,116	54,433

The corresponding fair value derivative contract liability is recorded in Other current liabilities and in Other creditors long term.

NOTE 13 - OTHER LIABILITIES AND PROVISIONS

 $Other\ liabilities\ and\ provisions\ are\ summarized\ as\ follows:$

a) Other current liabilities

	At Decen	nber 31,
	2007	2006
	(In thousan	ids of US\$)
Engine overhaul provision	65,921	44,433
Withholdings on employee salaries	9,552	7,870
Employee vacations	16,684	13,401
Lan Pass awards and Lan Corporate liability (frequent flyer mileage)	8,906	9,770
Income taxes payable	8,101	1,530
Boarding fees	48,527	34,749
Others	18,979	16,267
Total	176,670	128,020

b) Provisions (long-term)

	At Decer	nber 31,
	2007	2006
	(In thousan	ids of US\$)
Engine overhaul provision	48,544	36,395
Reserve for loss related to the ongoing investigation by the European Commission	25,000	_
Employee vacations	7,934	6,722
Others	12,963	2,775
Total	94,441	45,892

NOTE 14 - INCOME TAX

- a) Charges arising from income tax amount to ThUS\$ 13,995, ThUS\$ 14,123 and ThUS\$ 1,261 in 2007, 2006 and 2005 respectively, and have been determined based on current local tax legislation.
- b) Deferred income taxes

At December 31, 2007, the accumulated balances from deferred taxes originating from temporary differences were as follows:

	Deferred tax Assets		Deferred ta	
	Short-term	Long-term (In thousan	Short-term ds of US\$)	Long-term
Allowance for doubtful accounts	4,444	141	_	_
Provision for obsolescence of spare parts	2,935	_	_	_
Provision for vacations	2,511	1,402	_	_
Tax loss carry forwards	34	23,320	_	_
Property and equipment	_	_	_	_
Others	2,058	22,927	_	_
Gross deferred tax assets	11,982	47,790	_	
Prepaid expenses			3,547	1,264
Unearned income	_	_	_	17,781
Property and equipment	_	_	_	161,114
Others	_	_	2,163	27,787
Gross deferred tax liabilities			5,710	207,946
Less: Complementary accounts	_		_	(8,407)
Deferred tax assets valuation allowance	(1,648)	(18,136)		
Total	10,334	29,654	5,710	199,539

At December 31, 2006, the accumulated balances from deferred taxes originating from temporary differences were as follows:

	Deferred t	tax Assets	Deferred tax Liabilitie	
	Short-term	Long-term	Short-term	Long-term
		(In thousan	ds of US\$)	
Allowance for doubtful accounts	4,429	65	_	_
Provision for obsolescence of spare parts	2,960			_
Provision for vacations	2,099	1,203	_	_
Property and equipment		449		
Tax loss carry forwards	2	32,966	_	_
Others	3,818	11,154		
Gross deferred tax assets	13,308	45,837	_	_
Prepaid expenses			5,043	1,320
Unearned income	_	_	_	16,198
Property and equipment		_		126,893
Others	_	_	182	23,303
Gross deferred tax liabilities			5,225	167,714
Less: Complementary accounts	_	_	_	(8,645)
Deferred tax assets valuation allowance	(1,648)	(13,654)		
Total	11,660	32,183	5,225	159,069

c) Effect on results

	For the year	For the years ended December 31,		
	2007	2007 2006 2		
	(In tl	nousands of U	JS\$)	
Current income tax expense	(13,995)	(14,123)	(1,261)	
Deferred income tax expense	(44,810)	(32,545)	(26,688)	
Other tax expense	(970)	(169)	(309)	
Total	(59,775)	(46,837)	(28,258)	

NOTE 15 - BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

a) Accounts receivable and payable with related parties are summarized as follows:

Current assets

Notes and accounts receivable from related companies:

		At Decei	mber 31,
Company	Relationship	2007	2006
		(In thousar	nds of US\$)
San Alberto S.A. and subsidiaries	Common ownership	29	29
Florida West International Airways Inc.	Equity method investee	_	4,495
Choice Air Courier del Perú S.A.	Equity method investee	_	78
Other	Common ownership	197	163
Total		226	4,765

Current liabilities

Notes and accounts payable to related companies:

		At Decemb	oer 31,
Company	Relationship	2007	2006
		(In thousand:	s of US\$)
Lufthansa Lan Technical Training S.A.	Equity method investee	259	211
Concesionaria Chucumata S.A.	Equity method investee	4	4
Austral Sociedad Concesionaria S.A.	Equity method investee	33	58
Sociedad Concesionaria Aerosur S.A.	Equity method investee	51	18
Other	Common ownership	10	10
Total		357	301

Long-term assets

Notes and accounts receivable from related companies:

		At Decem	ber 31,
Company	Relationship	2007	2006
	<u> </u>	(In thousand	s of US\$)
Choice Air Courier del Perú S.A.	Equity method investee	_	51
Total			51

b) The main transactions with related entities are summarized as follows:

		Description of		Amount	
Company	Relationship	transaction	2007	2006	2005
			(In th	housands of	US\$)
Florida West International Airways Inc.	Equity method investee Lan owns 25%	Aircraft rents received	30,267	40,695	39,540
		Line aircraft maintenance received	3,022	1,885	2,402
		Aircraft rents provided	32,882	31,401	21,898
		Others transactions provided and			
		received	8,448	10,757	11,712
		Jet fuel payments	129	9,282	10,100
		Interline collection	4,509	7,292	2,568
		Other payments	3,022	3,826	690
Lufthansa Lan Technical Training S.A.	Equity method investee Lan owns 50%	Training received	999	708	905
		Prepaid training hours	471	477	360
		Other payments	256	19	19

The Company's objective is to transact business with its related companies or individuals at prices and at terms equivalent to those used in transacting business with unrelated parties.

NOTE 16 - LOANS FROM FINANCIAL INSTITUTIONS (LONG-TERM)

Long-term loans from financial institutions are summarized as follows:

	Payable during Interest rate at		At Decen	ıber 31,
	the years	December 31, 2007	2007	2006
		%	(In thousan	ds of US\$)
Loan in US dollars	2001 - 2013 (quarterly)	_	_	126,362
Loan in US dollars	2002 - 2014 (quarterly)	LIBOR+0.9656	110,551	116,976
Loan in US dollars	2004 - 2007 (quarterly)	LIBOR+1.4	_	7,706
Loan in US dollars	2005 - 2012 (quarterly)	LIBOR+1.25	19,529	22,971
Loan in US dollars	2005 - 2017 (quarterly)	LIBOR+0.9634	58,087	62,441
Loan in US dollars	2005 - 2017 (quarterly)	4.68	133,365	143,765
Loan in US dollars	2006 - 2008 (quarterly)	LIBOR+0.4	76,630	60,530
Loan in US dollars	2006 - 2013 (quarterly)	4.92	70,127	76,086
Loan in US dollars	2006 - 2018 (quarterly)	4.98	471,876	504,128
Loan in US dollars	2006 - 2018 (quarterly)	5.25	390,638	
Total			1,330,803	1,120,965
Less – current portion			102,153	89,883
Long – term portion			1,228,650	1,031,082

All of our loans from financial institutions are collateralized and thus they are secured by the same asset that is subject of the financing. These include nine Boeing aircraft, fourteen Airbus aircraft, spare engines and our corporate building. There are no additional collateral arrangements in connection with these financings.

Information with respect to restrictive covenants is detailed under the heading "Covenants" in Note 23 to the financial statements.

Scheduled payments of long-term loans from financial institutions at December 31, 2007 are as follows:

Payments during the years ended December 31,	(In thousands of US\$)
2009	175,555
2010	103,946
2011	108,971
2012	113,600
2013 – 2017	579,049
2018 – 2019	147,529
Total	1,228,650

NOTE 17 - SECURITIZATION OBLIGATION

Effective March 30, 1999, the Company signed a contract with Pelican Finance Ltd. for the securitization of future credit card receivables aggregating ThUS\$ 60,000 originating from certain ticket agents in the United States. At December 31, 1999, the Company had received the entire proceeds of ThUS\$ 60,000 which were reported as a securitization obligation on the balance sheet. The terms of this contract are for the years between 2001 and 2006 with an annual financial cost of 6.82%.

As of March 31, 2006, the commitments regarding the abovementioned contracts with Pelican Finance Ltd. were totally terminated.

In August 22, 2002, the Company signed a new securitization contract with Pelican Finance Ltd. The contract securitizes future credit card receivables aggregating ThUS\$ 40,000. The terms of this contract are for the years between 2006 and 2009 with an annual financial cost of 6.96% At December 31, 2002, the Company had received the entire proceeds of ThUS\$ 40,000 which were reported as a securitization obligation on the balance sheet.

The principal is payable as follows:

Payments during the years ended December 31,	(In thousands of US\$)
2009	6,752
Subtotal	6,752
Current portion – 2008	12,826
Total	19,578

NOTE 18 - LEASING OBLIGATIONS

As indicated in Note 9, at December 31, 2007, the Company financed forty jet aircraft pursuant to operating leases and eight jet aircraft pursuant to a capital lease. The Company also leases maintenance facilities, other airport facilities, computer equipment and vehicles pursuant to capital leases.

The future minimum lease payments required under capital leases, together with the present value of such minimum lease payments and future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2007, were as follows:

Payments during the years ended December 31,	Operating leases (aircraft)	Capital leases
chica December 31,	(In thousand:	
2008	144,808	74,781
2009	151,337	74,852
2010	137,154	65,034
2011	152,140	41,191
2012	179,471	44,161
2013 – 2017	551,492	28,924
2017 – 2021	89,355	16,381
Total minimum lease payments	1,405,757	345,324
Less: Amount representing interest		(49,596)
Present value of minimum lease payments		295,728
Less: Current portion of obligation		(61,960)
Long-term portion of leasing obligations		233,768

Aircraft operational lease expenses recorded in the Consolidated Statement of Income amounted to ThUS\$ 158,917, ThUS\$ 157,681 and ThUS\$ 148,202 for the years ended December 31, 2007, 2006 and 2005, respectively.

NOTE 19 - SHAREHOLDERS' EQUITY

a) Changes in Shareholders' equity

The changes in shareholders' equity during 2005, 2006 and 2007 were as follows:

				Retained earnings			
	Number	Common		Accumulated	Interim	Net income	
	of shares	stock	Reserves	earnings	dividends	for the year	Total
			,	thousands of U	.,		
Balances at December 31, 2004	318,909,090	134,303	2,620	208,865	(74,783)	163,552	434,557
Transfer of net income from prior year				163,552		(163,552)	
Final dividends paid	_	_	_	(81,777)	74,783	_	(6,994)
Interim dividends		_			(71,451)		(71,451)
Net income for the year 2005						146,601	146,601
Balances at December 31, 2005	318,909,090	134,303	2,620	290,640	(71,451)	146,601	502,713
Transfer of net income from prior year	_	_	_	146,601	_	(146,601)	_
Final dividends paid		_	_	(73,294)	71,451		(1,843)
Interim dividends	_	_	_	_	(115,850)	_	(115,850)
Net income for the year 2006						241,300	241,300
Balances at December 31, 2006	318,909,090	134,303	2,620	363,947	(115,850)	241,300	626,320
Transfer of net income from prior year				241,300		(241,300)	
Final dividends paid	_	_	_	(168,910)	115,850	_	(53,060)
Stock issuance	19,881,819	319,141	(2,672)		_		316,469
Interim dividends	_	_	_	_	(210,000)	_	(210,000)
Net income for the year 2007						308,323	308,323
Balances at December 31, 2007	338,790,909	453,444	(52)	436,337	(210,000)	308,323	988,052
Datances at December 31, 2007	550,790,909	455,444	(32)	430,337	(210,000)	500,525	300,032

b) Capital

An agreement was reached at the parent company's Extraordinary Shareholder Meeting held on April 5, 2007, to increase the corporate capital by issuing 22,090,910 unsubscribed shares (equivalent to existing chares), of which 19,881,819 had been subscribed and paid for by December 31, 2007 for an amount of MUS\$ 319,141.

The authorized and paid-in capital of the Company is ThUS\$453,444 at December 31, 2007 and corresponds to 338,790,909 shares without par value.

The authorized and paid-in capital of the Company is ThUS\$134,303 at December 31, 2006 and corresponds to 318,909,090 shares without par value.

c) Other reserves

Reserves at December 31 of each year were as follows:

	At Decem	iber 51,
	2007	2006
	(In thousand	ds of US\$)
Reserve for adjustment of the value of fixed assets	2,556	2,556
Reserve for adjustment of the value of leased fixed assets	64	64
Reserve for caption called stock issuance and placement expenses	(2,672)	(-)
Total	(52)	2,620

These reserves are not distributable and may only be used for capitalization of the Company.

d) Dividends

At the Annual General Meeting held on April 29, 2005, the shareholders agreed to distribute a final dividend amounting to US\$ 0.25642373 per share after deducting the interim dividends distributed during August and December amounting to US\$ 0.12475 and US\$ 0.10974 per share, respectively. A remaining balance of US\$ 0.02192745 per share was paid during May 2005.

At a meeting of the Board of Directors held on August 2, 2005, the directors agreed to distribute an interim dividend of US\$ 0.11430 per share with respect to net income for 2005.

At a meeting of the Board of Directors held on January 31, 2006, the directors agreed to distribute an interim dividend of US\$ 0.10975 per share with respect to net income for 2005. These dividends will be paid during March, 2006 and they are classified in Dividends Payable at December 31, 2005.

At the Annual General Meeting held on April 28, 2006, the shareholders agreed to distribute a final dividend amounting to US\$ 0.22983 per share after deducting the interim dividends distributed during August 2005 and January 2006 amounting to US\$ 0.11430 per share and US\$ 0.10975 per share, respectively. A remaining balance of US\$ 0.00578 per share was paid during May 2006.

At a meeting of the Board of Directors held on July 24, 2006, the directors agreed to distribute an interim dividend of US\$ 0.15071 per share with respect to net income for 2006.

At a meeting of the Board of Directors held on December 26, 2006, the directors agreed to distribute an interim dividend of US\$ 0.21256 per share with respect to net income for 2006. These dividends are classified in Dividends Payable at December 31, 2006.

An agreement was reached at the parent company's Ordinary Shareholders Meeting held on April 5, 2007, to distribute final dividends based on the results of fiscal year 2006 (amounting to US\$ 0.52965 per share), after deducting the interim dividends that had been distributed in July and December, 2006 (equivalent to US\$ 0.15071 and US\$ 0.21256 per share respectively). The outstanding balance of US\$ 0.16638 per share was paid in April, 2007.

An agreement was reached at the parent company's Ordinary Board of Directors Meeting, held on July 31, 2007, to distribute an interim dividend of US\$ 0.26596 per share, based on the results of fiscal year 2007. Such dividends were paid in August, 2007.

At the Parent Company's Ordinary Board of Directors Meeting held on December 21, 2007, it was agreed to distribute an interim dividend amounting to US\$ 0.35389 per share, based on the results of fiscal year 2007. On December 31, 2007 such amount was recorded under Dividends payable, which shall be paid in January 2008.

e) Major shareholders

The major shareholders of the Company at December 31, 2007, were as follows:

	Ownership
	%
Inversiones Costa Verde Ltda. y Compañía en Comandita por Acciones	25.11
Axxion S.A.	19.03
The Bank of New York (on behalf of ADR holders)	9.66
Total	53.80

In July 2004, Inversiones Costa Verde Ltda. y Compañía en Comandita por Acciones, Axxion S.A. and Inversiones Santa Cecilia S.A. (shareholder with 7.31% ownership) entered into a management and control agreement. At December 31, 2007 this agreement is still in effect.

f) Stock issuance and placement expenses

The detail of the stock issuance and placement expenses incurred in by the Company at December 31, 2007 is the following:

	At December 31, 2007
	(In thousands of US\$)
Placement fees	1,671
Legal counseling	547
Accounting fees	176
Financial consulting	129
Printing & other expenses	100
Registration and recording fees	49
Total	2,672

These costs are recorded in an equity account and classified under the Other reserves caption called Stock issuance and placement costs.

Pursuant to Circular Letter No. 1736 of the Superintendency of Securities and Insurance, the Stock issuance and placement expenses shall be discounted from the Capital at the next Extraordinary Shareholder Meeting to be held by the parent company.

q) Stock option plans

At the Extraordinary Shareholders' Meeting held on April 5, 2007, a stock-option compensation plan was agreed to for the Company's executives and 10% of the capital shares increase was authorized to be issued for this purpose.

In May 17, 2007, the Board of Directors granted a group of executives an option to subscribe for a total of 2,209,091 shares at a price of USD 16.11208 per share. This was formalized during December 2007 through the signing of share subscription contracts in accordance to the following vesting calendar:

Percentage	Period
%	
30	as of July 1st, 2009
30	as of July 1st, 2010
40	as of July 1 st , 2011

The stock-option compensation contracts consider the following terms:

The beneficiary must be an employee of the Company on the date the right to exercise the option begins, i.e. July 1, 2009, 2010 and 2011, respectively.

The executive will not be able to exercise any option before July, 2009.

When the options become available, the option may be exercised for all or part of the shares and must be paid for in cash.

The executive is not compelled to make use of the right to exercise his options and, if he wishes to do so, can wait to exercise such options, in all or part, at the end of the plan whose deadline is on September 30, 2011.

Each exercise shall exceed 10% of the total stock option package.

The stock options given to each executive in accordance to this plan may not be sold or assigned under any circumstance, but shares purchased under this plan shall be owned by the executive with the same rights any other shareholder has and they may be sold immediately or whenever the executive deems convenient.

In case the executive resigns or gets laid off, he will just be able to exercise his rights for the options that may be in effect (i.e.: those which have vested), losing the right to exercise the options that have not vested. In addition, the executive who resigns or gets laid off will have up to 30 calendar days (as of the date of his resignation or termination) to exercise the options that have vested, provided such term does not exceed the deadline set for the options package.

In the event of the death of the executive, the option to exercise his full stock package shall be given to his or her beneficiaries, who shall have up to 180 days to exercise the options as of the date of his decease. In the event of permanent impairment, the executive shall keep his complete option plan coupled to the same original vesting calendar.

As described in Note 2z), these shares have been valued and recorded according to the fair value of the options when granted, which amounted to ThUS\$ 3,516, and was calculated using the Black-Sholes-Merton method.

Volatility has been estimated historically as it is not possible to estimate implicitly in the absence of a market for these options.

Since the stock-option contracts were signed during December, 2007, the fair value determined is recorded as a charge to wages and benefits and credit to Other reserves beginning January, 2008, and is amortized on a straight-line basis over the period between the granting of the options and the date that these become vested.

NOTE 20 - OTHER OPERATING REVENUES

The Other revenues were comprised of the following:

	For the ye	For the year ended December 31,		
	2007	2006	2005	
	(In	thousands of U	JS\$)	
Aircraft leases	37,232	30,991	23,806	
Logistics and couriers	29,263	44,381	39,932	
Ground services	9,285	19,968	18,842	
Duty free	22,241	16,701	15,602	
Storage and customs brokerage	29,546	10,925	10,689	
Others	45,832	24,891	26,445	
Total	173,399	147,857	135,316	

NOTE 21 - OPERATING EXPENSES

Wages and benefits are summarized as follows:

	A	At December 31,		
	2007	2006	2005	
	(In t	(In thousands of US\$)		
Flight personnel	153,201	134,542	110,298	
Maintenance personnel	56,869	51,242	41,549	
Ground personnel	110,779	69,905	73,800	
Administrative and corporate employees	168,701	187,278	145,949	
Total	489,550	442,967	371,596	
			<u> </u>	

Other operating expenses include general and administrative expenses such as rents, insurance and other expenses of ThUS\$ 197,942 in 2007, ThUS\$ 139,942 in 2006 and ThUS\$ 121,618 in 2005.

Other operating expenses also include advertising, promotional, and marketing expenses of ThUS\$37,532 in 2007, ThUS\$ 23,459. in 2006 and ThUS\$ 19,490 in 2005.

NOTE 22 - OTHER INCOME (EXPENSE) - NET

Other income (expense) - net for each year are summarized as follows:

	For the year ended December 31,		
	2007	2006	2005
N. C.	(In th	ousands of U	S\$)
Non-operating income:			
Effect of accounting change mentioned in Note 3	_	40,344	_
Jet fuel swap contracts	28,190	12,903	51,480
Foreign currency transactions (net)	15,700	5,536	6,004
Earnings on investments (equity method)	604	598	583
Other	4,626	3,988	5,296
Total	49,120	63,369	63,363
Non-operating expenses:			
Reserve for loss related to the ongoing investigation by the European Commission ⁽¹⁾	(25,000)	_	_
Amortization of goodwill	(2,994)	(3,318)	(3,218)
Losses on investments (equity method)	(5,690)	_	_
Non-recurring indemnities paid to employees ⁽²⁾	_	(11,747)	
Provision for retirement of Boeing 737 Aircraft ⁽³⁾	_	(8,100)	
Other	(2,817)	(3,091)	(1,911)
Total	(36,501)	(26,256)	(5,129)
Other income (expense) – net	12,619	37,113	58,234

The reserve for loss regarding Air Freight investigation is provided at the estimated amount of contingent losses which are expected to be incurred as a result of the investigation by the European Commission.

During 2006, the Company made the decision to restructure its operations and processes reducing its workforce. This restructuring resulted in non-operating expenses of ThUS\$ 11,747 due to the payment of indemnities to terminated employees. The Company does not anticipate any further costs associated with this restructuring.

With regard to these Boeing 737 aircraft, it was determined that it is more likely than not that such aircraft will be disposed of prior to the end of their useful life. Accordingly, a provision was established. See also Notes 6 and 9. The Company performed an impairment test on these aircraft as events and circumstances indicated that the assets may be impaired and undiscounted cashflows estimated to be generated were less than the book values.

NOTE 23 - COMMITMENTS AND CONTINGENCIES

At December 31, 2007 and 2006, the Company had granted the following mortgages, liens and guarantees:

Direct Guarantees (In thousands of US\$):

	Assets Pledged as Collateral		Amount ou at Balance s	
Type of Guarantee	Type	Book Value	2007	2006
Mortgage, and pledge guarantee	Aircraft and motors	1,432,319	1,254,173	1,052,729
Mortgage	Building			7,706
Pledge	Spare parts	331	_	_

Indirect Guarantees:

The Company guaranteed a ThUS\$ 3,500 letter of credit dated April 26, 2001, granted in favor of Celestial Aviation Trading 16 Limited due to an Aircraft Lease Agreement ("Lease") between Lan Cargo S.A. and Celestial Aviation Trading 16 Limited. The Company guarantee is valid until the letter of credit expiration date (April 25, 2008) and was required by Celestial Aviation Trading 16 Limited, the owner of the aircraft. As a result, the Company would be liable for repayment of such letter of credit, should Lan Cargo S.A. not fulfill its obligation under the lease. No liability is carried on the balance sheet for the Company's obligation under the guarantee.

Commitments

In August 1999, the Company entered into a purchase agreement for seven Airbus A340 aircraft (with an option to purchase an additional fourteen aircraft in the future). As of December 31, 2007, four of these aircraft have been received and the remaining three were canceled.

On April 28, 2005, the Company entered into a purchase agreement for three Boeing 767-300 aircraft for a total of ThUS\$ 450,000. One of these aircraft was received during 2006 and the two remaining aircraft were received during 2007.

On July 20, 2005, the Company entered into a purchase agreement for an additional 3 Boeing 767-300 ER aircraft for a total of ThUS\$ 450,000. The delivery is scheduled for 2008.

On October 4, 2005, the Company agreed with Airbus Industries to a new modification with respect to the purchase agreement signed on March 20, 1998. This amendment relates to the purchase of thirty two new Airbus A320 Family Aircraft (with an option to purchase an additional fifteen aircraft in the future). Eight of this aircraft were received during 2006, seven were received during 2007 and the remaining seventeen aircraft are expected to be delivered during 2008. The estimated cost for the remaining aircrafts is approximately ThUS\$ 600,000.

On March 31, 2006, the Company entered into a purchase agreement for three Boeing 767-300 aircraft. One of these aircraft was received during 2007 and the two remaining aircraft are expected to be delivered during 2008. The estimated maximum cost for the remaining two aircrafts is ThUS\$ 300,000.

On December 14, 2006, the Company entered into a purchase agreement for three Boeing 767-300 aircraft for a total of ThUS\$ 450,000. These aircraft are scheduled for delivery during 2009.

On March 6, 2007, the Company exercised call option for the additional fifteen Airbus A320 Family Aircraft's related to the purchase agreement signed on October 4, 2005. These aircrafts are scheduled for delivery during 2010 and 2011. The estimated cost for these fifteen aircrafts is ThUS\$ 525,000.

On July 3, 2007, the Company entered into a purchase agreement for two Boeing 777 freighter aircraft for a total of ThUS\$ 500,000. These aircraft are scheduled for delivery during 2011 and 2012.

On October 29, 2007, the Company entered into a purchase agreement for twenty six Boeing 787 aircraft (with the option to purchase an additional fifteen aircraft). The estimated cost of these twenty six aircraft is ThUS\$ 3,500,000. These aircraft are scheduled for delivery between 2012 and 2016.

Contingencies

Cargo Investigation

In February 2006, the European Commission, in conjunction with the Department of Justice of the United States, initiated a global investigation including a large number of international cargo airlines—among them LAN Cargo S.A., LAN's cargo subsidiary — 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 Directorate-General for Competition of the European Commission notified LAN Cargo S.A. and LAN of the initiation of proceedings against 25 cargo airlines, among them LAN Cargo S.A., for allegations of anti-competitive behavior in the air freight business. LAN is currently reviewing the terms of the notification. Given the current stage of the proceedings, it is not possible at this time to anticipate with any precision their outcome, although it is expected to be a lengthy judicial process. Notwithstanding the above, in the fourth quarter of 2007, LAN recorded a US\$ 25.0 million reserve in Other Non-Operating Expenses in relation with this investigation.

At December 31, 2006, the Company was a defendant in a number of commercial lawsuits of the type normally associated with the Company's business and involving claims for damages for insignificant amounts. The Company has made no provision for these amounts because management believes that most of the resulting judgments will be favorable and any losses incurred will not result in any material liability to the Company.

Covenants

As a result of the various contracts entered into by the Company to finance the Boeing 767 aircraft that are financed by the Export - Import Bank of the United States, the Company is required to comply with certain restrictions regarding shareholder composition and disposal of assets.

The loan agreement with BBVA-Banco Bhif has placed restrictions on the Company's ability to dispose of certain of its fixed assets.

As a result of the various contracts entered into by the Company to finance the Airbus A320 aircraft that are guaranteed by various European export credit agencies, the Company is required to comply with certain restrictions regarding shareholder composition and disposal of assets.

As a result of the securitization contract with Pelican Finance Ltd. in August 2002, there are certain restrictions on the use of the future cash flows which have been securitized.

As of December 31, 2007, the Company was in compliance with all covenants.

Other

At December 31, 2007, the Company had approved credit lines in the amount of ThUS\$ 325,000. These credit lines are used mainly to cover (a) stand-by credit letters issued in favor of aircraft lessors and airports in the United States of America and other countries and (b) bank credit letters issued in favor of the local air administration or the Chilean Government.

NOTE 24 - FOREIGN CURRENCIES

Foreign currency assets and liabilities at December 31 of each year are summarized as follows:

	At December 3	
	2007	2006
	(In thousan	ds of US\$)
Assets denominated in:		
Chilean pesos	233,755	131,908
Other currencies	155,108	110,428
Total	388,863	242,336
Liabilities denominated in:		
Chilean pesos	86,178	63,302
Other currencies	74,884	101,831
Total	161,062	165,133

NOTE 25 - SEGMENT REPORTING

The Company reports segment information in accordance with Statement of Financial Accounting Standard No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes standards for reporting information about operating segments in annual financial statements as well as related disclosures about products and services, geographic areas and major customers. Operating segments are defined as components of an enterprise about which separate financial statement information is available that is evaluated regularly by the chief operating decision maker in making decisions about allocating resources and assessing performance. The Company considers that it has one reportable segment. The Company's operating revenues by geographic region are summarized below:

	Year	Year ended December 31,		
	2007	2007 2006		
	(In	(In thousands of US\$)		
Domestic (Chile)	521,406	414,587	428,644	
North America	1,179,229	1,336,548	1,194,996	
South America (excluding Chile)	1,252,963	867,620	619,860	
Europe	337,793	266,660	158,544	
Pacific	233,532	148,545	104,309	
Total	3,524,923	3,033,960	2,506,353	

The Company attributes operating revenues to the geographical area in which the relevant overseas point of the flight lies. The Company's tangible assets consist primarily of flight equipment which is mobile across geographic markets and, therefore, has not been allocated.

NOTE 26 - SUBSEQUENT EVENTS

The Company has no knowledge of any other subsequent events that would have a significant effect on the balances or interpretation of these financials statements.

NOTE 27 - DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Accounting principles generally accepted in Chile ("Chilean GAAP") vary in certain important respects from accounting principles generally accepted in the United States ("US GAAP"). Such differences involve certain methods for measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP.

1. Differences in measurement methods

The principal methods applied in the preparation of the accompanying financial statements, which have resulted in amounts which differ from those that would have otherwise been determined under US GAAP, are as follows:

a) Deferred income tax

As discussed in Note 14, effective January 1, 2000, the Company began applying Technical Bulletin No. 60 of the Chilean Institute of Accountants concerning deferred income taxes. Technical Bulletin No. 60 requires the recognition of deferred income taxes for all temporary differences arising after January 1, 2000, whether recurring or not, using an asset and liability approach. For US GAAP purposes, the Company has always applied Statement of Financial Accounting Standard ("SFAS") No. 109, "Accounting for Income Taxes", whereby income taxes are also recognized using substantially the same asset and liabilities established for temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities are based on enacted rates at the dates that the temporary differences are expected to reverse. The effect of changes in tax rates is included in income for the period that includes the enactment date.

After the year ended December 31, 1999, Chilean GAAP and US GAAP differ due to the recognition for US GAAP purposes of the reversal of deferred income taxes included in the US GAAP reconciliations in years prior to 2000.

Prior to the implementation of Technical Bulletin No. 60, no deferred income taxes were recorded under Chilean GAAP if the related timing differences were expected to be offset in the year that they were projected to reverse by new timing differences of a similar nature.

Furthermore, deferred income tax assets under both Chilean and US GAAP should be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The valuation allowance should be sufficient to reduce the deferred income tax asset to an amount that is more likely than not to be realized.

The effect of providing for deferred income taxes for the differences between the amounts shown for assets and liabilities in the balance sheet and the tax basis of those assets and liabilities is included in paragraph 1 p) below and certain disclosures required under FAS 109 are set forth under paragraph 2 c) below.

b) Goodwill

Until December 31, 2003, under Chilean GAAP, the excess of cost over the net book value of a purchased company was recorded as goodwill (the book value purchase method), which was then amortized to income over a maximum period of twenty years. Amortization of goodwill may be accelerated if the acquired company generates sufficient income to absorb the additional amortization in any given year. The excess of net book value over the cost of an investment was considered to be negative goodwill under Chilean GAAP and is also amortized to income over a maximum period of twenty years. The amortization of negative goodwill may be accelerated if the acquired company sustains losses.

Under US GAAP, goodwill and other intangibles are accounted for under SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and prohibits the use of the pooling-of-interests method of accounting after this date. With respect to the purchase method of accounting, the cost of an investment is assigned to the tangible and identified intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. Any excess of cost over the fair value of net assets acquired is recorded as goodwill. If an excess of acquired net assets over cost arises, the excess is allocated to reduce proportionally the values assigned to noncurrent assets (except long-term investments in marketable securities) in determining their fair values. If the allocation reduces the noncurrent assets to zero value, the remainder of the excess over cost (negative goodwill) is written off immediately as an extraordinary gain. SFAS No. 141 establishes specific criteria for the recognition of intangible assets separately from goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain (instead of being deferred and amortized).

SFAS No. 142, "Goodwill and Other Intangible Assets" establishes the following:

- The accounting for a recognized intangible asset is based on its useful life to the reporting entity. An intangible asset with a finite useful life is amortized over the life of the asset, but goodwill and other intangible assets with indefinite useful lives are not amortized.
- The remaining useful lives of intangible assets being amortized are evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying value of the intangible asset is amortized prospectively over the revised remaining useful life.
- Goodwill and other intangible assets with indefinite useful lives that are not subject to amortization are tested for impairment at least annually.
- All goodwill must be assigned to a reporting unit, which is defined as an operating segment or one level below an operating segment.

SFAS No. 142 became effective for years beginning after December 15, 2001. Accordingly, goodwill amortization ceased for US GAAP purposes beginning in 2002

As discussed in Note 10, the Company has made a number of acquisitions. Acquisitions made prior to December 31, 2003, were recorded pursuant to the book value purchase method for Chilean GAAP purposes. For these acquisitions there were no significant differences in the allocation of the purchase price or the determination of goodwill between the book value purchase method in accordance with Chilean GAAP and the purchase accounting method required pursuant to SFAS No. 141 in accordance with US GAAP. For acquisitions after December 31, 2003 the fair value purchase method is used for both Chilean GAAP and US GAAP. However, under Chilean GAAP certain differences may occur in the identification of intangible assets and goodwill.

The companies acquired since January 1, 2004 are not material to the consolidated financial position of the Company and therefore adjustments to the purchase price allocation and pro forma financial statements showing the effect on operations as if the acquisitions had been completed at the beginning of the period are not presented.

For US GAAP purposes, the reversal of amortization of goodwill from the purchases made by the Company and the purchase accounting adjustments of conforming business acquisitions prior to June 30, 2001 to US GAAP are shown in paragraph 1 p) below. As a result of the annual impairment tests performed by the Company, no adjustment to the book value of goodwill was deemed necessary.

Under Chilean GAAP, the cost of an equity method investment is separated into an investment component (based on the purchase of the proportionate share of equity according to book values) and a goodwill component (based on the difference between the amount paid and the proportional book value of the investment). Under US GAAP, these components are combined in one balance sheet caption as an investment, and goodwill is determined in a manner similar to a consolidated subsidiary based on proportionate ownership. No disclosure has been presented for the effect of the reclassification between goodwill as determined under Chilean GAAP for equity method investments and goodwill determined under US GAAP as the effect of this reclassification is not significant.

The effects of reclassifying negative goodwill for the acquisitions prior to December 31, 2003 as determined under Chilean GAAP to proportionately reduce the values assigned to the non-current assets acquired in accordance with US GAAP are not significant.

c) Revaluation of property and equipment

As mentioned in Note 2 k), certain property and equipment are valued in the consolidated financial statements at amounts determined in accordance with a technical appraisal. The revaluation of property and equipment is an accounting principle that is not generally accepted in the United States. Assets that were subjected to appraisals have been fully depreciated or are no longer owned by the Company. Accordingly, there is no impact on US GAAP results and no adjustments recorded.

d) Minimum dividend

As required by the Chilean Companies Act unless otherwise decided by the unanimous vote of the issued and subscribed shares, an open stock corporation must distribute a cash dividend in an amount equal to at least 30% of the company's net income for each year adjusted for the deficit under developing period as determined in accordance with Chilean GAAP. Under Chilean GAAP, even though the minimum dividend is a legal requirement, the dividend is not recorded until it is declared by the Company. For 2007, 2006 and 2005, the full amount of the required dividend was declared as interim dividends and recorded by the Company, therefore, no adjustment is necessary.

e) Equity method of accounting and Consolidation

As mentioned in Note 2 l), for Chilean GAAP purposes, beginning in 2005, investments in related companies are accounted for pursuant to the equity method when the company's investment represents between 20% and 50% of the voting stock of the investee. Prior to 2005, when investments in related companies represented between 10% and 50% of voting rights the equity method was used. For US GAAP purposes prior to February 1, 2003, investments in related companies required the use of the equity method of accounting for investments which give the investor the ability to exercise significant influence over operating and financial policies of the investee. For those companies which were determined to be controlled through the Company's investment (generally, ownership of over 50% of the outstanding voting shares), US GAAP required consolidation. Subsequent to February 1, 2003, US GAAP requires the determination of whether an entity should be consolidated in accordance with FASB.

Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), focused on identifying entities for which a controlling financial interest is achieved through means other that voting rights. Under this interpretation, a variable interest entity must be consolidated if certain consolidation requirements are met. An enterprise should consolidate an entity if that enterprise has a variable interest in the entity that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. FIN 46, as revised by FIN 46R, was effective on February 1, 2003 for new transactions and effective for reporting periods after March 15, 2005 for transactions entered into prior to February 1, 2003.

Relative to the Company's investments in related companies, there are no differences in the application of the equity method or consolidation between Chilean GAAP and US GAAP.

f) Monetary correction of subsidiaries

As indicated in Note 2 d), the Chilean peso financial statements of certain of the Company's Chilean subsidiaries are restated through the application of price-level restatements in accordance with Chilean GAAP to show the effects of changes in the purchasing power of the Chilean peso, using indicators published by the National Institute of Statistics. The financial statements of such Chilean subsidiaries are then remeasured to US dollars at the exchange rates prevailing on December 31 of each year.

The inclusion of price-level restatements when the US dollar is the reporting currency is not permitted under US GAAP. However, in the case of the Company, the effects of including price-level restatement at the subsidiary level are not significant and accordingly the effects of reversing the price-level restatement are not included in the reconciliation of net income and net equity accounts to US GAAP in paragraph 1 p) below.

g) Investment securities

Under Chilean GAAP, investments in bonds held by the Company are carried at the lower of cost plus accrued interest or market value. Under Chilean GAAP, mutual funds are stated at market value based on year-end quoted values and unrealized gains and losses are recorded in the current year Consolidated Statement of Income. Under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", investment securities, which include debt and certain equity securities, are accounted for as follows:

- Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at amortized cost.
- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses included in earnings.
- Debt and equity securities not classified as either held-to-maturity or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

The Company's investments in bonds are classified as available for sale securities for the purposes of SFAS No. 115. The effect of the difference between Chilean GAAP and US GAAP in accounting for the Company's investment in bonds is included in the reconciliation of reported Net income to Comprehensive income in accordance with US GAAP in paragraph 1 p) below. There is no difference between Chilean GAAP and US GAAP for the Company's investments in mutual funds as they are classified as trading securities for the purpose of SFAS No. 115.

h) Presentation in Statement of cash flows

Under Chilean GAAP, payments of leasing obligations subsequent to the date of purchase are treated in the Consolidated Statement of Cash Flows as additions of property and equipment and classified as cash outflows from investing activities. Under US GAAP, incurring directly-related debt to the seller of property and equipment is a financing transaction and subsequent payments of principal on that debt are thus considered to be cash outflows from financing activities.

As a result of these differences, the Consolidated Statement of Cash Flows under Chilean GAAP would have to be adjusted as follows to present the statement in accordance with US GAAP:

	Increase (decrease) in cash flow		
	2007	2006	2005
	(In t	housands of U	S\$)
Net cash provided by (used in) financing activities under Chilean GAAP	383,419	503,717	177,888
Loans repaid	(46,824)	(33,559)	(38,180)
Net cash provided by (used in) financing activities under US GAAP	336,595	470,158	139,708
Net cash provided by (used in) investing activities under Chilean GAAP	(844,254)	(905,746)	(560,422)
Acquisitions of property and equipment	46,824	33,559	38,180
Net cash provided by (used in) investing activities under US GAAP	(797,430)	(872,187)	(522,242)

Net cash and cash equivalents at the end of year under US GAAP is as follows:

	At		
	2007	2006	2005
	(In t	housands of U	S\$)
Cash	11,506	9,565	11,733
Time deposits	308,585	148,663	34,519
Defined-term mutual funds (included in Marketable Securities)	125,524	39,654	65,019
Other current assets		1,614	
Total	445,615	199,496	111,271

There are no significant non-cash investing or financing transactions in the three years ended December 31, 2007. The Company made cash payments for interest of ThUS\$ 73,633, ThUS\$ 60,107 and ThUS\$36,630 for the years ended 2007, 2006 and 2005, respectively. The Company made tax payments of ThUS\$ 52,337, ThUS\$ 49,846 and ThUS\$ 37,357 for the years ended 2007, 2006 and 2005, respectively.

i) Classification of income and expenses

Under Chilean GAAP, the following income and expenses arising during the years 2007, 2006 and 2005 are classified as Other income (expense) - net whereas under US GAAP they would be recorded within operating income:

	Year en	er 31,	
	2007	2006	2005
	(In th	ousands of U	J S\$)
Non-operating income:			
Effect of accounting change ⁽¹⁾	_	40,344	_
Jet fuel swap contracts	28,190	12,903	51,480
Total	28,190	53,247	51,480
Non-operating expenses:			
Provision for retirement of Boeing 737 Aircraft ⁽²⁾	_	8,100	_
Reserve for loss related to the ongoing investigation by the European Commission	25,000	_	_
Non-recurring indemnities paid to employees ⁽²⁾		11,747	
Total	25,000	19,847	_

The Company recorded a ThUS\$ 40,344 cumulative effect for a change in accounting principles as Non-operating income in 2006 for Chilean GAAP. This is adjusted for and included in the US GAAP reconciliation in Note 2 (p).

(2) See Note 22.

j) Internal use software

As mentioned in Note 2 aa), under Chilean GAAP all disbursements for the development of internal use software are charged to the results of operations as incurred. Under US GAAP, certain costs related to internal use software are capitalized while others are charged to the results of operations. External direct costs of materials and services consumed in developing or obtaining internal use computer software, payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal use computer software project and interest costs incurred while developing internal use computer software are capitalized. Maintenance, training, data conversion and reengineering costs are charged to the results of operations as incurred. However, in the case of the Company, the costs relating to internal use software are not significant and accordingly, these costs are not included in the reconciliation to US GAAP of net income and net equity accounts in paragraph 1 p) below.

k) Recognition of tax loss carryforwards

At December 31, 2000, Lan Perú had tax loss carryforwards of ThUS\$ 7,590 resulting in a deferred tax asset of ThUS\$ 2,326. A valuation allowance of ThUS\$ 2,326 was provided to offset the entire deferred tax asset because at that time it appeared unlikely that these tax losses would be utilized in future years. Lan Perú was an equity method investee at December 31, 2000 and during 2001 the Company acquired an additional 21% ownership interest and

Lan Perú became a consolidated subsidiary. No deferred tax asset was recognized under Chilean GAAP on the date of purchase. During 2001, Lan Perú had taxable income and utilized ThUS\$ 1,673 of the deferred tax asset, leaving a balance of ThUS\$ 653 which expired without being utilized. In accordance with US GAAP, when tax loss carryforwards that were not recognized at the acquisition date are recognized in a subsequent period, they first reduce to zero any positive goodwill related to the acquisition; then they reduce to zero all other noncurrent intangible assets; and finally, they reduce income tax expense. For Chilean GAAP purposes, the tax loss was used to reduce income tax expense without first reducing existing goodwill. As a result, the US GAAP reconciliation in paragraph 1 p) below includes an adjustment to decrease goodwill on the purchase of Lan Perú in 2001 by ThUS\$488 and increase the current income provision by the same amount. The adjustment is based on the acquired ownership interest of 21% applied to the deferred tax asset of ThUS\$ 2,326 recognized in 2001.

l) Derivative financial instruments

The Company uses interest rate swap and cap agreements to reduce its exposure from variable interest bearing liabilities and commitments. It also enters into commodity (jet fuel and West Texas Intermediate) swap and call contracts to fix the price for a given quantity of the aforementioned commodity, and "costless collars" which are a combination of call and put options so as to ensure a price range for jet fuel. In order to reduce the impact of foreign exchange rate fluctuations, the Company enters into foreign exchange hedge contracts.

Under Chilean GAAP, derivatives are accounted for in accordance with Technical Bulletin 57, "Accounting for Derivative Contracts" (TB 57). Under TB 57, all derivative financial instruments should be recognized on the balance sheet at their fair value. In addition, TB 57 requires that derivative financial instruments be classified as non-hedging (investment) instruments and hedging instruments, the latter further divided into those covering recognized assets or liabilities or an unrecognized firm commitment and those covering forecasted transactions.

Contracts to cover recognized assets or liabilities or an unrecognized firm commitment act as hedging instruments against the risk of a change in the fair value of a hedged item. The differences resulting from the changes in the fair value of both the hedged item and the derivative instrument should be accounted for as follows:

- a) If the net effect is a loss, it should be recognized in earnings in the period of change.
- b) If the net effect is a gain, it should be recognized when the contract is closed and accordingly deferred on the balance sheet.
- c) If the net effect is a gain and net losses were recorded on the transaction in prior years, a gain should be recognized in earnings in the current period up to the amount of net losses recorded previously.
- d) If the effect is a net loss and net gains were recorded (as a deferred revenue) on the transaction in prior years, the gain should be utilized to offset the net loss before recording the remaining loss in the results of operations for the year.

Contracts to cover forecasted transactions are those that have the objective of protecting cash flow risks of a transaction expected to occur in the future (a cash flow hedge). The hedging instrument should be recorded at its fair value and the changes in fair value should be stated on the balance sheet as unrealized gains or losses. When the contract is closed, the unrealized gains or losses on the derivative instrument should be recognized in earnings without affecting the cost or sales price of the asset acquired or sold in the transaction. However, probable losses arising from purchase commitments should not be deferred.

Non-hedging (investment) instruments should also be presented at their fair value, with changes in fair value reflected in the earnings of the period in which the change in fair value occurs.

For US GAAP reconciliation purposes only, the Company has adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" as amended, on the same matter (collectively referred to herein as "SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the

Consolidated Balance Sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction or to the variability of the cash flows that are to be received or paid in connection with a recognized asset

or liability or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, a foreign-currency-denominated forecasted transaction or a recognized asset or liability.

As indicated below in paragraph 2 f), the accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

The effect of the differences in accounting for derivative financial instruments under Chilean and US GAAP is included in paragraph 1 p) below. Additional information concerning derivative financial instruments that is required to be disclosed under SFAS 133 is set forth below in paragraph 2 f).

m) Change in accounting policy for maintenance costs and adoption of FSP AIR-1

As mentioned in the Financial Statements as of December 31, 2006, the Company changed its method of accounting for heavy aircraft and engine maintenance costs associated with its owned aircraft for both Chilean and US GAAP, from the accrual method to the deferral method, effective January 1, 2006. This change in accounting principle for Chilean and US GAAP was preferable, and in line with industry practice. The effect of this change was recorded prospectively under Chilean GAAP and resulted in an approximate US\$ 40.3 million increase in Non-operating income for 2006.

In the FASB Staff Position No. AUG AIR-1 ("FSP AIR-1"), the FASB also eliminated the use of the accrual method for US GAAP, effective January 1, 2007. Therefore, for US GAAP only, the Company adopted FSP AIR-1 and changed its accounting principle for heavy aircraft and engine maintenance costs on leased aircraft from the accrual method to the cash method (record maintenance expenses as incurred), effective January 1, 2007.

For US GAAP reporting purposes, the Company has retrospectively applied the use of the deferral method and the cash method for owned and leased aircraft, respectively, to prior periods' financial statements.

In the case of heavy aircraft and engine maintenance costs associated with the owned aircraft, the cumulative effect of the accounting change on periods prior to the fiscal year ended December 31, 2004 was reflected in the carrying amounts of assets and liabilities as of January 1, 2004. An offsetting adjustment was made to the opening balance of retained earnings as of January 1, 2004. The effects of this change in accounting policy are shown below and under paragraph 1 p). The effect of this change on the 2006 US GAAP results was a decrease in net income of approximately US\$40.3 million. The cumulative effect on the 2004 beginning Shareholders' equity balance was an increase of US\$ 38.7 million.

Regarding the heavy aircraft and engine maintenance costs associated with the leased aircraft, the cumulative effect of the adoption of the FSP AIR-1 on periods prior to the fiscal year ended December 31, 2005 was reflected in the carrying amounts of assets and liabilities as of January 1, 2005. An offsetting adjustment was made to the opening balance of retained earnings as of January 1, 2005. The effects of this change in accounting policy are shown below and under paragraph 1 p).

The effect of this change on the 2007 US GAAP results was an increase in net income of approximately US\$ 32.9 million. The cumulative effect on the 2005 beginning Shareholders' equity balance was an increase of US\$ 88 million.

The following financial data shows the effect of the retrospective application of the change in accounting principle and the adoptions of FSP AIR-1 under US GAAP:

	2005
	(as adjusted) (as reported) (In thousands of US\$)
Balance sheet:	(in thousands of OS\$)
Property and equipment (net)	1,232,829 1,252,270
Provisions	(12,785) (160,563
	2005 (as adjusted) (as reported)
	(In thousands of US\$)
Income statement:	
Depreciation and amortization	(72,111) $(80,456)$
Aircraft maintenance	(96,007) (132,198)
Total operating expenses	(2,356,156) (2,313,237)
Operating income	150,197 193,116
Income tax	(26,104) (25,335)
Net Income	156,492 154,970
Earnings per share	0.49 0.49
	2006
	(as adjusted) (as reported) (In thousands of US\$)
Balance sheet:	(as adjusted) (as reported) (In thousands of US\$)
Property and equipment (net)	(as adjusted) (as reported) (In thousands of US\$) 1,857,722 1,876,454
	(as adjusted) (as reported) (In thousands of US\$)
Property and equipment (net) Provisions Income statement:	(as adjusted) (as reported) (In thousands of US\$) 1,857,722 1,876,454 (1,734) (80,828)
Property and equipment (net) Provisions Income statement: Depreciation and amortization	(as adjusted) (as reported) (In thousands of US\$) 1,857,722 1,876,454 (1,734) (80,828) (122,682) (122,802)
Property and equipment (net) Provisions Income statement: Depreciation and amortization Aircraft maintenance	(as adjusted) (as reported) (In thousands of US\$) 1,857,722 1,876,454 (1,734) (80,828) (122,682) (122,802) (127,475) (117,206)
Property and equipment (net) Provisions Income statement: Depreciation and amortization Aircraft maintenance Total operating expenses	(as adjusted) (In thousands of US\$) (as reported) (In thousands of US\$) 1,857,722 1,876,454 (1,734) (80,828) (122,682) (122,802) (127,475) (117,206) (2,728,133) (2,731,338)
Property and equipment (net) Provisions Income statement: Depreciation and amortization Aircraft maintenance Total operating expenses Operating income	(as adjusted) (In thousands of US\$) (as reported) (US\$) 1,857,722 1,876,454 (1,734) (80,828) (122,682) (122,802) (127,475) (117,206) (2,728,133) (2,731,338) 286,975 302,622
Property and equipment (net) Provisions Income statement: Depreciation and amortization Aircraft maintenance Total operating expenses Operating income Income tax	(as adjusted) (as reported) (In thousands of US\$) 1,876,454 (1,734) (80,828) (122,682) (122,802) (127,475) (117,206) (2,728,133) (2,731,338) 286,975 302,622 (36,451) (38,526)
Property and equipment (net) Provisions Income statement: Depreciation and amortization Aircraft maintenance Total operating expenses Operating income Income tax Net Income	(as adjusted) (as reported) (In thousands of US\$) 1,857,722 1,876,454 (1,734) (80,828) (122,682) (122,802) (127,475) (117,206) (2,728,133) (2,731,338) 286,975 302,622 (36,451) (38,526) 201,566 209,730
Property and equipment (net) Provisions Income statement: Depreciation and amortization Aircraft maintenance Total operating expenses Operating income Income tax	(as adjusted) (as reported) (In thousands of US\$) 1,876,454 (1,734) (80,828) (122,682) (122,802) (127,475) (117,206) (2,728,133) (2,731,338) 286,975 302,622 (36,451) (38,526)

n) Late delivery fees

Under Chilean GAAP, contractual payments made to the Company by the aircraft or equipment manufacturer due to the nondelivery of an aircraft or equipment by a stated delivery date, are accounted for as revenue. These payments are generally specified in the asset purchase agreement and are negotiated to represent compensation for an airline's lost revenue associated with the delay in the delivery of an aircraft or equipment. As of December 31, 2007, a total of ThUS\$ 18,732 was recorded as Other Income in Operating revenues due to a change in the delivery schedule of certain Airbus A318 aircraft.

For US GAAP reporting, the Company has adopted Technical Practice Aid (TPA) Technical Questions and Answers (TIS) section 2210.28, "Accounting for Certain Liquidated Damages" (AICPA, Technical Practice Aids), under which late delivery fees are typically recorded as a reduction of the cost of the asset and, therefore, reduce depreciation on a prospective basis. The effect of the differences in accounting for liquidated damages under Chilean and US GAAP is included in paragraph 1 p) below.

o) Stock option plans

As of January 1, 2007, the Company adopted SFAS No. 123(R) Accounting for Stock-Based Compensation for USGAAP reporting purposes. This standard requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values estimated at the date of the grant. Because as of the date of transition there were no shares outstanding from previous plans, FAS 123 (R) had no effect on the Company's result of operations or financial position upon adoption.

In May 17, 2007, the Board of Directors agreed to issue to a group of executives stock options for a total of 2,209,091 shares as mentioned in Note 19 to the Financial Statements. The Share Subscription Agreement ("Agreement") dated December, 2007 sets the exercise price at USD 16.11208 per share, indexed to US CPI. As of December 31, 2007, 1,235,000 stock options have been granted under the Agreement.

The fair value of the options granted in December 2007, representing total compensation expense, is ThUS\$ 3,516. For Chilean GAAP, the Company recognizes a charge to compensation cost and a credit to other reserves on a straight-line basis over the period between the date of grant and the date the options are vested. Because the amount earned from the date of grant until December 31, 2007 was not material, no charges for share-based compensation expense were registered.

The Company determined the fair value of ThUS\$ 3,516 for these options on the date of grant using the "Black-Scholes-Merton" option valuation model and the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company's stock and other factors. LAN estimated the expected term of awards granted based on the vesting and expiration terms of the awards. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is assumed to be 30% based on the Company's history and expectation of dividend payments.

Stock price at date of grant (US\$)	14.10835
Exercise price (US\$)	16.11208
Expected volatility (%)	33
Expected dividends (minimum required) (%)	30
Risk free rate (%)	6
Expected term (years)	3.8

Option vesting:

	From	Until
30%	July 1, 2009	September 30, 2011
30%	July 1, 2010	September 30, 2011
40%	July 1, 2011	September 30, 2011

A summary of stock option activity, and changes during the year ended December 31, 2007 is presented below:

	Number of options
Outstanding at January 1, 2007	_
Granted	1,235,000
Vested	_
Forfeited or expired	
Outstanding at December 31, 2007	1,235,000
Excercisable at December 31, 2007	_

Treatment under Chilean GAAP, which is in accordance with International Financial Reporting Standard No. 2 Share-based payments, considers these stock options as equity awards. SFAS 123(R) requires that an award which is indexed to a factor that is not a market, performance, or service condition be classified as a liability. Considering that the options were granted in December 2007 and that the fair value of the options is non significant as of December 31, 2007, there is no adjustment included in the reconciliation under paragraph (1.p) for the year 2007. In future years, for US GAAP, the Company will record a liability and compensation expense for the portion of the awards that vest during the period. The liability will be measured based on the award's fair value remeasured at each reporting date until the date of settlement, with changes in fair value also recognized as compensation expense.

e) Effects of conforming to US GAAP

The adjustments to reported net income required to conform with US GAAP are as follows:

	For the year ended December 3: 2007 2006 20		
	(In		
Net income in accordance with Chilean GAAP financial statements	308,323	241,300	146,601
Deferred income tax provision (par. 1 a)	(2,626)	10,386	2,154
Purchase accounting adjustments of property and equipment on Lan Cargo S.A (Ex Lan Chile Cargo S.A.) acquisition (par. 1 b)	(64)	(64)	(64)
Fair value of derivative not considered to be a hedge (par. 1 l and par. 2 f)	(1,641)	120	
Ineffectiveness of cash flow hedges of forecasted jet fuel purchases (par. 1 l and par. 2 f)	_	(2,080)	2,233
Ineffectiveness of cash flow hedges of interest rates cap contracts (par. 1 l and par. 2 f)	890	(890)	_
	For the y	ear ended Dece	mber 31,
	2007 (In	2006 thousands of U	2005 S\$)
Ineffectiveness of cash flow hedges of forecasted securitization (net of amortization)			
(par. 1 l and par. 2 f)	59	59	59
Reversal of goodwill and its amortization (par. 1 b)	2,994	3,318	3,218
Effect of change in accounting policy (par. 1 m)	_	(40,344)	1,617
Effect of adoption FSP AIR-1 (par. 1 m)	32,934	(10,239)	674
Effect of late delivery fees (par. 1 n)	(18,852)		
Net income in accordance with US GAAP	322,017	201,566	156,492
	For the v	ear ended Dece	mber 31,
	2007 (In	2006 thousands of U	2005 S\$)
Comprehensive income (loss):			
Fair value of cash flow hedges:			
Interest rate contracts (par. 1 l and par. 2 f)	(36,188)	(11,259)	9,441
Jet fuel swaps (par. 1 l and par. 2 f)	7,739	(12,454)	(6,344)
Treasury rate lock (par. 1 l and par. 2 f)	471	471	471
Unrealized gain on investment (par. 2 b)	264	(8,205)	(2,233)
Other comprehensive income (loss) before taxes	(27,714)	(31,447)	1,335
Income tax (expense) benefit related to items of other comprehensive income (par. 1 a)	4,711	5,346	(227)
Comprehensive income in accordance with US GAAP	299,014	175,465	157,600

The adjustments required to conform Total Shareholders' equity to US GAAP are as follows:

	For the year ended December 31,			
	2007	2006	2005	
	,	ousands of US	.,	
Total Shareholders' Equity in accordance with Chilean GAAP financial statements	988,052	626,320	502,713	
Deferred income tax provision (par. 1 a)	(30,588)	(27,962)	(38,348)	
Purchase accounting adjustments of property and equipment arising from Lan Cargo S.A. (Ex Lan Chile Cargo S.A.)				
acquisition (par. 1 b)	364	428	492	
Reversal of utilization of tax loss carryovers in Perú (par. 1 k)	(488)	(488)	(488)	
Fair value of derivative not considered to be a hedge (par. 1 l and par. 2 f)	(1,521)	120	_	
Ineffectiveness of cash flow hedges of forecasted jet fuel purchases (par. 1 l and par. 2 f)			2,080	
Ineffectiveness of cash flow hedges of forecasted interest rates (par. 1 l and par. 2 f)	_	(890)	_	
Ineffectiveness of cash flow hedge of forecasted securitization (net of amortization) (par. 1 l and par. 2 f)	(88)	(147)	(206)	
Difference in purchase accounting adjustments (par. 1 b)	(20,814)	(20,814)	(20,814)	
Amortization of goodwill basis differences pre-SFAS 141 (par. 1 b)	8,201	8,201	8,201	
Reversal of amortization of goodwill under chilean gaap subsequent to implementation of SFAS 141 (par. 1 b)	19,079	16,085	12,767	
Effect of change in accounting principle (par. 1 m)			40,344	
Effect of adoption FSP AIR-1 (par. 1 m)	112,028	79,094	89,333	
Effect of late delivery fees (par. 1 n)	(18,852)			
Shareholders' Equity in accordance with US GAAP	1,055,373	679,947	596,074	
Beginning accumulated other comprehensive loss	(21,630)	4,471	3,363	
Other comprehensive income (loss), net of income tax	(23,003)	(26,101)	1,108	
Accumulated other comprehensive income (loss) in accordance with US GAAP	(44,633)	(21,630)	4,471	
Total shareholder's equity in accordance with US GAAP including accumulated other comprehensive income (loss)	1,010,740	658,317	600,545	

The changes in Total Shareholders' equity determined under US GAAP are summarized as follows:

	In thousands of US\$
Balance at December 31, 2004	521,390
Distribution of final 2004 dividend	(6,994)
Distribution of interim 2005 dividend	(71,451)
Other comprehensive income:	
Gain from fair value of cash flow hedges	3,568
Unrealized gain on investment	(2,233)
Income tax expense related to items of other comprehensive income	(227)
Net income for the year	156,492
Balance at December 31, 2005	600,545
Balance at December 31, 2005	600,545
Distribution of final 2005 dividend	(1,843)
Distribution of interim 2006 dividend	(115,850)
Other comprehensive income:	
Gain from fair value of cash flow hedges	(23,242)
Unrealized gain on investment	(8,205)
Income tax expense related to items of other comprehensive loss	5,346
Net income for the year	201,566
Balance at December 31, 2006	658,317
Balance at December 31, 2006	658,317
Issuance of stock	319,141
Issuance of stock expenses	(2,672)
Distribution of final 2006 dividend	(53,060)
Distribution of interim 2007 dividend	(210,000)
Other comprehensive income:	
Gain from fair value of cash flow hedges	(27,978)
Unrealized gain on investment	264
Income tax expense related to items of other comprehensive loss	4,711
Net income for the year	322,017
Balance at December 31, 2007	1,010,740

2. Additional US GAAP disclosure requirements

The information set forth below is required under US GAAP but not under Chilean GAAP.

a) Earnings per share

The following disclosure of earnings per share information is not generally required for presentation in financial statements under Chilean GAAP but is required under US GAAP:

	Year e	er 31,	
	2007	2006	2005
		(US\$)	
Earnings per share under Chilean GAAP	0.93	0.76	0.46
Basic and diluted earnings per share under US GAAP	0.97	0.63	0.49
Weighted-average number of shares of common stock outstanding for basic and diluted earnings per share (in thousands)	330,460	318,909	318,909

The earnings per share data shown above is determined by dividing net income for both Chilean GAAP and US GAAP purposes by the weighted-average number of shares of common stock outstanding during each year.

As of December 31 2007, 1,235,000 stock options that could potentially dilute basic EPS in the future were not included in the computation of diluted EPS because to do so would have been antidilutive for the present period.

b) Investment securities

Shown below are the cost, gross unrealized gain and losses and approximate fair value of marketable securities under US GAAP (see paragraph 1g):

			Gi	OSS	Gr	oss		
			Unre	alized	Unrea	alized		
	Co	Cost Gains		Gains Losses		Losses Fair		Value
	2007	2006	2007	2006	2007	2006	2007	2006
			(In	thousa	nds of U	J <mark>S\$)</mark>		
Bonds	22,428	20,415	468	204			22,896	20,619
Total securities available for sale	22,428	20,415	468	204	\equiv	\equiv	22,896	20,619

c) Income tax

The provision for income taxes charged to the results of operations under US GAAP was as follows:

	Year e	Year ended December 31,			
	2007	2006	2005		
	(In t	housands of U	J S\$)		
Current income tax expense	(13,995)	(14,123)	(1,261)		
Deferred income tax expense	(48,406)	(22,328)	(24,843)		
Total provision under US GAAP	(62,401)	(36,451)	(26,104)		

Deferred tax assets (liabilities) are summarized as follows:

	Year ended December 31,		
	2007	2006	2005
	(In t	housands of U	(S\$)
Unearned income	(17,781)	(16,198)	(16,295)
Prepaid expenses	(4,811)	(6,363)	(6,100)
Property and equipment	(197,679)	(156,405)	(120,509)
Others	(19,044)	(13,446)	(23,315)
Gross deferred tax liabilities	(239,315)	(192,412)	(166,219)
Allowance for doubtful accounts	4,585	4,494	4,073
Tax loss carryforwards	23,354	32,968	33,282
Provision for vacations	3,913	3,302	2,732
Provisions for obsolescence of spare parts	2,935	2,960	4,593

	Year e	Year ended December 31,		
	2007	2006	2005	
	(In t	housands of U	S\$)	
Other	37,604	20,007	5,357	
Gross deferred tax assets	72,391	63,731	50,037	
Deferred tax assets valuation allowance	(19,784)	(15,302)	(10,988)	
Net deferred tax liabilities	(186,708)	(143,983)	(127,170)	

The provision for income taxes differs from the amount of income tax determined by applying the applicable Chilean statutory income tax rates of 17% to pretax accounting income on a US GAAP basis as a result of the following differences:

	Year ended December 31,		
	2007	2006	2005
	(In th	J S\$)	
Provision for income taxes at statutory Chilean tax rate	(65,351)	(40,463)	(31,041)
Increase (decrease) in rates resulting from:			
Non-taxable income	13,012	5,618	5,967
Non-deductible items	(2,203)	(1,371)	(334)
Change in valuation allowance	(9,735)	(4,314)	(185)
International income tax differences	2,067	3,022	(313)
Other	(191)	1,057	(198)
Provision for income taxes at effective tax rates	(62,401)	(36,451)	(26,104)

In accordance with Chilean law, the Company and each of its subsidiaries compute and pay taxes on a separate return basis and not on a consolidated basis.

Inversora Cordillera S.A. and its subsidiary have tax loss carryforwards aggregating ThUS\$ 40,980 at December 31, 2007 which have an expiration date of five years beginning in the first year that a loss is incurred. The related deferred tax asset was ThUS\$ 14,343 at December 31, 2007 and a 67% valuation allowance has been provided.

Lan Chile Investment Limited and its subsidiaries have tax loss carryforwards aggregating ThUS\$ 5,752 at December 31, 2007 which have expiration dates between three and five years after the year of the loss.

The related deferred tax asset is ThUS\$ 1,438 and a 100% valuation allowance has been provided because at the present time it appears unlikely that these tax losses will be utilized in future years.

Aerolinheas Brasileiras has tax loss carryforwards aggregating ThUS\$ 3,747 at December 31, 2007 which have no expiration date. However, a 100% valuation allowance has been provided against the related deferred tax asset of ThUS\$ 1,274 because at the present time it appears unlikely that these tax losses will be utilized in future years.

South Florida Air Cargo Inc. has tax loss carryforwards of ThUS\$ 3,227 at December 31, 2007 which have expiration dates of twenty years after the year of the loss. The related deferred tax asset is ThUS\$ 1,097 and a 100% valuation allowance has been provided because at the present time it appears unlikely that these tax losses will be utilized in future years.

d) Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments at December 31, 2007, 2006 and 2005 for which it is practicable to estimate that value.

Cash, Time deposits and Marketable securities:

Cash, time deposits and marketable securities are stated at their carrying amount, which is equivalent to fair value.

Other assets:

The fair value of long-term accounts receivable included within Other assets was estimated using the interest rate the Company would pay for similar credit.

Short and long-term debt:

The fair value of short and long-term debt was based on rates currently available to the Company for debt with similar terms and remaining maturities.

Financial instruments:

The fair value of swap fuel contracts (used in hedging of fuel prices) is the estimated amount that the Company would receive or pay to terminate the agreements at the balance sheet date taking into account current fuel prices and the current creditworthiness of the counterparties.

The fair value of the interest rate agreements is based on estimated mid-market valuations. Such mid-market values attempt to approximate the economic value at the balance sheet date of a position using prices and rates at the average of the estimated bid and offer for the respective underlying assets or reference rates and/or mathematical models, as deemed appropriate by the Company. In the absence of sufficient or meaningful market information, such valuations or components thereof may be theoretical in whole or in part.

The estimated fair values of the Company's financial instruments on a US GAAP basis are as follows:

	At December 31, 2007 At De		At December	r 31, 2006
	US GAAP		US GAAP	
	Carrying		Carrying	Fair
	amount	Fair Value	amount	Value
		(In thousand	ls of US\$)	
Cash	11,506	11,506	9,565	9,565
Time deposits	308,585	308,585	148,977	148,977
Marketable securities	147,952	148,420	60,273	60,273
Current portion of long-term loans	102,153	148,102	89,883	125,946
Current portion of other long-term obligations	74,786	79,085	55,040	49,607
Bank loans (long-term)	1,228,650	1,146,267	1,031,082	928,302
Other liabilities (long-term)	240,520	239,385	196,011	170,417
Financial instruments:				
Interest rate Derivatives	(59,115)	(59,115)	(21,731)	(21,731)
Swap fuel contracts	4,385	4,385	(4,244)	(4,244)

e) Concentration of credit risk

The Company's accounts receivable are generated primarily from airline ticket and cargo service sales to individuals and various commercial enterprises that are economically and geographically dispersed, and the accounts receivable are generally short-term in duration. Accordingly, the Company does not believe that it is subject to any significant concentration of credit risk.

f) Financial instruments

Accounting for Derivatives and Hedging Activities

All derivatives are recognized on the balance sheet at their fair value. On the date that the Company enters into a derivative contract, it designates the derivative as (1) a hedge of (a) the fair value of a recognized asset or liability or (b) an unrecognized firm commitment (a "fair value" hedge); (2) a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge); (3) a foreign currency fair value or cash flow hedge (a "foreign currency" hedge); (4) a hedge of a net investment in a foreign operation; or (5) an instrument that is held for trading or non-hedging purposes (a "trading" or "non-hedging" instrument). Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (including changes that reflect losses or gains on firm commitments), are recorded in current period earnings. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of a variable rate asset or liability are recorded in earnings).

Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current period earnings. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a foreign currency hedge is recorded in either current period earnings or other comprehensive income, depending on whether the hedging relationship satisfies the criteria for a fair value or cash flow hedge.

If, however, a derivative is used as a hedge of a net investment in a foreign operation, the changes in the derivative's fair value, to the extent that the derivative is effective as a hedge, are recorded in the cumulative translation adjustment account within other comprehensive income. Changes in the fair value of derivative trading and non-hedging instruments are reported in current period earnings.

Upon purchasing a financial instrument, the Company must determine whether a derivative instrument is "embedded" therein and if so, it must assess the economic characteristics of the embedded derivative to determine if they are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and designated as either (1) a fair value, cash flow, or foreign currency hedge or (2) a trading or non-hedging derivative instrument. The Company, according to SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," can elect the fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation under SFAS No 133, Accounting for Derivative Instruments and Hedging Activities. Such election would eliminate the need to separate the instrument into a host contract and a derivative instrument and allow fair value accounting for the instrument in its entirety.

The Company documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow, or foreign currency hedges to (1) specific assets and liabilities on the balance sheet or (2) specific firm commitments or forecasted <u>probable</u> transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

Derivative instruments and hedging activities

The Company's activities expose it to a variety of market risks, including risks related to the effects of changes in foreign-currency exchange rates, interest rates, and commodity prices. These financial exposures are monitored and managed by the Company as an integral part of its overall risk management program. The Company's risk management program focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on its operating results.

Financial instruments: fuel price risk management

Jet fuel price fluctuations are largely dependent on supply and demand for crude oil in the world, OPEC decisions, refinery capacities, stock levels of crude and global political factors. In order to minimize the risk of jet fuel price fluctuations, the Company enters into swap and option contracts in the jet fuel market or the West Texas Intermediate (WTI) market. The decision to enter into hedge contracts in the jet fuel or WTI market depends on the relative price of each commodity at the supposed trade date.

The Company enters into swap, costless collars and purchased call option contracts in order to fix or limit (depending on the case) the market price at a certain level for a given quantity of the above mentioned commodities. Pursuant to such contracts, the Company pays or receives, depending on the case, the difference between the agreed fixed price and the floating market price calculated on the notional amounts of such contracts. These contracts are classified as cash flow hedges for US GAAP purposes and as forecasted transactions for Chilean GAAP purposes.

As of December 31, 2007 and 2006, the Company had some ineffectiveness with regard to its cash flow hedges of forecasted purchases of jet fuel outstanding as of year end, however this amount was not recorded in the US GAAP reconciliation because it was immaterial.

The notional fuel hedged, the realized results on such contracts and the fair value for the years ending December 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Hedged Gallons (million gallons)	125	149	176
Gain on fuel hedge contracts (ThUS\$)	28,190	12,903	51,480
Fair value of fuel hedge contracts (ThUS\$)	4,385	(4,244)	11,180

For Chilean GAAP purposes, gains and losses on the hedging contracts referred to above are recognized as a component of Other income (expense)-net when the underlying fuel being hedged is consumed. For US GAAP purposes, such gains and losses would be classified as Operating expenses under the caption Aircraft fuel when the fuel being hedged is consumed.

Financial instruments: Interest rate risk management

The Company is exposed to the fluctuations of the LIBOR interest rates, due to the financing of certain aircraft. In order to reduce this exposure, the Company decided to hedge a high percentage of its debt through the use of interest rate swaps and interest rate options.

In May 2001, the Company also entered into six receive-floating, pay-fixed interest rate swap contracts designated as cash flow hedges of the variable interest payments on existing debt of ThUS\$ 330,608. Pursuant to these contracts, the Company pays or receives, depending on the case, the difference between the agreed fixed rate and the floating rate calculated on the notional amount of each contract. The critical terms of these swap contracts, namely notional amounts and dates, have been negotiated to match the terms of the designated variable-rate debt; therefore, there is no ineffectiveness. In October 2005, the Company entered into two interest rate swap contracts designated as cash flow hedges of the Libor exposure of the financing of two A319-100 aircraft delivered in 2005. During the first quarter of 2006, the Company also entered into ten receive-floating, pay-fixed interest rate swap contracts in order to hedge the variable interest payments on existing debt of approximately ThUS\$ 46,697.

Additionally, in May 2006 the Company entered into thirty-two forward starting interest rate swap contracts designated as cash flow hedges of the Libor exposure of the financing of twenty A318-100, eight A319-100 and four A320-200 aircraft to be delivered in 2006, 2007 and 2008. Regarding those swaps, thirteen of the above mentioned aircraft have already been received by the Company, and the corresponding derivatives were terminated as the Company entered into fixed rate debt agreements. Regarding the balance of the mentioned forward starting swaps, one has been converted to an interest rate swap, while the eighteen remaining contracts are still forward starting interest rate swaps.

In June 2006, the Company entered into eleven forward starting interest rate swap contracts designated as cash flow hedges of the Libor exposure of the financing of eleven B767-300 ER aircraft to be delivered in 2006, 2007 and 2008. Regarding those swaps, six of the above mentioned aircraft have already been received by the Company, and the corresponding derivatives were terminated as the Company entered into fixed rate debt agreements. The remaining five contracts are still forward starting interest rate swaps.

In August 2007, the Company entered into three forward starting interest rate swap contracts designated as cash flow hedges of the Libor exposure of the financing of three B767-300 ER to be delivered in 2009, and in September 2007, the Company entered into another three forward starting interest rate swap contracts designated as cash flow hedges of the Libor exposure of the financing of three Airbus A320 to be delivered in 2010.

When the forward starting swaps are terminated and the Company enters into fixed rate loans at the time an aircraft is received, the Company, for Chilean GAAP purposes, records the fair value on such derivatives net of the associated debt. Under US GAAP, such fair value remains in other comprehensive income and is recognized in earnings over the term of the debt which is also recorded at its fair value at the time an aircraft is received.

The fair value and the losses of these swap contracts for the years ending December 31, 2007, 2006 and 2005, are as follows:

	2007	2006	2005
Losses on interest rate swap contracts (ThUS\$)	(285)	(1,138)	(5,783)
Fair value of interest rate swap contracts (ThUS\$)	(54,749)	(18,538)	(4,719)

During July 2003, the Company purchased four interest rate cap contracts for a total notional amount of ThUS\$ 127,753. These caps are intended to limit the Company's exposure arising from variable-rate debt. Under Chilean and US GAAP, these 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 match perfectly. The fair value of these contracts has been estimated at ThUS\$ 1,256.

During the same month, the Company purchased an additional two interest rate cap contracts. These caps are intended to limit the exposure of LIBOR-linked operational lease payments on aircraft received during 2004. The fair value of these contracts at year-end amounted to ThUS\$ 752.

During April 2004, the Company purchased an additional two interest rate cap contracts. These caps are intended to limit the exposure of LIBOR-linked operational lease payments on aircraft received during 2005. The fair value of these contracts at year-end amounted to ThUS\$ 643.

During 2005, the Company purchased three additional interest rate Cap contracts. These contracts are intended to limit the exposure of LIBOR-linked financing on aircraft delivered in 2005 and one delivered in 2006. The fair value of these contracts at year-end amounted ThUS\$ 214.

Under FAS 133, these eleven aforementioned derivative contracts 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. However, for US GAAP 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 fair value of the Company's option. Under Chilean GAAP, the caps are accounted for as cash flow hedges and no ineffectiveness was determined.

The premium on the caps was allocated to individual caplets and is recognized in the income statement throughout the term of each contract for Chilean and US GAAP purposes.

In April 2002, the Company entered into a Treasury rate lock for a notional amount of ThUS\$ 45,000 in order to hedge the variability in the cash proceeds attributable to changes in the benchmark interest rate to be received from the forecasted securitization of future credit card receivables. The forecasted transaction occurred on August 22, 2002. For Chilean GAAP purposes, the loss amounting to ThUS\$ 3,622 arising from the settlement of the derivative was deferred and is amortized to the income statement over the term of the securitization. Under US GAAP, the derivative was accounted for as a cash flow hedge, and ThUS\$ 3,219 was deferred in Other comprehensive income and subsequently amortized to the income statement, while ineffectiveness of ThUS\$ 402 was recognised within the income statement as of that date. The effect of recording the amortization and the ineffectiveness in accordance with US GAAP is included in paragraph 1 p) above.

As a result of those hedging activities, the Company has 96% of its interest rate exposure hedged.

Financial instruments: foreign currency exchange rates

The Company conducts business in local currencies in several countries and accordingly faces the risk of variation in foreign currency exchange rates. A depreciation of the Chilean peso, the Brazilian real, Argentine peso, Mexican nuevo peso, Peruvian nuevo sol or the European euro against the U.S. dollar could have a material adverse effect on the Company because it has revenues and receivables denominated in those currencies. As a part of its risk management policy, the Company regularly monitors its exposure to variations in the exchange rates of these different currencies. In order to reduce the impact of the foreign exchange rate fluctuations, the Company enters from time to time into foreign exchange hedging contracts. Under these forward contracts, for any rate above or below the fixed rate, the Company receives or pays the difference between the spot rate and the fixed rate for the given amount at the settlement date.

As of and during the year ended December 31, 2007 and 2006, the Company has no outstanding exchange forward contracts for hedging purposes.

In order to have a better yield on its investments in 2007 and 2006, the Company entered into bank deposits in Chilean Peso together with a US dollar-Chilean pesos foreign exchange swap in order to receive US dollars at maturity. The mark to market value of these foreign exchange swaps amounted to a loss of US\$1.6 million and is recorded in earnings under both Chilean and US GAAP.

Other information on derivative instruments

By using derivative financial instruments to hedge exposures to changes in exchange rates, interest rates, and jet fuel prices, the Company exposes itself to credit risk and market risk.

Credit risk is the risk that the counterparty might fail to fulfill its performance obligations under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates repayment risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, does not assume repayment risk. The Company minimizes its credit (or repayment) risk in derivative instruments by (1) entering into transactions with high-quality counterparties (2) limiting the amount of its exposure to each counterparty, and (3) monitoring the financial condition of its counterparties. The Company also maintains a policy of requiring that derivative contracts be governed by an ISDA Master Agreement. Market risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates, currency exchange rates, or jet fuel prices. The Company manages the market risk associated with interest rate, jet fuel price, and foreign-exchange contracts by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

g) Comprehensive income (loss)

Comprehensive income (loss) is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The fair value of cash flow hedges were considered to be Other comprehensive income during 2007, 2006 and 2005 and the unrealized gain on available for sale securities has been included in 2007.

h) Recent Accounting Pronoucements Adopted

We adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"), effective January 1, 2007. FIN 48, issued by the FASB in July 2006, clarifies the accounting for uncertainty in income taxes recognized in financial statements and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. The implementation of FIN 48 did not have a material impact on the Company's financial statements.

i) Recent Accounting Pronouncements not yet implemented

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. The provisions of this statement are to be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of SFAS No. 157 are effective for the fiscal years beginning after November 15, 2007; therefore, the Company anticipates adopting this standard as of January 1, 2008. It has not determined the effect, if any, the adoption of this statement will have on its financial condition or results of operations.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (Statement 159). Statement 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. Statement 159 is effective for fiscal years beginning after November 15, 2007, and early application is allowed under certain circumstances. The Company anticipates adopting this standard as of January 1, 2008. It has not determined the effect, if any, the adoption of this statement will have on its financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" - An Amendment of ARB No. 51. SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity.

The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains it controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the adoption of SFAS 160 will have an effect on its consolidated financial statements.

In December 2007, the FASB issued FASB Statements No. 141 (revised 2007), "Business Combinations". In this statement, the FASB retained the fundamental requirements of Statement No. 141 to account for all business combinations using the acquisition method (formerly the purchase method) and for an acquiring entity to be identified in all business combinations. However, the fair value principles in the revised Statement are a major change from Statement No. 141's cost allocation process, together with other revisions from past practice. Among other changes, Statement No. 141(R) requires the acquiring entity in a business combination to:

- Recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions
- Recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase
- · Expense acquisition-related costs, such as legal and due diligence costs, when incurred
- Recognize any restructuring costs that the acquiring entity expects to incur with respect to the acquired business as an expense, rather than capitalize as part of the acquisition
- Disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination.

The statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the adoption of FAS141(R) to have and effect on its consolidated financial statements.

BY-LAWS LAN AIRLINES S.A.

SECTION ONE: Name, Registered Office and Purpose

- **Article 1:** A corporation is incorporated that will be governed voluntarily by the rules applicable to open corporations and will be called Lan Airlines S.A., although it may also indistinctively use the fictitious names of "Lan," "Lan Chile," "Lan Airlines" and/or "Lan Group."
- **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 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\$453,875,272, divided into 341,000,000 registered, common shares in one same series, with no par value. There are no special series of shares nor 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 General 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 outloud 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 outloud or by ballot. When counting votes from the annotations made by the aforesaid persons, the Chairman may read the votes outloud 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 General 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 General 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 regard 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

Transitory Article First: The capital of the Company is US\$453,875,272, divided into 341,000,000 shares in one same series, registered, common, with no par value, which is subscribed and paid in the following terms:

- (i) The sum of US\$134,303,353, representing 318,909,090 shares corresponding to the equity capital at December 31, 2006, according to the balance sheet approved by the Regular Shareholders Meeting held April 5, 2007, which has been fully subscribed and paid in as of this date.
- (ii) The sum of US\$319,571,919, corresponding to the capital increase approved by the Special Shareholders Meeting held April 5, 2007, which will be paid through the issuance of 22,090,910 cash shares to be issued and placed all at once or in parts by the Board of Directors on the dates determined thereby. The Board of Directors of the Company was authorized to proceed with and agree, with the most ample attributions, on the terms of the issuance and placement of the cash shares necessary to consummate the approved capital increase and subscription and payment thereof and to proceed with the final determination of the cash share placement price in the period of 120 days as from the Special Shareholders Meeting held April 5, 2007. The Special Shareholders Meeting held April 5, 2007 approved registering, issuing and offering part of the approved capital increase on the securities market of the United States of America, specifically the New York Stock Exchange of that country, through any of the forms of the ADR mechanism, as such term is defined in Circular No. 1375 of the Superintendency of Securities and Insurance.

The shares shall be issued and placed in the following way:

- (a) The sum of 2,209,091 cash shares will be allocated to compensation plans that the Board will elaborate for employees of the company and of its subsidiaries through a Company stock option program, for which the Board was amply empowered. The subscription price of these shares will be the price set by the Board, but it may never be less than the price that is set for the remaining shares in this capital increase. For this part of the increase, shareholders shall not enjoy a preemptive option right, as provided in the third subparagraph of article 24 of Law 18,046. The term to subscribe and pay for these shares will run for 5 years as from the date of the Special Shareholders meeting held April 5, 2007, and the Board is empowered to issue those shares in one or several stages according to the compensation plans it prepares. These shares shall be paid at once, in the act of subscription, in cash, by bank check, wire transfer or any other instrument or effect representing money payable upon demand.
- (b) The sum of 19,881,819 cash shares will be offered preferentially to shareholders according to the law. Shares not subscribed by shareholders in exercise of their preemptive option or those whose preemptive option rights are waived in whole or in part, or those corresponding to fractions occurring in the proration among shareholders may be offered freely to shareholders or to third parties in Chile or abroad on the dates and in the amounts deemed pertinent by the Board of Directors, who is amply empowered to determine the procedures for the same. These shares shall be paid at once, in the act of subscription, in cash, by bank check, wire transfer or any other instrument or effect representing money payable upon demand. These shares shall be fully subscribed and paid in a period of three years as from the date of the Special Shareholders Meeting held April 5, 2007.

PURCHASE AGREEMENT NUMBER 3194

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Relating to Boeing Model 777-FREIGHTER Aircraft

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ARTICLES

- Quantity, Model and Description 1.
- 2. Delivery Schedule
- 3. Price
- 4. Payment
- 5. Miscellaneous

TABLE

1. Aircraft Information Table

EXHIBIT

- Aircraft Configuration A.
- B. Aircraft Delivery Requirements and Responsibilities

SUPPLEMENTAL EXHIBITS

AE1. Escalation Adjustment/Airframe and Optional Features BFE1. BFE Variables

CS 1. Customer Support Variables

EEl. Engine Escalation/Engine Warranty and Patent Indemnity

SLP1. Service Life Policy Components

LETTER AGREEMENTS

3194-01	777 Spare Parts Initial Provisioning
3194-02	Open Configuration Matters
3194-03	[***]
6-1162-ILK-0270	[***]
6-1162-ILK-0271	[***]
6-1162-ILK-0272	Promotional Support (First of Minor Model)
6-1162-ILK-0273	EULA Special Matters
6-1162-ILK-0274	Performance Guarantees
6-1162-ILK-0275	[***]
6-1162-ILK-0276	[***]
6-1162-ILK-0277	[***]

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Purchase Agreement No. 3194

between

The Boeing Company

and

LAN Airlines S.A.

This Purchase Agreement No. 3194 dated as of ______ day of ______ of 2007 between The Boeing Company (*Boeing*) and LAN Airlines S.A. (*Customer*)

This Purchase Agreement No. 3194 dated as of ______of 2007 between The Boeing Company (*Boeing*) and LAN Airlines S.A. (*Customer*) relating to the purchase and sale of Model 777-FREIGHTER aircraft together with all tables, exhibits, supplemental exhibits, letter agreements and other attachments thereto, if any, (*Purchase Agreement*) incorporates the terms and conditions of the Aircraft General Terms Agreement dated as of the <u>9th of May of 1997</u> between the parties, identified as AGTA-LAN (*AGTA*).

Article 1. Quantity, Model and Description.

The aircraft to be delivered to Customer will be designated as Model 777-FREIGHTER aircraft (the *Aircraft*). Boeing will manufacture and sell to Customer Aircraft conforming to the configuration described in Exhibit A in the quantities listed in Table 1 to the Purchase Agreement.

Article 2. Delivery Schedule.

The scheduled months of delivery of the Aircraft are listed in the attached Table 1. Exhibit B describes certain responsibilities for both Customer and Boeing in order to accomplish the delivery of the Aircraft.

Article 3. Price.

- 3.1 Aircraft Basic Price. The Aircraft Basic Price is listed in Table 1 in subject to escalation dollars.
- 3.2 <u>Advance Payment Base Prices</u>. The Advance Payment Base Prices listed in Table 1 were calculated utilizing the latest escalation factors available to Boeing on the date of this Purchase Agreement projected to the month of scheduled delivery.

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Article 4. Payment.

- 4.1 Boeing acknowledges receipt of a deposit in the amount shown in Table 1 for each Aircraft (*Deposit*).
- 4.2. The standard advance payment schedule for the Model 777-FREIGHTER aircraft requires Customer to make certain advance payments, expressed in a percentage of the Advance Payment Base Price of each Aircraft beginning with a payment of 1%, less the Deposit, on the effective date of the Purchase Agreement for the Aircraft. Additional advance payments for each Aircraft are due as specified in and on the first business day of the months listed in the attached Table 1.
- 4.3 For any Aircraft whose scheduled month of delivery is less than 24 months from the date of this Purchase Agreement, the total amount of advance payments due for payment upon signing of this Purchase Agreement will include all advance payments which are past due in accordance with the standard advance payment schedule set forth in paragraph 4.2 above.
 - 4.4 Customer will pay the balance of the Aircraft Price of each Aircraft at delivery.

Article 5. Additional Terms.

- 5.1 <u>Aircraft Information Table</u>. Table 1 consolidates information contained in Articles 1, 2, 3 and 4 with respect to (i) quantity of Aircraft, (ii) applicable Detail Specification, (iii) month and year of scheduled deliveries, (iv) Aircraft Basic Price, (v) applicable escalation factors and (vi) Advance Payment Base Prices and advance payments and their schedules.
- 5.2 <u>Escalation Adjustment/Airframe and Optional Features</u>. Supplemental Exhibit AE1 contains the applicable airframe and optional features escalation formula.
- 5.3 <u>Buyer Furnished Equipment Variables</u>. Supplemental Exhibit BFE1 contains vendor selection dates, on dock dates and other variables applicable to the Aircraft.
 - 5.4 <u>Customer Support Variables</u>. [***]

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- 5.5 <u>Engine Escalation Variables</u>. Supplemental Exhibit EE1 describes the applicable engine escalation formula and contains the engine warranty and the engine patent indemnity for the Aircraft.
- 5.6 <u>Service Life Policy Component Variables</u>. Supplemental Exhibit SLP 1 lists the airframe and landing gear components covered by the Service Life Policy for the Aircraft (<u>Covered Components</u>).
- 5.7 <u>Public Announcement</u>. Boeing reserves the right to make a public announcement regarding Customer's purchase of the Aircraft upon approval of Boeing's press release by Customer's public relations department or other authorized representative.
- 5.8 Negotiated Agreement; Entire Agreement. This Purchase Agreement, including the provisions of Article 8.2 of the AGTA relating to insurance, and Article 11 of Part 2 of Exhibit C of the AGTA relating to DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES, has been the subject of discussion and negotiation and is understood by the parties; the Aircraft Price and other agreements of the parties stated in this Purchase Agreement were arrived at in consideration of such provisions. This Purchase Agreement, including the AGTA, contains the entire agreement between the parties and supersedes all previous proposals, understandings, commitments or representations whatsoever, oral or written, and may be changed only in writing signed by authorized representatives of the parties. [***]

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DATED AS OF the day of July of 2007	
LAN AIRLINES S.A.	THE BOEING COMPANY
By: Mr. Carlos Prado C.	By:
Its: Senior VP Corporate Investments	Its: Attorney in Fact
By:	
Mr. Andrés del Valle Eitel	
Its: Corporate Finance Director	
P.A. No. 3194	4
BOEING PR	OPRIETARY

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Table 1 to

Purchase Agreement No. 3194

Aircraft Delivery, Description, Price and Advance Payments

Airframe Model/MTOW:	777-Freighter	[***]	Detail Specification:	[***]		
Engine Model/Thrust:	[***]	[***]	Airframe Price Base Year/Escalation Formula:		[***]	[***]
Airframe Price:		[***]	Engine Price Base Year/Escalation Formula:		N/A	N/A
Optional Features:		[***]				
Sub-Total of Airframe and Fe	eatures:	[***]	Airframe Escalation Data:			
Engine Price (Per Aircraft):		[***]	Base Year Index (ECI):			[***]
Aircraft Basic Price (Excludin	ng BFE/SPE):	[***]	Base Year Index (CPI):			[***]

Buyer Furnished Equipment (BFE) Estimate: [***]
Seller Purchased Equipment (SPE) Estimate: [***]
Refundable Deposit/Aircraft at Proposal Accept: \$230,000

						Ac	ivance Payn	ent Per Aircraft (Amts.	
		Escalation			Escalation Estimate		Due/Mos. Prior to Delivery):		
Delivery	Number of	Factor		Manufacturer	Adv Payment Base	At Signing	24 Mos.	21/18/15/12/9/6 Mos.	Total
Date	Aircraft	(Airframe)	Aircraft Block	Serial Number	Price Per A/P	1%	4%	5%	35%
Sep-2011	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
Sep-2012	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
Total:	2				[***]	[***]	[***]	[***]	[***]

Note: [***]

P.A. No. 3194, (Boeing APR reference: 45616)

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AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Exhibit A to Purchase Agreement Number 3194

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Exhibit A to
Purchase Agreement No. 3194
Page 1

AIRCRAFT CONFIGURATION

Dated _____relating to

BOEING MODEL 777-FREIGHTER AIRCRAFT

The Customer Aircraft Description is based on Boeing Configuration Specification D019W007-NEW dated as of the 24th of July of 2006. This Configuration Specification defines the basic features and characteristics of the aircraft, but excludes specific Options to be selected by the customer at a later time and which is more fully discussed in Letter Agreement 3194-02, Open Configuration Matters. Selectable Options are listed in Boeing 777 Freighter Standard Selections Publication D924W110-1 Dated February 2007.

The Aircraft Basic Price reflects and includes all features and characteristics contained in the Configuration Specification, except such Aircraft Basic Price does not include the price effects of any Buyer Furnished Equipment or Seller Purchased Equipment.

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AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

between

THE BOEING COMPANY and

LAN AIRLINES S.A.

Exhibit B to Purchase Agreement Number 3194

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AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

relating to

BOEING MODEL 777-FREIGHTER AIRCRAFT

Both Boeing and Customer have certain documentation and approval responsibilities at various times during the construction cycle of Customer's Aircraft that are critical to making the delivery of each Aircraft a positive experience for both parties. This Exhibit B documents those responsibilities and indicates recommended completion deadlines for the actions to be accomplished.

1. GOVERNMENT DOCUMENTATION REQUIREMENTS.

Certain actions are required to be taken by Customer in advance of the scheduled delivery month of each Aircraft with respect to obtaining certain government issued documentation.

1.1 Airworthiness and Registration Documents.

Customer is responsible for furnishing any Temporary or Permanent Registration Certificates required by any governmental authority having jurisdiction to be displayed aboard the Aircraft after delivery.

1.2 Certificate of Sanitary Construction.

1.2.1 U.S. Registered Aircraft. Boeing will obtain from the United States Public Health Service, a United States Certificate of Sanitary Construction to be displayed aboard each Aircraft after delivery to Customer.

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1.2.2 <u>Non-U.S. Registered Aircraft.</u> If Customer requires a United States Certificate of Sanitary Construction at the time of delivery of the Aircraft, Customer will give written notice thereof to Boeing at least **3 months prior to delivery**. Boeing will then use its reasonable best efforts to obtain the Certificate from the United States Public Health Service and present it to Customer at the time of Aircraft delivery.

1.3 Customs Documentation.

- 1.3.1 <u>Import Documentation.</u> If the Aircraft is intended to be exported from the United States, Customer must notify Boeing not later than **3 months prior to delivery** of each Aircraft of any documentation required by the customs authorities or by any other agency of the country of import.
- 1.3.2 <u>General Declaration U.S.</u> If the Aircraft is intended to be exported from the United States, Boeing will prepare Customs Form 7507, General Declaration, for execution by U.S. Customs immediately prior to the ferry flight of the Aircraft. For this purpose, Customer will furnish to Boeing not later than **20 days prior to delivery** all information required by U.S. Customs or U.S. Immigration and Naturalization Service, including without limitation (i) a complete crew and passenger list identifying the names, birth dates, passport numbers and passport expiration dates of all crew and passengers and (ii) a complete ferry flight itinerary, including point of exit from the United States for the Aircraft.

If Customer intends, during the ferry flight of an Aircraft, to land at a U.S. airport after clearing Customs at delivery, Customer must notify Boeing not later than **20 days prior to delivery** of such intention. If Boeing receives such notification, Boeing will provide to Customer the documents constituting a Customs permit to proceed, allowing such Aircraft to depart after any such landing. Sufficient copies of completed Form 7507, along with passenger manifest, will be furnished to Customer to cover U.S. stops scheduled for the ferry flight. [***]

1.3.3 Export Declaration - U.S. If the Aircraft is intended to be exported from the United States, Boeing will prepare Form 7525V and, **immediately prior to the ferry flight**, will submit such Form to U.S. Customs in Seattle in order to obtain clearance for the departure of the Aircraft, including any cargo, from the United States. U.S. Customs will deliver the Export Declaration to the U.S. Department of Commerce after export.

2. INSURANCE CERTIFICATES.

Unless provided earlier, Customer will provide to Boeing not later than **30 days prior to delivery** of the first Aircraft, a copy of the requisite annual insurance certificate in accordance with the requirements of Article 8 of the AGTA.

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3. NOTICE OF FLYAWAY CONFIGURATION.

Not later than **20 days prior to delivery** of the Aircraft, Customer will provide to Boeing a configuration letter stating the requested "flyaway configuration" of the Aircraft for its ferry flight. This configuration letter should include:

- (i) the name of the company which is to furnish fuel for the ferry flight and any scheduled post-delivery flight training, the method of payment for such fuel, and fuel load for the ferry flight;
- (ii) the cargo to be loaded and where it is to be stowed on board the Aircraft [***], the address where cargo is to be shipped after flyaway and notification of any hazardous materials requiring special handling;
 - $(iii) \ any \ BFE \ equipment \ to \ be \ removed \ prior \ to \ flyaway \ and \ returned \ to \ Boeing \ BFE \ stores \ for \ installation \ on \ Customer's \ subsequent \ Aircraft;$
 - (iv) a complete list of names and citizenship of each crew member and non-revenue passenger who will be aboard the ferry flight; and
 - (v) a complete ferry flight itinerary.

4. DELIVERY ACTIONS BY BOEING.

- 4.1 <u>Schedule of Inspections</u>. All FAA, Boeing, Customer and, if required, U.S. Customs Bureau inspections will be scheduled by Boeing for completion prior to delivery or departure of the Aircraft. [***]
- 4.2 <u>Schedule of Demonstration Flights</u>. All FAA and Customer demonstration flights will be scheduled by Boeing for completion prior to delivery of the Aircraft. [***]
- 4.3 <u>Schedule for Customer's Flight Crew</u>. Boeing will inform Customer of the date, [***], that a flight crew is required for acceptance routines associated with delivery of the Aircraft.
- 4.4 <u>Fuel Provided by Boeing</u>. Boeing will provide to Customer, without charge, the amount of fuel shown in U.S. gallons in the table below for the model of Aircraft being delivered and full capacity of engine oil at the time of delivery or prior to the ferry flight of the Aircraft.

Aircraft Model Fuel Provided 777-FREIGHTER 3,000

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- 4.5 Flight Crew and Passenger Consumables. Boeing will provide reasonable quantities of food, coat hangers, towels, toilet tissue, drinking cups and soap for the first segment of the ferry flight for the Aircraft.
- 4.6 <u>Delivery Papers</u>, <u>Documents and Data</u>. Boeing will have available at the time of delivery of the Aircraft certain delivery papers, documents and data for execution and delivery. If title for the Aircraft will be transferred to Customer through a Boeing sales subsidiary and if the Aircraft will be registered with the FAA, Boeing will pre-position in Oklahoma City, Oklahoma, for filing with the FAA at the time of delivery of the Aircraft an executed original Form 8050-2, Aircraft Bill of Sale, indicating transfer of title to the Aircraft from Boeing's sales subsidiary to Customer.
- 4.7 Delegation of Authority. If specifically requested in advance by Customer, Boeing will present a certified copy of a Resolution of Boeing's Board of Directors, designating and authorizing certain persons to act on its behalf in connection with delivery of the Aircraft.

5. DELIVERY ACTIONS BY CUSTOMER.

- 5.1 Aircraft Radio Station License. At delivery Customer will provide its Aircraft Radio Station License to be placed on board the Aircraft following delivery.
 - 5.2 Aircraft Flight Log. At delivery Customer will provide the Aircraft Flight Log for the Aircraft.
- 5.3 Delegation of Authority. Customer will present to Boeing at delivery of the Aircraft an original or certified copy of Customer's Delegation of Authority designating and authorizing certain persons to act on its behalf in connection with delivery of the specified Aircraft.

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B-4

ESCALATION ADJUSTMENT AIRFRAME AND OPTIONAL FEATURES

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Supplemental Exhibit AEI to Purchase Agreement Number 3194

(For Boeing Models 777-200LR, 777-F and 777-300ER: the Airframe Price Includes the Engine Price at its basic thrust level.)

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1. Formula.

Airframe and Optional Features price adjustments (<u>Airframe Price Adjustment</u>) are used to allow prices to be stated in current year dollars at the signing of this Purchase Agreement and to adjust the amount to be paid by Customer at delivery for the effects of economic fluctuation. The Airframe Price Adjustment will be determined at the time of Aircraft delivery in accordance with the following formula:

$$P_a = (P) (L + M) - P$$

Where:

P_a = Airframe Price Adjustment.

P = Airframe Price (For Models 777-200LR, 777-FREIGHTER, and 777-300ER the Airframe Price includes the Engine Price at its

basic thrust level.) plus the price of the Optional Features (as set forth in Table 1 of this Purchase Agreement).

L = $.65 \times [(\underline{ECI} \times (\underline{ECI-R} \\ ECI_b) \quad ECI-R_b)]$

Where:

 ECI_b is the base year airframe escalation index ([***] as set forth in Table 1 of this Purchase Agreement);

ECI is the three-month arithmetic average value of [***] for October, November, and December [***], using ECI –MFG (BLS Series ID ECU124021);

 $ECI-R_b$ is the three-month arithmetic average value of 100.0 for October, November, and December [***], using the ECI-NAICS Manufacturing (BLS Series ID CIU20130000000001); and

ECI-R is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics, Employment Cost Index for NAICS Manufacturing – Total Compensation (BLS Series ID CIU2013000000001), calculated by establishing a three-month arithmetic average value (expressed as a decimal and rounded to the nearest tenth)

P.A. No. 3194

AE1-1 BOEING PROPRIETARY Page 16 of 139 using the values for the 11th, 12th, and 13th months prior to the month of scheduled delivery of the applicable Aircraft. As the Employment Cost Index values are only released on a quarterly basis, the value released for the first quarter will be used for the months of January, February, and March; the value released for the second quarter will be used for the months of April, May, and June; the value released for the third quarter will be used for the months of July, August, and September; the value released for the fourth quarter will be used for the months of October, November, and December.

 $M = .35 \times (\underline{CPI}_{b})$

Where:

CPI_b is the base year airframe escalation index ([***] as set forth in Table 1 of this Purchase Agreement); and

CPI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index –All Urban Consumers (BLS Series ID CUUR0000SA0), calculated as a 3-month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th, and 13th months prior to the month of scheduled delivery of the applicable Aircraft.

As an example, for an Aircraft scheduled to be delivered in the month of July, the months of June, July, and August of the preceding year will be utilized in determining the value of ECI-R and CPI.

Note: i. In determining the values of L and M, all calculations and resulting values will be expressed as a decimal rounded to the nearest ten-thousandth.

ii. .65 is the numeric ratio attributed to labor in the Airframe Price Adjustment formula.

iii. .35 is the numeric ratio attributed to materials in the Airframe Price Adjustment formula.

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- iv. The denominators (base year indices) are the actual average values reported by the U.S. Department of Labor, Bureau of Labor Statistics. The actual average values are calculated as a 3-month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th, and 13th months prior to the airframe base year. The applicable base year and corresponding denominator is provided by Boeing in Table 1 of this Purchase Agreement.
- v. The final value of P_a will be rounded to the nearest dollar.
- vi. The Airframe Price Adjustment will not be made if it will result in a decrease in the Aircraft Basic Price.

2. Values to be Utilized in the Event of Unavailability.

- 2.1 If the Bureau of Labor Statistics substantially revises the methodology used for the determination of the values to be used to determine the ECI-R and CPI values (in contrast to benchmark adjustments or other corrections of previously released values), or for any reason has not released values needed to determine the applicable Airframe Price Adjustment, the parties will, prior to the delivery of any such Aircraft, select a substitute from other Bureau of Labor Statistics data or similar data reported by non-governmental organizations. Such substitute will result in the same adjustment, insofar as possible, as would have been calculated utilizing the original values adjusted for fluctuation during the applicable time period. However, if within 24 months after delivery of the Aircraft, the Bureau of Labor Statistics should resume releasing values for the months needed to determine the Airframe Price Adjustment, such values will be used to determine any increase or decrease in the Airframe Price Adjustment for the Aircraft from that determined at the time of delivery of the Aircraft.
- 2.2 Notwithstanding Article 2.1 above, if prior to the scheduled delivery month of an Aircraft the Bureau of Labor Statistics changes the base year for determination of the ECI-R and CPI values as defined above, such re-based values will be incorporated in the Airframe Price Adjustment calculation.
- 2.3 In the event escalation provisions are made non-enforceable or otherwise rendered void by any agency of the United States Government, the parties agree, to the extent they may lawfully do so, to equitably adjust the Aircraft Price of any affected Aircraft to reflect an allowance for increases or decreases consistent with the applicable provisions of paragraph 1 of this Supplemental Exhibit AE1 in labor compensation and material costs occurring since August of the year prior to the price base year shown in the Purchase Agreement.
- 2.4 If within 12 months of Aircraft delivery, the published index values are revised due to an acknowledged error by the Bureau of Labor Statistics, the Airframe Price Adjustment will be re-calculated using the revised index values (this does not include those values noted as preliminary by the Bureau of Labor Statistics). A credit

P.A. No. 3194

AE1-3 BOEING PROPRIETARY Page 18 of 139 memorandum or supplemental invoice will be issued for the Airframe Price Adjustment difference. Interest charges will not apply for the period of original invoice to issuance of credit memorandum or supplemental invoice.

Note:

- i. The values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to the first day of the scheduled delivery month of an Aircraft will be used to determine the ECI-R and CPI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Airframe Price Adjustment for the Aircraft invoice at the time of delivery. The values will be considered final and no Airframe Price Adjustments will be made after Aircraft delivery for any subsequent changes in published Index values, subject always to paragraph 2.4 above.
- ii. The maximum number of digits to the right of the decimal after rounding utilized in any part of the Airframe Price Adjustment equation will be 4, where rounding of the fourth digit will be increased to the next highest digit when the 5th digit is equal to 5 or greater.

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BUYER FURNISHED EQUIPMENT VARIABLES

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Supplemental Exhibit BFE1 to Purchase Agreement Number 3194

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BFE1 BOEING PROPRIETARY Page 20 of 139

BUYER FURNISHED EQUIPMENT VARIABLES

relating to

BOEING MODEL AIRCRAFT

This Supplemental Exhibit BFE1 contains vendor selection dates, on-dock dates and other variables applicable to the Aircraft.

1. <u>Supplier Selection</u>. Customer will:

1.1 Select and notify Boeing of the suppliers and part numbers of the following BFE items by the following dates:

[***]

2. On-dock Dates

Boeing will provide to Customer a BFE Requirements On-Dock/Inventory Document (*BFE Document*) or an electronically transmitted BFE Report which may be periodically revised, setting forth the items, quantities, on-dock dates and shipping instructions relating to the in-sequence installation of BFE. [***]

3. Additional Delivery Requirements

Customer will insure that Customer's BFE suppliers provide sufficient information to enable Boeing, when acting as Importer of Record for Customer's BFE, to comply with all applicable provisions of the U.S. Customs Service.

P.A. No. 3194

BFE1-1 BOEING PROPRIETARY Page 21 of 139 $Attachment\ 1\ to\ Supplemental\ Exhibit\ BFE1\ to\ Purchase\ Agreement\ Number\ 3194.$

<u>Item</u>	Preliminary On-Dock Dates as noted	
	[***]	[***]
[***]	[***]	[***]

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CUSTOMER SUPPORT VARIABLES

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Supplemental Exhibit CS1 to Purchase Agreement Number 3194 $\,$

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CUSTOMER SUPPORT DOCUMENT

relating to

BOEING MODEL 777-FREIGHTER AIRCRAFT

[***]

1. Maintenance Training.

- 1.1 Maintenance Training Minor Model Differences Course, if required, covering operational, structural or systems differences between Customer's newly-purchased Aircraft and an aircraft of the same model currently operated by Customer; 1 class of 15 students;
- 1.2 Training materials, if applicable, will be provided to each student. In addition, one set of training materials as used in Boeing's training program, including visual aids, text and graphics will be provided for use in Customer's own training program.

2. Flight Training.

Boeing will provide, if required, one classroom course to acquaint up to 15 students with operational, systems and performance differences between Customer's newly-purchased Aircraft and an aircraft of the same model currently operated by Customer.

Any training materials used in Flight Training, if required, will be provided for use in Customer's own training program.

Planning Assistance.

3.1 Maintenance and Ground Operations.

Upon request, Boeing will provide planning assistance regarding Minor Model Differences requirements for facilities, tools and equipment.

3.2 Spares

Boeing will revise, as applicable, the customized Recommended Spares Parts List (RSPL) and Illustrated Parts Catalog (IPC).

4. <u>Technical Data and Documents</u>.

Boeing will revise, as applicable, technical data and documents provided with previously delivered aircraft.

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ENGINE ESCALATION, ENGINE WARRANTY AND [***]

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Supplemental Exhibit EE 1 to Purchase Agreement Number 3194 $\,$

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ENGINE ESCALATION, ENGINE WARRANTY AND [***]

relating to

BOEING MODEL 777-FREIGHTER AIRCRAFT

- 1. <u>ENGINE ESCALATION</u>. No separate engine escalation methodology is defined for the 777-FREIGHTER Aircraft. Pursuant to the AGTA, the engine prices for these Aircraft are included in and will be escalated in the same manner as the Airframe.
- 2. <u>ENGINE WARRANTY AND PRODUCT SUPPORT PLAN</u>. Boeing has obtained from General Electric Company (GE) GE's guarantee that GE will extend directly to Customer GE's warranty, special guarantees and product support services (hereinafter collectively referred to as the "Warranty"); subject, however, to Customer's acceptance of the conditions set forth in the Warranty.

In consideration for Boeing's having obtained GE's guarantee to provide the Warranty directly to the Customer, Customer hereby releases and discharges Boeing from any and all claims, obligations and liabilities whatsoever arising out of the purchase or use of such Engines and Customer hereby waives, releases and renounces all its rights in all such claims, obligations and liabilities. THE WARRANTY GE EXTENDS DIRECTLY TO CUSTOMER IS EXCLUSIVE, AND IS IN LIEU OF ALL OTHER WARRANTIES WHETHER WRITTEN, ORAL OR IMPLIED. THERE ARE NO IMPLIED WARRANTIES OF FITNESS OR MERCHANTABILITY.

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SERVICE LIFE POLICY COMPONENTS

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Supplemental Exhibit SLP 1 to Purchase Agreement Number 3194 $\,$

P.A. No. 3194

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[***] SERVICE LIFE COMPONENTS

relating to

BOEING MODEL 777 AIRCRAFT

This is the listing of [***] Components for the Aircraft which relate to Part 3, Boeing Service Life Policy of Exhibit C, Product Assurance Document to the AGTA and is a part of Purchase Agreement No. 3194.

Wing.

- (a) Upper and lower wing skins and stiffeners between the forward and rear wing spars.
- Wing spar webs, chords and stiffeners. (b)
- Inspar wing ribs. (c)
- (d) Inspar splice plates and fittings.
- Main landing gear support structure. (e)
- Wing center section lower beams, spanwise beams and floor beams, but not the seat tracks attached to the beams. (f)
- Wing-to-body structural attachments. (g)
- (h) Engine strut support fittings attached directly to wing primary structure.
- Support structure in the wing for spoilers and spoiler actuators; for aileron hinges and reaction links; and for leading edge devices and trailing edge (i) flaps.
- Leading edge device and trailing edge flap support system. (j)
- Aileron leading edge device and trailing edge flap internal, fixed attachment and actuator support structure. (k)

Body.

- External surface skins and doublers, longitudinal stiffeners, longerons and circumferential rings and frames between the forward pressure bulkhead and the vertical stabilizer rear spar bulkhead, and structural support and enclosure for the APU but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.
- Window and windshield structure but excluding the windows and windshields.

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2. Body, continued

- (c) Fixed attachment structure of the passenger doors, cargo doors and emergency exits, excluding door mechanisms and movable hinge components. Sills and frames around the body openings for the passenger doors, cargo doors and emergency exits, excluding scuff plates and pressure seals.
- (d) Nose wheel well structure, including the wheel well walls, pressure deck, forward and aft bulkheads, and the gear support structure.
- (e) Main gear wheel well structure including pressure deck, bulkheads and landing gear beam support structure.
- (f) Floor beams and support posts in the control cab and passenger cabin area, but excluding seat tracks.
- (g) Forward and aft pressure bulkheads.
- (h) Keel structure between the wing front spar bulkhead and the main gear wheel well aft bulkhead, including splices.
- (i) Wing front and rear spar support bulkheads, and vertical and horizontal stabilizer front and rear spar support bulkheads including terminal fittings but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.
- (j) Support structure in the body for the stabilizer pivot and stabilizer screw.

Vertical Stabilizer.

- (a) External skins between front and rear spars.
- (b) Front and rear spars including stiffeners.
- (c) Attachment fittings between vertical stabilizer and body.
- (d) Inspar ribs.
- (e) Support structure in the vertical stabilizer for rudder hinges, reaction links and actuators.
- (f) Rudder internal, fixed attachment and actuator support structure.
- (g) [***]

Horizontal Stabilizer.

- (a) External skins between front and rear spars.
- (b) Front and rear spars including splices and stiffeners.
- (c) Inspar ribs.

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4. Horizontal Stabilizer., continued

- (d) Stabilizer [***], splice fittings and pivot and screw support structure.
- (e) Support structure in the horizontal stabilizer for the elevator hinges, reaction links and actuators.
- (f) Elevator internal, fixed attachment and actuator support structure.
- (g) Elevator hinges and supporting ribs, excluding bearings.

Engine Strut.

- (a) Strut external surface skin and doublers and stiffeners.
- (b) Internal strut chords, frames and bulkheads.
- (c) Strut to wing fittings and diagonal brace.
- (d) Engine mount support fittings attached directly to strut structure.
- (e) For Aircraft equipped with General Electric or Pratt & Whitney engines only, the engine mounted support fittings.

6. Main Landing Gear.

- (a) Outer cylinder.
- (b) Inner cylinder.
- (c) Upper and lower side strut, including spindles and universals.
- (d) Upper and lower drag strut, including spindles and universals.
- (e) Orifice support tube.
- (f) Downlock links including spindles and universals.
- (g) Torsion links.
- (h) Bogie beam.
- (i) Axles.
- (j) Steering crank arm.
- (k) Steering rod.

7. Nose Landing Gear.

- (a) Outer cylinder.
- (b) Inner cylinder, including axles.

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SLP1-3 BOEING PROPRIETARY Page 30 of 139 (c) Orifice support tube.

7. Nose Landing Gear, continued

- (d) Upper and lower drag strut, including lock links.
- (e) Steering plates and steering collar.
- (f) Torsion links.
- (g) Actuator support beam and hanger.

NOTE: The Service Life Policy does not cover any bearings, bolts, bushings, clamps, brackets, actuating mechanisms or latching mechanisms used in or on the [***] Components.

P.A. No. 3194

SLP1-4 BOEING PROPRIETARY Page 31 of 139 3194-01

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: Spare Parts Initial Provisioning

Reference:

- a) Purchase Agreement No. 3194 (the *Purchase Agreement*) between The Boeing Company (*Boeing*) and LAN Airlines S.A. (*Customer*) relating to Model 777-FREIGHTER aircraft (the *Aircraft*)
- b) Customer Services General Terms Agreement No. 16-1 (CSGTA) between Boeing and Customer

This letter agreement (<u>Letter Agreement</u>) is entered into on the date below and amends and supplements the CSGTA. All capitalized terms used but not defined in this Letter Agreement have the same meaning as in the CSGTA, except for "Aircraft" which will have the meaning as defined in the Purchase Agreement.

In order to define the process by which Boeing and Customer will (i) identify those Spare Parts and Standards critical to Customer's successful introduction of the Aircraft into service and its continued operation, (ii) place Orders under the provisions of the CSGTA as supplemented by the provisions of this Letter Agreement for those Spare Parts and Standards, and (iii) manage the return of certain of those Spare Parts which Customer does not use, the parties agree as follows.

<u>Definitions</u>.

"**Provisioning Data**" means the documentation provided by Boeing to Customer, including but not limited to the Recommended Spare Parts List (*RSPL*), identifying all Boeing initial provisioning requirements for the Aircraft.

"**Provisioning Items**" means the Spare Parts and Standards identified by Boeing as initial provisioning requirements in support of the Aircraft, excluding special tools, ground support equipment (<u>GSE</u>), engines and engine parts.

"Provisioning Products Guide" means the Boeing Manual D6-81834 entitled "Spares Provisioning Products Guide".

P.A. No. 3194 Spare_Parts_Initial_Provisioning

Page 32 of 139

3194-01 Page 2

2. Phased Provisioning.

- 2.1 Provisioning Products Guide. Prior to the initial provisioning meeting Boeing will furnish to Customer a copy of the Provisioning Products Guide.
- 2.2 <u>Initial Provisioning Meeting</u>. On or about twelve (12) months prior to delivery of the first Aircraft the parties will conduct an initial provisioning meeting where the procedures, schedules, and requirements for training will be established to accomplish phased provisioning of Spare Parts and Standards for the Aircraft in accordance with the Provisioning Products Guide. If the lead time from execution of the Purchase Agreement until delivery of the first Aircraft is less than twelve (12) months, the initial provisioning meeting will be established as soon as reasonably possible after execution of the Purchase Agreement.
- 2.3 <u>Provisioning Data</u>. During the initial provisioning meeting Customer will provide to Boeing the operational parameter information described in Chapter 6 of the Provisioning Products Guide. After review and acceptance by Boeing of such Customer information, Boeing will prepare the Provisioning Data. Such Provisioning Data will be furnished to Customer on or about ninety (90) days after Boeing finalizes the engineering drawings for the Aircraft. The Provisioning Data will be as complete as possible and will cover Provisioning Items selected by Boeing for review by Customer for initial provisioning of Spare Parts and Standards for the Aircraft. Boeing will furnish to Customer revisions to the Provisioning Data until approximately ninety (90) days following delivery of the last Aircraft or until the delivery configuration of each of the Aircraft is reflected in the Provisioning Data, whichever is later.
- 2.4 <u>Buyer Furnished Equipment (*BFE*) Provisioning Data</u>. Unless otherwise advised by Boeing, Customer will provide or insure its BFE suppliers provide to Boeing the BFE data in scope and format acceptable to Boeing, in accordance with the schedule established during the initial provisioning meeting.

3. Purchase from Boeing of Spare Parts and Standards as Initial Provisioning for the Aircraft.

3.1 <u>Schedule</u>. In accordance with schedules established during the initial provisioning meeting, Customer may place Orders for Provisioning Items and any GSE, special tools, QEC kits, or engine spare parts which Customer determines it will initially require for maintenance, overhaul and servicing of the Aircraft and/or engines.

3194-01 Page 3

3.2 Prices of Initial Provisioning Spare Parts.

- 3.2.1 <u>Boeing Spare Parts</u>. The Provisioning Data will set forth the prices for those Provisioning Items other than items listed in Article 3.3, below, that are Boeing Spare Parts, and such prices will be firm and remain in effect for ninety (90) days from the date the price is first quoted to Customer in the Provisioning Data.
- 3.2.2 <u>Supplier Spare Parts</u>. Boeing will provide estimated prices in the Provisioning Data for Provisioning Items other than items listed in Article 3.3, below, that are Supplier Spare Parts. The price to Customer for any Supplier Spare Parts that are Provisioning Items or for any items ordered for initial provisioning of GSE, special tools manufactured by suppliers, or engine spare parts will be one hundred twelve percent (112%) of the supplier's list price for such items.
- 3.3 QEC Kits, Standards Kits, Raw Material Kits, Bulk Materials Kits and Service Bulletin Kits. In accordance with schedules established during the initial provisioning meeting, Boeing will furnish to Customer a listing of all components which could be included in the quick engine change (QEC) kits, Standards kits, raw material kits, bulk materials kits and service bulletin kits which may be purchased by Customer from Boeing. Customer will select, and provide to Boeing its desired content for the kits. Boeing will furnish to Customer as soon as practicable thereafter a statement setting forth a firm price for such kits. Customer will place Orders with Boeing for the kits in accordance with schedules established during the initial provisioning meeting.

Delivery.

For Spare Parts and Standards ordered by Customer in accordance with Article 3 of this Letter Agreement, Boeing will, insofar as reasonably possible, deliver to Customer such Spare Parts and Standards on dates reasonably calculated to conform to Customer's anticipated needs in view of the scheduled deliveries of the Aircraft. Customer and Boeing will agree upon the date to begin delivery of the provisioning Spare Parts and Standards ordered in accordance with this Letter Agreement. Where appropriate, Boeing will arrange for shipment of such Spare Parts and Standards which are manufactured by suppliers directly to Customer from the applicable supplier's facility. The routing and method of shipment for initial deliveries and all subsequent deliveries of such Spare Parts and Standards will be as established at the initial provisioning meeting and thereafter by mutual agreement.

5. <u>Substitution for Obsolete Spare Parts.</u>

5.1 <u>Obligation to Substitute Pre-Delivery.</u> In the event that, [***] delivery of the first Aircraft, any Spare Part purchased by Customer from Boeing in accordance with this Letter Agreement as initial provisioning for

3194-01 Page 4

the Aircraft is rendered obsolete or unusable due to the redesign of the Aircraft or of any accessory, equipment or part thereof (other than a redesign at Customer's request) Boeing will deliver to Customer at no charge new and usable Spare Parts in substitution for such obsolete or unusable Spare Parts and, upon such delivery, Customer will return the obsolete or unusable Spare Parts to Boeing.

5.2 <u>Delivery of Obsolete Spare Parts and Substitutes</u>. Obsolete or unusable Spare Parts returned by Customer pursuant to this Article 5 will be delivered to Boeing [***] at its Seattle Distribution Center or such other destination as Boeing may reasonably designate. Spare Parts substituted for such returned obsolete or unusable Spare Parts will be delivered to Customer in accordance with the CSGTA. Boeing will pay the freight charges for the shipment from Customer to Boeing of any such obsolete or unusable Spare Part and for the shipment from Boeing to Customer of any such substitute Spare Part.

6. Repurchase of Provisioning Items.

- 6.1 <u>Obligation to Repurchase</u>. During a period commencing one (1) year after delivery of the first Aircraft, and ending five (5) years after such delivery, Boeing will, upon receipt of Customer's written request and subject to the exceptions in Article 6.2, repurchase unused and undamaged Provisioning Items which (i) were recommended by Boeing in the Provisioning Data as initial provisioning for the Aircraft, (ii) were purchased by Customer from Boeing, and (iii) are surplus to Customer's needs.
- 6.2 Exceptions. Boeing will not be obligated under Article 6.1 to repurchase any of the following: (i) quantities of Provisioning Items in excess of those quantities recommended by Boeing in the Provisioning Data for the Aircraft, (ii) QEC kits, bulk material kits, raw material kits, service bulletin kits, Standards kits and components thereof (except those components listed separately in the Provisioning Data), (iii) Provisioning Items for which an Order was received by Boeing more than five (5) months after delivery of the last Aircraft, (iv) Provisioning Items which have become obsolete or have been replaced by other Provisioning Items as a result of Customer's modification of the Aircraft, and (v) Provisioning Items which become excess as a result of a change in Customer's operating parameters, as provided to Boeing pursuant to the initial provisioning meeting and which were the basis of Boeing's initial provisioning recommendations for the Aircraft.
- 6.3 <u>Notification and Format</u>. Customer will notify Boeing, in writing when Customer desires to return Provisioning Items under the provisions of this Article 6. Customer's notification will include a detailed summary, in part number sequence, of the Provisioning Items Customer desires to return. Such summary will be in the form of listings, tapes, diskettes or other media as may be mutually agreed between Boeing and Customer and will include part number, nomenclature, purchase order number, purchase order date and quantity to be

3194-01

Page 5

returned. Within five (5) business days after receipt of Customer's notification, Boeing will advise Customer in writing when Boeing's review of such summary will be completed.

- 6.4 <u>Review and Acceptance by Boeing</u>. Upon completion of Boeing's review of any detailed summary submitted by Customer pursuant to Article 6.3, Boeing will issue to Customer a Material Return Authorization (*MRA*) for those Provisioning Items Boeing agrees are eligible for repurchase in accordance with this Article 6. Boeing will advise Customer of the reason that any Provisioning Item included in Customer's detailed summary is not eligible for return. Boeing's MRA will state the date by which Provisioning Items listed in the MRA must be redelivered to Boeing, and Customer will arrange for shipment of such Provisioning Items accordingly.
- 6.5 <u>Price and Payment</u>. The price of each Provisioning Item repurchased by Boeing pursuant to this Article 6 will be an amount equal to 100% of the original invoice price thereof except that the repurchase price of Provisioning Items purchased pursuant to Article 3.2.2 will not include Boeing's 12% handling charge. Boeing will pay the repurchase price by issuing a credit memorandum in favor of Customer which may be applied against amounts due Boeing for the purchase of Spare Parts or Standards.
- 6.6 <u>Delivery of Repurchased Provisioning Items</u>. Provisioning Items repurchased by Boeing pursuant to this Article 6 will be delivered to Boeing F.O.B. at its Seattle Distribution Center or such other destination as Boeing may reasonably designate.

7. Title and Risk of Loss.

Title and risk of loss of any Spare Parts or Standards delivered to Customer by Boeing in accordance with this Letter Agreement will pass from Boeing to Customer in accordance with the applicable provisions of the CSGTA. Title to and risk of loss of any Spare Parts or Standards returned to Boeing by Customer in accordance with this Letter Agreement will pass to Boeing upon delivery of such Spare Parts or Standards to Boeing in accordance with the provisions of Article 5.2 or Article 6.6, herein, as appropriate.

8. Termination for Excusable Delay.

In the event of termination of the Purchase Agreement pursuant to Article 7 of the AGTA with respect to any Aircraft, such termination will, if Customer so requests by written notice received by Boeing within fifteen (15) days after such termination, also discharge and terminate all obligations and liabilities of the parties as to any Spare Parts or Standards which Customer had ordered pursuant to the provisions of this Letter Agreement as initial provisioning for such Aircraft and which are undelivered on the date Boeing receives such written notice.

In the event of any inconsistency between the terms of this Letter Agreement and the terms of any other provisions of the CSGTA, the terms of this Letter Agreement will control.
Very truly yours,
THE BOEING COMPANY
By:
Its: Attorney-In-Fact
ACCEPTED AND AGREED TO this day of July of 2007
LAN AIRLINES S.A.
By: Mr. Carlos Prado C.
Its: Senior VP Corporate Investments
By:
Mr. Andrés del Valle Eitel

3194-01 Page 6 9. <u>Or</u>

Order of Precedence.

Its: Corporate Finance Director

Spare_Parts_Initial_Provisioning

P.A. No. 3194

3194-02

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: Open Configuration Matters

Reference: Purchase Agreement No. 3194 (the *Purchase Agreement*) between The Boeing Company (*Boeing*) and LAN Airlines S.A. (*Customer*) relating

to Model 777-FREIGHTER aircraft (the Aircraft)

This Letter Agreement amends the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. Aircraft Configuration.

- 1.1 <u>Initial Configuration</u>. The initial configuration of Customer's Model 777-FREIGHTER Aircraft has been defined by Boeing Model [***] as described in Article 1 and Exhibit A of the Purchase Agreement (the <u>Aircraft Configuration</u>).
- 1.2 <u>Final Configuration Schedule</u>. Given the long period of time between the Purchase Agreement signing and delivery of the first Aircraft, Customer may have the desire to incorporate certain configuration changes (<u>Options</u>) into the Aircraft Configuration.
 - 1.2.1 No later than [***] prior to the first Aircraft's scheduled delivery month, Boeing and Customer will discuss potential Options.
 - 1.2.2 Within 90 days after the subparagraph 1.2.1 meeting, Boeing will provide Customer with Option proposals for those configuration changes that can be incorporated in Aircraft production.
 - 1.2.3 Customer will then have 30 days to accept or reject these Options.

[***]

P.A. No. 3194 Open_Configuration_Matters

BOEING PROPRIETARY

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LAN Airlines S.A. 3194-02 Page 2

2. <u>Effect on Purchase Agreement</u>.

- 2.1 <u>Basic Specification</u>. Changes applicable to the basic Model 777-FREIGHTER aircraft which are developed by Boeing between the date of signing of the Purchase Agreement and completion of the final configuration review described in paragraph 1.2 above will be incorporated into the Aircraft Configuration by written amendment.
- 2.2 Exhibit A. The effects of all Options which are mutually agreed upon between Boeing and Customer for incorporation into the Aircraft Configuration will be incorporated into Exhibit A of the Purchase Agreement by written amendment.
- 2.3 <u>Performance Guarantees</u>. Within 90 days after Customer's acceptance of any Options, Boeing will provide to Customer revisions to the Performance Guarantees to reflect the effects, if any, of the incorporation of such Options on Aircraft performance. Such revisions will be incorporated by written amendment.
- 2.4 <u>Price Adjustments</u>. The Aircraft Basic Price and Advance Payment Base Price of each Aircraft included the amount [***] as an estimate of the value of the Options and any related Seller Purchased Equipment which may be accepted and included in the final Aircraft Configuration. The Aircraft Basic Price and the Advance Payment Base Price of each Aircraft will be increased or decreased as required to reflect the difference between such estimate and the actual prices of the Options accepted by Customer.

Other Letter Agreements.

Boeing and Customer acknowledge that as the definition of the Aircraft progresses, there may be a need to execute letter agreements addressing one or more of the following subjects:

3.1 [***]

3.2 [***]

4. Purchase Agreement Amendment.

Within 30 days after reaching agreement as to the final Aircraft Configuration, Boeing will provide Customer an amendment to the Purchase Agreement reflecting the effects of the configuration changes agreed to by the parties.

P.A. No. 3194 Open_Configuration_Matters

BOEING PROPRIETARY

Page 39 of 139

LAN Airlines S.A. 3194-02 Page 2

Very truly yours,

5. <u>Confidential Treatment</u>

Open_Configuration_Matters

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Customer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity.

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval below.

THE	BOEING COMPANY
By:	
Its:	[***] Attorney-In-Fact
ACC	EPTED AND AGREED TO this day of July of 2007
LAN	AIRLINES S.A.
By:	
	Mr. Carlos Prado C.
Its:	Senior VP Corporate Investments
By:	
	Mr. Andrés del Valle Eitel
Its:	Corporate Finance Director
D A	No. 2104

BOEING PROPRIETARY

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Attachment 1 to Open Configuration Matters

Letter Agreement 3194-02

Purchase Agreement No. 3194

[***]

P.A. No. 3194 Open_Configuration_Matters

BOEING PROPRIETARY

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3194-03

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: [***]

Reference:

Purchase Agreement No. 3194 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to Model 777-FREIGHTER aircraft (the <u>Aircraft</u>)

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Definition of Terms:

1. [***]

P.A. No. 3194

[***]

BOEING PROPRIETARY

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LAN Airlines S.A. 3194-03 Page 2

2. [***] 2.1 [***] 2.2 [***]

4. [***]

P.A. No. 3194 [***]

BOEING PROPRIETARY

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LAN Airlines S.A. 3194-03 Page 2

- 5. [***]
- 6. [***]
- 7. [***]

P.A. No. 3194 [***]

BOEING PROPRIETARY

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LAN Airlines S.A. 3194-03 Page 2	
Very truly yours,	
THE BOEING COMPANY	
By:	
Its: Attorney-In-Fact	
ACCEPTED AND AGREED TO this day of July of 2007.	
LAN AIRLINES S.A.	
By: Mr. Carlos Prado C.	
Its: Senior VP Corporate Investments	
By: Mr. Andrés del Valle Eitel	
Its: Corporate Finance Director	
P.A. No. 3194 [***]	BOEING PROPRIE Page 45 of 139

TARY

6-1162-ILK-0270

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: [***

Reference: Purchase Agreement No. 3194 (the <u>Purchase Agreement</u>) between The Boeing Company (Boeing) and LAN Airlines S.A. (*Customer*) relating to

Boeing Model 777-FREIGHTER aircraft (Aircraft)

This letter agreement (*Letter Agreement*) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. [***]

2. [***]

P.A. No. 3194

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0270 Page 2

- 3. [***]
- 4. [***]
- 5. [***]
- 6. [***]

P.A. No. 3194

[***]

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0270 Page 3

- 7. [***]
- 8. [***]
- 9. [***]
- 10. [***]
- 11. [***]
- 12. <u>Confidential Treatment.</u>

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Customer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity.

P.A. No. 3194 [***]

BOEING PROPRIETARY

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	rlines S.A. (LK-0270 Page 4
Very tru	ly yours,
THE BO	DEING COMPANY
Ву:	[***]
Its: A	ttorney-In-Fact
If the fo	regoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval.
ACCEP	TED AND AGREED TO this day of July of 2007
LAN A	RLINES S.A.
Ву:	Mr. Carlos Prado C.
Its:	Senior VP Corporate Investments
Ву:	Mr. Andrés del Valle Eitel
Its:	Corporate Finance Director
P.A. No [***]	3194 BOEING PROPRIETARY Page 49 of 139

6-1162-ILK-0271

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: [***

Reference: Purchase Agreement No. 3194 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to

Model 777-FREIGHTER aircraft (the Aircraft)

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1.0 [***]

1.1 [***] 1.2 [***]

P.A. No. 3194

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	[***]
1.3 [***]	
1.4 [***]	
P.A. No. 3194	

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	[****]
1.5 [***]	
1.6 [***]	
1.7 [***]	
P.A. No. 3194	
[***]	BOEING PROPRIETARY
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P.A. No. 3194 [***]

BOEING PROPRIETARY

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		[***]
2.0	[***]	
	2.1. [***]	
	2.2 [***]	
3.0	[***]	
P.A. 1	No. 3194	

LAN Airlines S.A.

[***]

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0271 Page 6	
Very truly yours,	
THE BOEING COMPANY	
By[***] Its: Attorney-In-Fact	
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated	above, please indicate your acceptance and approval.
ACCEPTED AND AGREED TO thisday of July of 2007	
LAN AIRLINES S.A.	
By: Mr. Carlos Prado C.	
Its: Senior VP Corporate Investments	
By: Mr. Andrés del Valle Eitel Its: Corporate Finance Director	
P.A. No. 3194	
[***] BOEING PROPRIETARY Page 55 of 139	

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The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0272

LAN Airlines S.A.

Avenida Presidente Riesco 5711

Piso 19

Las Condes

Santiago, Chile

Subject: Promotional Support Agreement

Reference: Purchase Agreement No. 3194 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating

to Model 777-FREIGHTER aircraft ($\underline{Aircraft}$).

This letter agreement (*Letter Agreement*) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Recitals.

[***]

Definitions.

1.1 [***]

1.2 [***]

P.A. No. 3194

 $Promotional_Support_Agreement$

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0272 Page 2 1.3 [***] 1.4 [***] 1.5 [***] [***] 2. [***] 3.1 [***] 3.2 [***] 4. [***] P.A. No. 3194

Promotional_Support_Agreement

BOEING PROPRIETARY Page 103 of 139

LAN Airlines S.A. 6-1162-ILK-0272 Page 3

- 5. [***]
- 6. <u>Confidentiality</u>.

The commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Customer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any of the information contained herein.

P.A. No. 3194 Promotional_Support_Agreement

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0272 Page 4
Very truly yours,
THE BOEING COMPANY
By
By
Its: Attorney-In-Fact
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval.
ACCEPTED AND AGREED TO this day of July of 2007
LAN AIRLINES S.A.
By:
Mr. Carlos Prado C.
Its: Senior VP Corporate Investments
By:
Mr. Andrés del Valle Eitel
Its: Corporate Finance Director
P.A. No. 3194
Promotional_Support_Agreement

BOEING PROPRIETARY

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The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0273

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: Special Matters relating to COTS Software and End User License Agreements

Reference: Purchase Agreement No. 3194 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating

to Model 777-FREIGHTER aircraft (Aircraft).

This letter agreement (*Letter Agreement*) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Recitals

- A. Certain third party, commercial off-the-shelf software products are available to perform various functions required in the Aircraft (COTS Software).
- B. The industry practice with respect to COTS Software is to permit manufacturers to install the software in products for sale to customers. The manufacturer is required to pass to the customer an End User License Agreement (*EULA*), which covers the right to use the COTS Software. The EULA's also require each user of the product to further license the software and pass the EULA to any user to whom he transfers the product.
- C. Because of the described industry practice with respect to COTS Software, Boeing does not acquire title to COTS Software and cannot pass title to COTS Software at the time of delivery of the Aircraft.
- D. Therefore, the parties desire to amend certain provisions of the Purchase Agreement to properly reflect the respective rights and obligations of the parties with respect to the COTS Software included in the Aircraft.

Agreement

1. At delivery of the Aircraft, Boeing will furnish to Customer copies of all EULA's applicable to the Aircraft, and Customer agrees to comply with all provisions of the applicable EULA's.

P.A. No. 3194 EULA_Special_Matters

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LAN Airlines S.A. 6-1162-ILK-0273 Page 2

- 2. Notwithstanding the provisions of Article 6.3 of the AGTA, at delivery of each Aircraft, Boeing will provide Customer a bill of sale conveying good title, free of encumbrances except as provided in applicable EULA's.
- 3. In connection with any sale or other transfer of the Aircraft, Customer agrees to comply with all provisions of the applicable EULA's, including without limitation the re-licensing of the software to Customer's transferee and the flow down within such license of the further requirement that Customer's transferee comply with and flow to other transferees the obligations of the EULA.

P.A. No. 3194 EULA_Special_Matters

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	Airlines S.A. 2-ILK-0273 Page 3
Very t	ruly yours,
THE E	SOEING COMPANY
	[***]
Its: F	Attorney-In-Fact
If the f	oregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval
ACCE	PTED AND AGREED TO this day of July of 2007
LAN A	AIRLINES S.A.
Ву: _	Mr. Carlos Prado C.
Its:	Senior VP Corporate Investments
By:	
Its:	Mr. Andrés del Valle Eitel Corporate Finance Director
P.A. N	0. 3194

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EULA_Special_Matters

The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0274

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Performance_Guarantees

Subject: Aircraft Performance Guarantees

Reference: Purchase Agreement No. 3194 (the *Purchase Agreement*) between The Boeing Company (*Boeing*) and LAN Airlines S.A. (*Customer*) relating

to Model 777-FREIGHTER aircraft (the Aircraft).

This letter agreement (*Letter Agreement*) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Boeing agrees to provide Customer with the performance guarantees in the Attachment. These guarantees are exclusive and expire upon delivery of the Aircraft to Customer.

Customer agrees not to disclose this Letter Agreement, attachments, or any other information related to this Letter Agreement without prior written consent by Boeing.

Very truly yours,		
THE BOEING COMPANY		
Ву		
	[***]	
Its: Attorney-In-Fact		
P.A. No. 3194		

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0274 Page 2	
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your agreement with respect to the matters treated above, please indicate your agreement with respect to the matters treated above, please indicate your agreement with respect to the matters treated above, please indicate your agreement with respect to the matters treated above, please indicate your agreement with respect to the matters treated above, please indicate your agreement with respect to the matters treated above, please indicate your agreement with respect to the matters treated above, please indicate your agreement with respect to the matter of the please indicate your agreement with respect to the matter of the please indicate your agreement with respect to the matter of the please indicate your agreement with respect to the please your agreement with	acceptance and approval.
ACCEPTED AND AGREED TO this day of July of 2007	
LAN AIRLINES S.A.	
By: Mr. Carlos Prado C.	
Its: Senior VP Corporate Investments	
By: Mr. Andrés del Valle Eitel	
Its: Corporate Finance Director	
P.A. No. 3194	

Performance_Guarantees

BOEING PROPRIETARY

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MODEL 777 FREIGHTER PERFORMANCE GUARANTEES

FOR LAN AIRLINES S.A.

SECTION CONTENTS [***]

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SS07-0161

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Boeing Commercial Airplanes P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0275

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes

Santiago, Chile

Subject: [***]

References:

- 1) Purchase Agreement No. 3194 (the *Purchase Agreement*) between The Boeing Company (*Boeing*) and LAN Airlines S.A. (*Customer*) relating to Model 777-FREIGHTER aircraft (*Aircraft*)
- 2) Aircraft General Terms Agreement dated as of the 9th of May of 1997 between the parties, identified as AGTA-LAN (AGTA)

This letter agreement (*Letter Agreement*) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

<u>Definition of Terms</u>:

[***]

1. [***]

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[***]

2. [***]

3. [***]

4. [***]

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[***]

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Lan Airlines S.A.

[***] Letter Agreement: 6-1162-ILK-0275

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5. [***]

6. <u>Confidential Treatment</u>

Customer and Boeing understand that the information contained in this Letter Agreement is considered confidential. Each of Customer and Boeing agree to treat this Letter Agreement as confidential and will not, without the prior written consent of the other party, disclose this Letter Agreement or any information contained herein to any third parties, other than as required by applicable law, by the Export Import Bank of the United States or by Fitch Ratings.

P.A. No. 3194 [***]

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[***] Letter Agreement: 6-1162-ILK-0275 Page 4
Very truly yours,
THE BOEING COMPANY
By
Its Attorney-In-Fact
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval
ACCEPTED AND AGREED TO this day of July of 2007
LAN AIRLINES S.A.
By:
Mr. Carlos Prado C. Its: Senior VP Corporate Investments
By:
Mr. Andrés del Valle Eitel Its: Corporate Finance Director
P.A. No. 3194 [***]

Lan Airlines S.A.

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Boeing Commercial Airplanes P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0276

LAN Airlines S.A.

Avenida Presidente Riesco 5711

Piso 19

Las Condes

Santiago, Chile

Subject: [***]

Reference: Purchase Agreement No. 3194 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating

to Model 777-FREIGHTER aircraft (Aircraft)

This letter agreement (*Letter Agreement*), when accepted by Customer, will amend the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. [***]

1.1. [***]

1.1.1. [***]

1.1.2. [***]

1.1.2.1.[***]

1.1.2.2.[***]

1.1.3. [***]

P.A. No. 3194

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[***]
Letter Agreement: 6-1162-ILK-0276
Page 2

1.1.3.1. [***]
1.1.3.2. [***]
1.1.4. [***]
1.2. [***]
1.3. [***]

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[***]
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Lan Airlines S.A.
[***]
Letter Agreement: 6-1162-ILK-0276
Page 3

1.4 [***]

1.4.1 [***]

1.4.1.1 [***]

1.5 [***]
```

2. <u>Confidentiality</u>.

Customer and Boeing understand that the information contained in this Letter Agreement is considered confidential. Each of Customer and Boeing agree to treat this Letter Agreement as confidential and will not, without the prior written consent of the other party, disclose this Letter Agreement or any information contained herein to any third parties, other than as required by applicable law, by the Export-Import Bank of the United States or by Fitch Ratings.

P.A. No. 3194 [***]

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Lan Airlines S.A. [***] Letter Agreement: 6-1162-ILK-0276 Page 4	
	Very truly yours,
	THE BOEING COMPANY
	By:
	[***] Its: Attorney-In-Fact
If the foregoing correctly sets forth your understanding of our agree	ment with respect to the matters treated above, please indicate your acceptance and approva
ACCEPTED AND AGREED TO this day of July of 2007	
LAN AIRLINES S.A.	
By: Mr. Carlos Prado C. Its: Senior VP Corporate Investments	
By: Mr. Andrés del Valle Eitel Its: Corporate Finance Director	
P.A. No. 3194 [***]	

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[***]

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Lan Airlines S.A. [***] Letter Agreement: 6-1162-ILK-0276 Page 6

[***]

P.A. No. 3194 [***]

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Boeing Commercial Airplanes P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0277

LAN Airlines S.A. Av. Presidente Riesco 5711 Piso 19, Las Condes SANTIAGO CHILE

Subject: [***]

Reference: Purchase Agreement No. 3194 (the Purchase Agreement) between The Boeing Company (Boeing) and LAN Airlines S.A. (Customer) relating

to Model 777-FREIGHTER Aircraft (Aircraft).

This Letter Agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. [***]

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LAN Airlines S.A.

[***]

777 Freighter

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[***]

3.3 [***]

4. [***]

5. [***]

6.1 [***]

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[***]

777 Freighter

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[***]

6.2 [***]

6.3 [***]

6.4 [***]

P.A. No. 3194

[***]

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[***]

7. [***] 7.1 [***]

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[***]

7.2 [***]

7.3. [***]

7.4 [***]

P.A. No. 3194

[***]

777 Freighter

LAN Airlines S.A. 6-1162-ILK-0277 Page 7

8. [***]

9. [***]

10. [***]

11. <u>Confidential Treatment</u>.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Customer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity.

P.A. No. 3194 [***]

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LAN Airlines S.A. 6-1162-ILK-0277 Page 8	
Very truly yours,	
THE BOEING COMPANY	
By [***] Its Attorney-In-Fact	
If the foregoing correctly sets forth your understanding of our agr ACCEPTED AND AGREED TO this day of July of 200' LAN AIRLINES S.A.	reement with respect to the matters treated above, please indicate your acceptance and approval.
By: Mr. Carlos Prado C. Its: Senior VP Corporate Investments	
By: Mr. Andrés del Valle Eitel Its: Corporate Finance Director	
P.A. No. 3194	777 Freighter

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[***]

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[***]

P.A. No. 3194 [***] 777 Freighter

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[***]

P.A. No. 3194 [***] 777 Freighter

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[***]

P.A. No. 3194 [***] 777 Freighter

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Attachment C to Letter Agreement 6-1162-ILK-0277 Page 1

[***]

P.A. No. 3194 [***]

777 Freighter

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PURCHASE AGREEMENT NUMBER 3256

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Relating to Boeing Model 787-916/-816 Aircraft

P.A. No. 3256

BOEING PROPRIETARY

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5	4.	Payment
5	5.	Additional Terms
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10	1-GENX	787-916 Aircraft Information Table
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Purchase Agreement No. 3256

between

The Boeing Company

and

LAN Airlines S.A.

This Purchase Agreement No. 3256 dated as of 29th day of October of 2007 between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to the purchase and sale of Model 787-916/-816 aircraft together with all tables, exhibits, supplemental exhibits, letter agreements and other attachments thereto, if any, (<u>Purchase Agreement</u>) incorporates the terms and conditions of the Aircraft General Terms Agreement dated as of the 9th of May of 1997 between the parties, identified as AGTA-LAN (<u>AGTA</u>).

Article 1. Quantity, Model, Description and Inspection.

The aircraft to be delivered to Customer will be designated as Model 787-916/-816 aircraft (the <u>Aircraft</u>). Boeing will manufacture and sell to Customer Aircraft conforming to the configuration described in Exhibit A in the quantities listed in Table 1 ROLLS and Table 1 GENX to the Purchase Agreement. [***]

Article 2. Delivery Schedule.

[***] the scheduled months of delivery of the Aircraft are listed in the attached Table 1 ROLLS and Table 1 GENX. Exhibit B describes certain responsibilities for both Customer and Boeing in order to accomplish the delivery of the Aircraft.

Article 3. Price.

3.1 Aircraft Basic Price. The Aircraft Basic Price is listed in Table 1 ROLLS and Table 1 GENX and is subject to escalation dollars.

P.A. No. 3256

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3.2 <u>Advance Payment Base Prices</u>. The Advance Payment Base Prices listed in Table 1 ROLLS and Table 1 GENX were calculated utilizing the latest escalation factors available to Boeing on the date of this Purchase Agreement projected to the month of scheduled delivery.

Article 4. Payment.

- 4.1 Boeing acknowledges receipt of a deposit in the amount shown in Table 1 ROLLS and Table 1 GENX for each Aircraft (Deposit).
- 4.2 The standard advance payment schedule for the Model 787-916/-816 aircraft requires Customer to make certain advance payments, expressed in a percentage of the Advance Payment Base Price of each Aircraft beginning with a payment of 1%, less the Deposit, on the effective date of the Purchase Agreement for the Aircraft. Additional advance payments for each Aircraft are due as specified in and on the first business day of the months listed in the attached Table 1 ROLLS and Table 1 GENX.
- 4.3 For any Aircraft whose scheduled month of delivery is less than 24 months from the date of this Purchase Agreement, the total amount of advance payments due for payment upon signing of this Purchase Agreement will include all advance payments which are past due in accordance with the standard advance payment schedule set forth in paragraph 4.2 above.
 - 4.4 Customer will pay the balance of the Aircraft Price of each Aircraft at delivery.

Article 5. Additional Terms.

- 5.1 <u>Aircraft Information Table</u>. Table 1 ROLLS and Table 1 GENX each consolidate information contained in Articles 1, 2, 3 and 4 with respect to (i) quantity of Aircraft, (ii) applicable Detail Specification, (iii) month and year of scheduled deliveries, (iv) Aircraft Basic Price, (v) applicable escalation factors and (vi) Advance Payment Base Prices and advance payments and their schedules. [***]
- 5.2 <u>Escalation Adjustment/Airframe and Optional Features</u>. Supplemental Exhibit AE1 contains the applicable airframe and optional features escalation formula.
- 5.3 <u>Buyer Furnished Equipment Variables</u>. Supplemental Exhibit BFE1 contains vendor selection dates, on dock dates and other variables applicable to the Aircraft.

P.A. No. 3256

BOEING PROPRIETARY
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- 5.4 <u>Customer Support Variables</u>. Information, training, services and other things furnished by Boeing in support of introduction of the Aircraft into Customer's fleet are described in Supplemental Exhibit CS1. Supplemental Exhibit CS1 supersedes in its entirety Exhibit B to the AGTA, and, for clarity, all references to Exhibit B to the AGTA shall be deemed to refer to Supplemental Exhibit CS1 to the Purchase Agreement.
- 5.5 <u>Engine Escalation Variables</u>. Supplemental Exhibits EE1 (ROLLS and GENX) each describe the applicable engine escalation formula offered by each engine manufacturer and contains the engine warranty and the engine patent indemnity for the Aircraft. [***]
- 5.6 <u>Service Life Policy Component Variables</u>. Supplemental Exhibit SLP1 lists [***] covered by the Service Life Policy for the Aircraft (<u>Covered Components</u>). In addition, Part 3 of Exhibit C to the AGTA, entitled, "Service Life Policy." is superseded in its entirety by Part 3 of Exhibit C to the AGTA, "Service Life Policy," attached as Exhibit C to this Purchase Agreement.
- 5.7 <u>Public Announcement</u>. Boeing reserves the right to make a public announcement regarding Customer's purchase of the Aircraft upon approval of Boeing's press release by Customer's public relations department or other authorized representative.
- 5.8 Negotiated Agreement; Entire Agreement. This Purchase Agreement, including the provisions of Article 8.2 of the AGTA relating to insurance, and Article 11 of Part 2 of Exhibit C of the AGTA relating to DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES, has been the subject of discussion and negotiation and is understood by the parties; the Aircraft Price and other agreements of the parties stated in this Purchase Agreement were arrived at in consideration of such provisions. This Purchase Agreement, including the AGTA, contains the entire agreement between the parties and supersedes all previous proposals, understandings, commitments or representations whatsoever, oral or written, and may be changed only in writing signed by authorized representatives of the parties. [***]

P.A. No. 3256

BOEING PROPRIETARY Page 6 of 464 5.9 Confidential Treatment. [***]

P.A. No. 3256

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LAN AIRLINES S.A.	THE BOEING COMPANY				
By: Mr. Carlos Prado C.	By:				
Its: Senior VP Corporate Investments	Its: Attorney in Fact				
By: Mr. Marco Jofré M.					
Its: Senior VP Operations, Engineering & Maintenance					
	5 ROPRIETARY 8 of 464				

DATED AS OF this 29th day of October of 2007

Table 1-ROLLS 787-916 to Purchase Agreement No. 3256 Aircraft Delivery, Description, Price and Advance Payments

Airframe Model/MTOW:	787_0 [**	*] Detail Specification:	[***]	
Engine Model/Thrust:	-	* Airframe Price Base Year/Escalation Formula:	[***]	[***]
Airframe Price:		* Engine Price Base Year/Escalation Formula:	[***]	[***]
Optional Features:	[**	- 0	. ,	. ,
Sub-Total of Airframe and Features:	[**	<u> </u>		[***]
Engine Price (Per Aircraft):	[**			[***]
Aircraft Basic Price (Excluding BFE/SPE):	[**	<u> </u>		
Buyer Furnished Equipment (BFE) Estimate:	[**	<u> </u>		[***]
Catalog Selected In Flight Entertainment (IFE) Estimate	L	*] Base Year Index (CPI):		[***]
Refundable Deposit/Aircraft at Proposal Accept:	[**	•		. ,

						Advance Payn	ient Per Aircraft	t (Amts. Due/Most. Prior to	Delivery):
Delivery Date	Number of Aircraft	3% Escalation Factor (Airframe)	Escalation Factor (Engine)	Manufacturer Serial Number	Escalation Estimate Adv Payment Base Price Per A/P	At Signing 1%	24 Mos. 4%	21/18/12/9/6 Mos. 5%	Total 30%
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
Total:	8				[***]	[***]	[***]	[***]	[***]

[***]

BOEING PROPRIETARY

APR: 45876 P.A. No. 3256

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Table 1-GENX 787-916 to Purchase Agreement No. 3256 Aircraft Delivery, Description, Price and Advance Payments

Airframe Model/MTOW:	787_0 [***	Detail Specification:	[***]	
Engine Model/Thrust:	-	Airframe Price Base Year/Escalation Formula:	[***]	[***]
Airframe Price:	[***		[***]	[***]
Optional Features:	[***		. ,	. ,
Sub-Total of Airframe and Features:	[***		Г	***]
Engine Price (Per Aircraft):	[***	. ,	ı	 ***]
Aircraft Basic Price (Excluding BFE/SPE):	[***	` ′		
` ,		= -		***]
Buyer Furnished Equipment (BFE) Estimate:	[***	2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	ı	
Catalog Selected In Flight Entertainment (IFE) Estimate:	[***	2000 2001 2110011 (02.2)	l	***]
Refundable Deposit/Aircraft at Proposal Accept:	[***			

						Advance Pay	ment Per Aircraf	t (Amts. Due/Mos. Prior to	Delivery):
Delivery Date	Number of Aircraft	3% Escalation Factor (Airframe)	Escalation Factor (Engine)	Manufacturer Serial Number	Escalation Estimate Adv Payment Base Price Per A/P	At Signing 1%	24 Mos. 4%	21/18/12/9/6 Mos. 5%	Total 30%
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
Total:	8				[***]	[***]	[***]	[***]	[***]

[***]

APR: 45876 P.A. No. 3256

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Table 1-ROLLS 787-816 to Purchase Agreement No. 3256 Aircraft Delivery, Description, Price and Advance Payments

Airframe Model/MTOW:	787-8	[***]	Detail Specification:	[***]		
Engine Model/Thrust:	[***]	[***]	Airframe Price Base Year/Escalation Formula:	[***]		[***]
Airframe Price:		[***]	Engine Price Base Year/Escalation Formula:	[***]		[***]
Optional Features:		[***]				
Sub-Total of Airframe and Features:		[***]	Airframe Escalation Data:			
Engine Price (Per Aircraft):		[***]	Base Year Index (ECI):		[***]	
Aircraft Basic Price (Excluding BFE/SPE):		[***]	Base Year Index (CPI):		[***]	
Buyer Furnished Equipment (BFE) Estimate:		[***]	Engine Escalation Data:			
Catalog Selected In Flight Entertainment (IFE) Estimate:		[***]	Base Year Index (ECI):		[***]	
Refundable Deposit/Aircraft at Proposal Accept:		[***]	Base Year Index (CPI):		[***]	

			Escalation		Escalation Estimate			t (Amts. Due/Mos. Prior to I	- ,
Delivery	Number	3% Escalation	Factor	Manufacturer	Adv Payment Base	At Signing	24 Mos.	21/18/12/9/6 Mos.	Total
<u>Date</u>	of Aircraft	Factor (Airframe)	(Engine)	Serial Number	Price Per A/P	I%	4%	5%	30%
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	I	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	I	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	I	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	I	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	I	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	I	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	I	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	I	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	I	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	I	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	I	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
[***]	I	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***
:	18				[***]	[***]	[***]	[***]	[***

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Table 1-GENX 787-816 to Purchase Agreement No. 3256 Aircraft Delivery, Description, Price and Advance Payments

Airframe Model/MTOW:	787-8	[***]	Detail Specification:	[***]	
Engine Model/Thrust:	[***]	[***]	Airframe Price Base Year/Escalation Formula:	[***]	[**
Airframe Price:		[***]	Engine Price Base Year/Escalation Formula:	[***]	[**
Optional Features:		[***]			
Sub-Total of Airframe and Features:		[***]	Airframe Escalation Data:		
Engine Price (Per Aircraft):		[***]	Base Year Index (ECI):	[***]	
Aircraft Basic Price (Excluding BFE/SPE):		[***]	Base Year Index (CPI):	[***]	
Buyer Furnished Equipment (BFE) Estimate:		[***]	Engine Escalation Data:		
Catalog Selected In Flight Entertainment (IFE) Estimate:		[***]	Base Year Index (ECI):	[***]	
Refundable Deposit/Aircraft at Proposal Accept:		[***]	Base Year Index (CPI):	[***]	

Delivery	Number	3% Escalation	Escalation Factor	Manufacturer	Escalation Estimate Adv Payment Base	At Signing	24 Mos.	t (Amts. Due/Mos. Prior to I 21/18/12/9/6 Mos.	Total
	of Aircraft	Factor (Airframe) [***]	(Engine) [***]	Serial Number [***]	Price Per A/P [***]	1% [***]	4% [***]	5% [***]	30% [***]
L J	1	L J	LJ	LJ	LJ	L J	L J	L J	L J
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	I	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
Total:	18				[***]	[***]	[***]	[***]	[***]

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between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

787-916 Exhibit A to Purchase Agreement Number 3256

P.A. No. 3256

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Exhibit A to
Purchase Agreement No. 3256
Page 1

Dated	
relating to	

BOEING MODEL 787-916 AIRCRAFT

The Customer Aircraft Description is based on Boeing Configuration Specification 787B1-4102-B dated as of the 9th of July of 2007. This Configuration Specification defines the basic features and characteristics of the aircraft, but excludes specific Options to be selected by the customer at a later time and which is more fully discussed in Letter Agreement 3256-02, Open Configuration Matters. Selectable Options are listed in 787 Airplane Descriptions and Selections (ADS) Publication 787B1-0227, Rev. K dated July 9, 2007.

The Aircraft Basic Price reflects and includes all features and characteristics contained in the Configuration Specification, except such Aircraft Basic Price does not include the price effects of any Buyer Furnished Equipment or Seller Purchased Equipment.

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between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

787-816 Exhibit A to Purchase Agreement Number 3256

P.A. No. 3256

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Exhibit A to
Purchase Agreement No. 3256
Page 1

Dated _____relating to

BOEING MODEL 787-816 AIRCRAFT

The Customer Aircraft Description is based on Boeing Configuration Specification 787B1-4102-B dated as of the 9th of July of 2007. This Configuration Specification defines the basic features and characteristics of the aircraft, but excludes specific. Options to be selected by the customer at a later time and which is more fully discussed in Letter Agreement 3256-02, Open Configuration Matters. Selectable Options are listed in 787 Airplane Descriptions and Selections (ADS) Publication 787B1-0227, Rev. K dated July 9, 2007.

The Aircraft Basic Price reflects and includes all features and characteristics contained in the Configuration Specification, except such Aircraft Basic Price does not include the price effects of any Buyer Furnished Equipment or Seller Purchased Equipment.

P.A. No. 3256

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AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Exhibit B to Purchase Agreement Number 3256

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Exhibit B to Purchase Agreement No. 3256 Page 1

AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

relating to

BOEING MODEL 787-916/-816 AIRCRAFT

Both Boeing and Customer have certain documentation and approval responsibilities at various times during the construction cycle of Customer's Aircraft that are critical to making the delivery of each Aircraft a positive experience for both parties. This Exhibit B documents those responsibilities and indicates recommended completion deadlines for the actions to be accomplished.

1. GOVERNMENT DOCUMENTATION REQUIREMENTS.

Certain actions are required to be taken by Customer in advance of the scheduled delivery month of each Aircraft with respect to obtaining certain government issued documentation.

1.1 Airworthiness and Registration Documents.

Customer is responsible for furnishing any Temporary or Permanent Registration Certificates required by any governmental authority having jurisdiction to be displayed aboard the Aircraft after delivery.

- 1.2 Certificate of Sanitary Construction.
- 1.2.1 <u>U.S. Registered Aircraft</u>. Boeing will obtain from the United States Public Health Service, a United States Certificate of Sanitary Construction to be displayed aboard each Aircraft after delivery to Customer.

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Exhibit B to Purchase Agreement No. 3256 Page 2

1.2.2 <u>Non-U.S. Registered Aircraft.</u> If Customer requires a United States Certificate of Sanitary Construction at the time of delivery of the Aircraft, Customer will give written notice thereof to Boeing at least three (3) months prior to delivery. Boeing will then use its reasonable best efforts to obtain the Certificate from the United States Public Health Service and present it to Customer at the time of Aircraft delivery.

1.3 Customs Documentation.

- 1.3.1 <u>Import Documentation</u>. If the Aircraft is intended to be exported from the United States, Customer must notify Boeing not later than three (3) months prior to delivery of each Aircraft of any documentation required by the customs authorities or by any other agency of the country of import.
- 1.3.2 <u>General Declaration U.S.</u> If the Aircraft is intended to be exported from the United States, Boeing will prepare Customs Form 7507, General Declaration, for execution by U.S. Customs immediately prior to the ferry flight of the Aircraft. For this purpose, Customer will furnish to Boeing not later than twenty (20) days prior to delivery all information required by U.S. Customs or U.S. Immigration and Naturalization Service, including without limitation (i) a complete crew and passenger list identifying the names, birth dates, passport numbers and passport expiration dates of all crew and passengers and (ii) a complete ferry flight itinerary, including point of exit from the United States for the Aircraft.

If Customer intends, during the ferry flight of an Aircraft, to land at a U.S. airport after clearing Customs at delivery, Customer must notify Boeing not later than twenty (20) days prior to delivery of such intention. If Boeing receives such notification, Boeing will provide to Customer the documents constituting a Customs permit to proceed, allowing such Aircraft to depart after any such landing. Sufficient copies of completed Form 7507, along with passenger manifest, will be furnished to Customer to cover U.S. stops scheduled for the ferry flight. [***]

1.3.3 Export Declaration - U.S. If the Aircraft is intended to be exported from the United States, Boeing will prepare Form 7525V and, immediately prior to the ferry flight, will submit such Form to U.S. Customs in Seattle in order to obtain clearance for the departure of the Aircraft, including any cargo, from the United States. U.S. Customs will deliver the Export Declaration to the U.S. Department of Commerce after export.

2. INSURANCE CERTIFICATES.

Unless provided earlier, Customer will provide to Boeing not later than thirty (30) days prior to delivery of the first Aircraft, a copy of the requisite annual insurance certificate in accordance with the requirements of Article 8 of the AGTA.

P.A. No. 3256

BOEING PROPRIETARY Page 19 of 464 Exhibit B to Purchase Agreement No. 3256 Page 3

NOTICE OF FLYAWAY CONFIGURATION.

Not later than twenty (20) days prior to delivery of the Aircraft, Customer will provide to Boeing a configuration letter stating the requested "flyaway configuration" of the Aircraft for its ferry flight. This configuration letter should include:

- (i) the name of the company which is to furnish fuel for the ferry flight and any scheduled post-delivery flight training, the method of payment for such fuel, and fuel load for the ferry flight;
- (ii) the cargo to be loaded and where it is to be stowed on board the Aircraft [***], the address where cargo is to be shipped after flyaway and notification of any hazardous materials requiring special handling;
 - (iii) any BFE equipment to be removed prior to flyaway and returned to Boeing BFE stores for installation on Customer's subsequent Aircraft;
- (iv) a complete list of names and citizenship of each crew member and non-revenue passenger who will be aboard the ferry flight (In the event of last minute personnel changes, Boeing and LAN shall cooperate mutually to facilitate Customer's compliance with this requirement); and
 - (v) a complete ferry flight itinerary.

4. <u>DELIVERY ACTIONS BY BOEING</u>.

- 4.1 <u>Schedule of Inspections</u>. All FAA, Boeing, Customer and, if required, U.S. Customs Bureau inspections will be scheduled by Boeing for completion prior to delivery or departure of the Aircraft. [***]
- 4.2 <u>Schedule of Demonstration Flights</u>. All FAA and Customer demonstration flights will be scheduled by Boeing for completion prior to delivery of the Aircraft. [***]
- 4.3 <u>Schedule for Customer's Flight Crew</u>. Boeing will inform Customer of the date, [***], that a flight crew is required for acceptance routines associated with delivery of the Aircraft.
- 4.4 <u>Fuel Provided by Boeing</u>. Boeing will provide to Customer, without charge, the amount of fuel shown in U.S. gallons in the table below for the model of Aircraft being delivered and full capacity of engine oil at the time of delivery or prior to the ferry flight of the Aircraft.

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 Aircraft Model
 Fuel Provided

 787
 2,000

- 4.5 <u>Flight Crew and Passenger Consumables</u>. Boeing will provide reasonable quantities of food, coat hangers, towels, toilet tissue, drinking cups and soap for the first segment of the ferry flight for the Aircraft.
- 4.6 <u>Delivery Papers</u>, <u>Documents and Data</u>. Boeing will have available at the time of delivery of the Aircraft certain delivery papers, documents and data for execution and delivery. If title for the Aircraft will be transferred to Customer through a Boeing sales subsidiary and if the Aircraft will be registered with the FAA, Boeing will pre-position in Oklahoma City, Oklahoma, for filing with the FAA at the time of delivery of the Aircraft an executed original Form 8050-2, Aircraft Bill of Sale, indicating transfer of title to the Aircraft from Boeing's sales subsidiary to Customer.
- 4.7 <u>Delegation of Authority</u>. If specifically requested in advance by Customer, Boeing will present a certified copy of a Resolution of Boeing's Board of Directors, designating and authorizing certain persons to act on its behalf in connection with delivery of the Aircraft.

5. <u>DELIVERY ACTIONS BY CUSTOMER.</u>

- 5.1 <u>Aircraft Radio Station License</u>. At delivery Customer will provide its Aircraft Radio Station License to be placed on board the Aircraft following delivery.
 - 5.2 Aircraft Flight Log. At delivery Customer will provide the Aircraft Flight Log for the Aircraft.
- 5.3 <u>Delegation of Authority</u>. Customer will present to Boeing at delivery of the Aircraft an original or certified copy of Customer's Delegation of Authority designating and authorizing certain persons to act on its behalf in connection with delivery of the specified Aircraft.

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ESCALATION ADJUSTMENT

AIRFRAME AND OPTIONAL FEATURES

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Supplemental Exhibit AEI to Purchase Agreement Number 3256

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1. 2006 Base Year Formula.

Airframe and Optional Features price adjustments (<u>Airframe Price Adjustment</u>) are used to allow prices to be stated in current year dollars at the signing of this Purchase Agreement and to adjust the amount to be paid by Customer at delivery for the effects of economic fluctuation. The Airframe Price Adjustment will be determined at the time of Aircraft delivery in accordance with the following formula:

$$P_a = (P) (L + M) - P$$

Where:

Pa = Airframe Price Adjustment.

P = Airframe Price plus the price of the Optional Features (as set forth in each Table 1 of this Purchase Agreement).

L = $.65 \times [\underline{ECI} \times (\underline{ECI-R} \\ ECI_b \quad ECI-R_b)]$

Where:

 ECI_b is the base year airframe escalation index ([***] as set forth in each Table 1 of this Purchase Agreement);

ECI is the three-month arithmetic average value of [***] for October, November, and December [***], using ECI – MFG (BLS Series ID ECU124021);

ECI- R_b is the three-month arithmetic average value of 100.0 for October, November, and December [***], using the ECI – NAICS Manufacturing (BLS Series ID CIU20130000000001); and

ECI-R is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics, Employment Cost Index for NAICS Manufacturing – Total Compensation (BLS Series ID CIU2013000000000, calculated by establishing a three-month arithmetic average value (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th, and 13th months prior to the month of scheduled delivery of the applicable Aircraft. As the Employment Cost Index values are only

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AE1-1 BOEING PROPRIETARY Page 23 of 464 released on a quarterly basis, the value released for the first quarter will be used for the month of January, February, and March; the value released for the second quarter will be used for the months of April, May, and June; the value released for the third quarter will be used for the months of July, August, and September; the value released for the fourth quarter will be used for the months of October, November, and December.

 $M = .35 \times (\underline{CPI}_{b})$

Where:

CPI_b is the base year airframe escalation index ([***] as set forth in, each Table 1 of this Purchase Agreement); and

CPI is a value determined using the U.S. Department, of Labor, Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers (BLS Series ID CUUR0000SA0), calculated as a 3-month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 11^{th} , 12^{th} , and 13^{th} months prior to the month of scheduled delivery of the applicable Aircraft.

As an example, for an Aircraft scheduled to be delivered in the month of July, the months of June, July, and August of the preceding year will be utilized in determining the value of ECI-R and CPI.

Note: i. In determining the values of L and M, all calculations and resulting values will be expressed as a decimal rounded to the nearest ten-thousandth.

- ii. .65 is the numeric ratio attributed to labor in the Airframe Price Adjustment formula.
- iii. .35 is the numeric ratio attributed to materials in the Airframe Price Adjustment formula.
- iv. The denominators (base year indices) are the actual average values reported by the U.S. Department of Labor, Bureau of Labor Statistics. The actual average values are calculated as a 3-month arithmetic average of the

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released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th, and 13th months prior to the airframe base year. The applicable base year and corresponding denominator is provided by Boeing in each Table 1 of this Purchase Agreement.

- v. The final value of Pa will be rounded to the nearest dollar.
- vi. The Airframe Price Adjustment will not be made if it will result in a decrease in the Aircraft Basic Price.

2. <u>Values to be Utilized in the Event of Unavailability.</u>

- 2.1 If the Bureau of Labor Statistics substantially revises the methodology used for the determination of the values to be used to determine the ECI-R and CPI values (in contrast to benchmark adjustments or other corrections of previously released values), or for any reason has not released values needed to determine the applicable Airframe Price Adjustment, the parties will, prior to the delivery of any such Aircraft, select a substitute from other Bureau of Labor Statistics data or similar data reported by non-governmental organizations. Such substitute will result in the same adjustment, insofar as possible, as would have been calculated utilizing the original values adjusted for fluctuation during the applicable time period. However, if within 24 months after delivery of the Aircraft, the Bureau of Labor Statistics should resume releasing values for the months needed to determine the Airframe Price Adjustment, such values will be used to determine any increase or decrease in the Airframe Price Adjustment for the Aircraft from that determined at the time of delivery of the Aircraft.
- 2.2 Notwithstanding Article 2.1 above, if prior to the scheduled delivery month of an Aircraft the Bureau of Labor Statistics changes the base year for determination of the ECI-R and CPI values as defined above, such re-based values will be incorporated in the Airframe Price Adjustment calculation.
- 2.3 In the event escalation provisions are made non-enforceable or otherwise rendered void by any agency of the United States Government, the parties agree, to the extent they may lawfully do so, to equitably adjust the Aircraft Price of any affected Aircraft to reflect an allowance for increases or decreases consistent with the applicable provisions of paragraph 1 of this Supplemental Exhibit AE1 in labor compensation and material costs occurring since August of the year prior to the price base year shown in the Purchase Agreement.
- 2.4 If within 12 months of Aircraft delivery, the published index values are revised due to an acknowledged error by the Bureau of Labor Statistics, the Airframe Price Adjustment will be re-calculated using the revised index values (this does not include those values noted as preliminary by the Bureau of Labor Statistics). A credit memorandum or supplemental invoice will be issued for the Airframe Price Adjustment difference. Interest charges will not apply for the period of original invoice to issuance of credit memorandum or supplemental invoice.

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AEI-3 BOEING PROPRIETARY Page 25 of 464 Note:

- i. The values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to the first day of the scheduled delivery month of an Aircraft will be used to determine the ECI-R and CPI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Airframe Price Adjustment for the Aircraft invoice at the time of delivery. The values will be considered final and no Airframe Price Adjustments will be made after Aircraft delivery for any subsequent changes in published Index values, subject always to paragraph 2.4 above.
- ii. The maximum number of digits to the right of the decimal after rounding utilized in any part of the Airframe Price Adjustment equation will be 4, where rounding of the fourth digit will be increased to the next highest digit when the 5th digit is equal to 5 or greater.

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BUYER FURNISHED EQUIPMENT VARIABLES

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Supplemental Exhibit BFE1 to Purchase Agreement Number 3256

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BUYER FURNISHED EQUIPMENT VARIABLES

relating to

BOEING MODEL 787 AIRCRAFT

This Supplemental Exhibit BFE1 contains vendor selection dates, on-dock dates and other requirements applicable to the Boeing Model 787 aircraft.

1. Supplier Selection.

Customer will select and notify Boeing of the suppliers of the following items by the following dates:

Customer remains liable for any and all nonrecurring costs in association with any configuration selection.

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2. Certification Document.

Customer will deliver to Boeing a copy of the FAA Technical Standard Order (TSO) 127a authorization letter or equivalent evidence of certification for Buyer Furnished Equipment Premium Class Seats no later than the following:

[***]

3. <u>Import</u>

Customer will insure that Customer's BFE suppliers provide sufficient information to enable Boeing, when acting as Importer of Record for Customer's BFE, to comply with all applicable provisions of the U.S. Customs Service.

4. <u>Delivery Dates and Other Information</u>

On or before [***], Boeing will provide to Customer a BFE Requirements On-Dock/Inventory Document (BFE Document) or an electronically transmitted BFE Report which may be periodically revised, setting forth the items, quantities, on-dock dates, shipping instructions and other requirements relating to the insequence installation of BFE. For planning purposes, preliminary BFE on-dock dates are set forth below:

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Article 4 Table of Preliminary BFE On-Dock Dates

[***]

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BFE1-1 BOEING PROPRIETARY Page 30 of 464

787 CUSTOMER SUPPORT DOCUMENT

<u>between</u>

THE BOEING COMPANY

<u>and</u>

LAN Airlines S.A.

Supplemental Exhibit CS1 to Purchase Agreement Number 3256 $\,$

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CS1 BOEING PROPRIETARY 1-1

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787 CUSTOMER SUPPORT DOCUMENT

PART 1: BOEING MAINTENANCE AND FLIGHT TRAINING PROGRAMS; OPERATIONS ENGINEERING SUPPORT

Definitions:

[***]

1. <u>Boeing Training Programs</u>.

Boeing will provide maintenance training, cabin attendant training, and flight training programs to support the introduction of the Customer Aircraft into service as provided in this Supplemental Exhibit CS1.

- 1.1 Customer is awarded [***] points (Training Points). [***] (Training Program Period) Customer may exchange Training Points for any of the training courses described on Attachment A at the point values described on Attachment A or for other training Boeing may identify at specified point values. At the end of the Training Program Period any unused Training Points will expire.
 - 1.2 In addition to the training provided in Article 1.1, Boeing will provide to Customer the following training and services:
 - 1.2.1 Flight dispatcher model-specific instruction; two (2) classes of six (6) students;
 - 1.2.2 Performance engineer model-specific instruction in Boeing's regularly scheduled courses; schedules are published yearly.
 - 1.2.3 Additional Flight Operations Services:
 - a. Boeing flight crew personnel to assist in ferrying the First Customer Aircraft to Customer's main base;

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CS1 BOEING PROPRIETARY

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- b. Instructor pilots for ninety (90) Man Days (as defined in Article 5.4 below) for revenue service assistance;
- c. An instructor pilot to visit Customer six (6) months after [***] revenue service to review Customer's flight crew operations for a two (2) week period.

If any part of the training described in this Article 1.2 is not completed by Customer within twenty-four (24) months after the delivery of the last Aircraft, Boeing will have no obligation to provide such training.

Training Schedule and Curricula.

[***

- 2.1 Customer and Boeing will together conduct planning conferences approximately twelve (12) months before the scheduled delivery month of the First Customer Aircraft to define and schedule the maintenance, flight training and cabin attendant training programs. At the conclusion of each planning conference the parties will document Customer's course selection, training schedule, and, if applicable, Training Point application and remaining Training Point balance.
- 2.2 Customer may also request training by written notice to Boeing identifying desired courses, dates and locations. Within fifteen (15) days of Boeing's receipt of such request Boeing will provide written response to Customer confirming whether the requested courses are available at the times and locations requested by Customer.

3. Location of Training.

- 3.1 Boeing will conduct all training at any of its or its wholly-owned subsidiaries' training facilities equipped for the Aircraft. Customer shall decide on the location or mix of locations for training, subject to space being available in the desired courses at the selected training facility on the dates desired.
- 3.2 If requested by Customer, Boeing will conduct the classroom portions of the maintenance and flight training (except for the Performance Engineer training courses) at a mutually acceptable alternate training site, subject to the following conditions:
 - 3.2.1 Customer will provide acceptable classroom space, simulators (as necessary for flight training) and training equipment required to present the courses;
 - 3.2.2 Customer will pay Boeing's portal to portal actual [***] expenses for lodging, ground transportation, laundry, baggage handling, communication costs and per diem meal charge for each Boeing instructor for each day, or fraction thereof, that the instructor is away from his home location, including travel time;

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- 3.2.3 Customer will reimburse Boeing for the actual costs of round-trip transportation for Boeing's instructors and the shipping costs of training materials which must be shipped to the alternate training site;
- 3.2.4 Customer will be responsible for all taxes, fees, duties, licenses, permits and similar expenses incurred by Boeing and its employees as a result of Boeing's providing training at the alternate site or incurred as a result of Boeing providing revenue service training; and
- 3.2.5 Those portions of training that require the use of training devices not available at the alternate site will be conducted at Boeing's facility or at some other alternate site. Customer will be responsible for additional expenses, if any, which result from the use of such alternate site.

4. Training Materials.

Training materials will be provided for each student. Training materials may be used only for either (i) the individual student's reference during Boeing provided training and for review thereafter or (ii) Customer's provision of training to individuals directly employed by the Customer.

Additional Terms and Conditions.

- 5.1 All training will reflect an airplane configuration defined by (i) [***], (ii) Boeing's standard configuration specification for each model of 787 aircraft selected by Customer, and (iii) any Optional Features selected by Customer from Boeing's standard catalog of Optional Features. Upon Customer's request, Boeing may provide training customized to reflect other elements of Customer's Aircraft configuration subject to a mutually acceptable price, schedule, scope of work and other applicable terms and conditions.
 - 5.2 All training will be provided in the English language. If translation is required, Customer will provide interpreters.
- 5.3 Customer will be responsible for all expenses of Customer's personnel except that in the Puget Sound region of Washington State Boeing will transport Customer's personnel between their local lodgings and Boeing's training facility.
- 5.4 Boeing flight instructor personnel will not be required to work more than five (5) days per week, or more than eight (8) hours in any one twenty-four (24) hour period (Man Day), of which not more than five (5) hours per eight (8) hour workday will be spent in actual flying. These foregoing restrictions will not apply to ferry assistance or revenue service training services, which will be governed by FAA rules and regulations.
- 5.5 Normal Line Maintenance is defined as line maintenance that Boeing might reasonably be expected to furnish for flight crew training at Boeing's facility, and will include ground support and Customer Aircraft storage in the open, but will not

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1-4 Page 34 of 464 include provision of spare parts. Boeing will provide Normal Line Maintenance services for any Customer Aircraft while the Customer Aircraft is used for flight crew training at Boeing's facility in accordance with the Boeing Maintenance Plan (Boeing document D682076) and the Repair Station Operation and Inspection Manual (Boeing document D625470). Customer will provide such services if flight crew training is conducted elsewhere. Regardless of the location of such training, Customer will be responsible for providing all maintenance items (other than those included in Normal Line Maintenance) required during the training, including, but not limited to, fuel, oil, landing fees and spare parts.

- 5.6 If the training is based at Boeing's facility and the Customer Aircraft is damaged during such training, Boeing will make all necessary repairs to the Customer Aircraft as promptly as possible. Customer will pay Boeing's reasonable charge, including the price of parts and materials, for making the repairs. If Boeing's estimated labor charge for the repair exceeds twenty-five thousand dollars (\$25,000), Boeing and Customer will enter into an agreement for additional services before beginning the repair work.
- 5.7 If the flight training is based at Boeing's facility, several airports in the surrounding area may be used, at Boeing's option. Unless otherwise agreed in the flight training planning conference, it will be Customer's responsibility to make arrangements for the use of such airports.
- 5.8 Boeing agrees to make arrangements on behalf of Customer for the use of airports for flight training, Boeing will pay on Customer's behalf any landing fees charged by any airport used in conjunction with the flight training. At least thirty (30) days before flight training, Customer will provide Boeing an open purchase order against which Boeing will invoice Customer for any landing fees Boeing paid on Customer's behalf. The invoice will be submitted to Customer approximately sixty (60) days after flight training is completed, when all landing fee charges have been received and verified. Customer will pay the invoiced amount to Boeing within forty-five (45) days after receipt of the invoice by Customer from Boeing.
- 5.9 If requested by Boeing, in order to provide the flight training or ferry flight assistance, Customer will make available to Boeing a Customer Aircraft after delivery to familiarize Boeing instructor or ferry flight crew personnel with such Customer Aircraft. If flight of the Customer Aircraft is required for any Boeing instructor or ferry flight crew member to maintain an FAA license for flight proficiency or landing currency, Boeing will be responsible for the costs of fuel, oil, landing fees and spare parts attributable to that portion of the flight.

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PART 2: FIELD AND ENGINEERING SUPPORT SERVICES

1. <u>Field Service Representation</u>.

Boeing will furnish field service representation to advise Customer with respect to the maintenance and operation of the Customer Aircraft (Field Service Representatives).

- 1.1 Field Service representation will be available at or near Customer's main maintenance or engineering facility beginning before the scheduled delivery month of the First Customer Aircraft and ending twelve (12) months after delivery of the last Customer Aircraft covered by a specific purchase agreement.
- 1.2 When a Field Service Representative is positioned at Customer's facility, Customer will provide, at no charge to Boeing, suitable furnished office space and office equipment, including internet capability for electronic access of data, at the location where Boeing is providing Field Service Representatives. As required, Customer will assist each Field Service Representative with visas, work permits, customs, mail handling, identification passes and formal introduction to local airport authorities.
- 1.3 Boeing's Field Service Representatives are assigned to various airports and other locations around the world. Whenever Customer Aircraft are operating through any such airport, the services of Boeing's Field Service Representatives are available to Customer.

2. <u>Engineering Support Services</u>.

- 2.1 Boeing will, if requested by Customer, provide technical advisory assistance from the Seattle area or at a base designated by Customer as appropriate for any Customer Aircraft or Boeing Product (as defined in Part 1 of Exhibit C of the AGTA). Technical advisory assistance, provided, will include:
 - 2.1.1 Analysis of the information provided by Customer to determine the probable nature and cause of operational problems and suggestion of possible solutions.
 - 2.1.2 Analysis of the information provided by Customer to determine the nature and cause of unsatisfactory schedule reliability and the suggestion of possible solutions.
 - 2.1.3 Analysis of the information provided by Customer to determine the nature and cause of unsatisfactory maintenance costs and the suggestion of possible solutions.
 - 2.1.4 Analysis and commentary on Customer's engineering releases relating to structural repairs not covered by Boeing's Structural Repair Manual including those repairs requiring advanced composite structure design.

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- 2.1.5 Analysis and commentary on Customer's engineering proposals for changes in, or replacement of, systems, parts, accessories or equipment manufactured to Boeing's detailed design. Boeing will not analyze or comment on any major structural change unless Customer's request for such analysis and comment includes complete detailed drawings, substantiating information (including any information required by applicable government agencies), all stress or other appropriate analyses, and a specific statement from Customer of the substance of the review and the response requested.
- 2.1.6 One (1) evaluation of Customer's technical facilities, tools and equipment for servicing and maintaining Customer Aircraft, recommendation of changes where necessary and assistance in the formulation of an initial maintenance plan for the introduction of the First Customer Aircraft into service.
- 2.1.7 Assistance with the analysis and preparation of performance data to be used in establishing operating practices and policies for Customer's operation of Customer Aircraft.
- 2.1.8 Assistance with interpretation of the minimum equipment list, the definition of the configuration deviation list and the analysis of individual Customer Aircraft performance.
 - 2.1.9 Assistance with solving operational problems associated with delivery and route-proving flights.
 - 2.1.10 Information regarding significant service items relating to Customer Aircraft performance or flight operations.
 - 2.1.11 Operations engineering support during the ferry flight of a Customer Aircraft.
 - 2.1.12 Assistance in developing an Extended Twin Operations (ETOPs) plan for regulatory approval.
- 2.2 Boeing will, if requested by Customer, perform work on a Customer Aircraft after delivery but prior to the initial departure flight or upon the return of the Customer Aircraft to Boeing's facility prior to completion of that flight. The following conditions will apply to Boeing's performance:
 - 2.2.1 Boeing may rely upon the commitment authority of the Customer's personnel requesting the work.

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- 2.2.2 As title and risk of loss has passed to Customer [***], the insurance provisions of Article 8.2 of the AGTA apply.
- 2.2.3 The provisions of the Boeing warranty in Part 2 of Exhibit C of the AGTA apply.
- 2.2.4 Customer will pay Boeing for requested work not covered by the Boeing warranty, if any.
- 2.2.5 The <u>DISCLAIMER AND RELEASE</u> and <u>EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES</u> provisions in Article 11 of Part 2 of Exhibit C of the AGTA apply.

2.3 Boeing may, at Customer's request, provide services other than those described in Articles 2.1 and 2.2 of this Supplemental Exhibit CS1 for a Customer Aircraft after delivery, which may include, but not be limited to, retrofit kit changes (kits and/or information), training, flight services, maintenance and repair of the Customer Aircraft (Additional Services). Such Additional Services will be subject to a mutually acceptable price, schedule, scope of work and other applicable terms and conditions. The DISCLAIMER AND RELEASE and the EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions in Article 11 of Part 2 of Exhibit C of the AGTA and the insurance provisions in Article 8.2 of the AGTA will apply to any such work. Risk of loss of any such Customer Aircraft will always remain with Customer.

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PART 3: TECHNICAL INFORMATION AND MATERIALS

General.

Materials are defined as any and all items that are created by Boeing or a third party, which are provided directly or indirectly from Boeing and serve primarily to contain, convey or embody information. Materials may include either tangible embodiments (for example, documents or drawings), or intangible embodiments (for example, software and other electronic forms) of information but excludes Aircraft Software. Aircraft Software is defined as software that is installed on and used in the operation of the Aircraft.

Customer Information is defined as that data provided by Customer to Boeing which falls into one of the following categories: (i) aircraft operational information (including, but not limited to, flight hours, departures, schedule reliability, engine hours, number of aircraft, aircraft registries, landings, and daily utilization and schedule interruptions for Aircraft); (ii) summary and detailed shop findings data; (iii) aircraft readiness log data; (iv) non-conformance reports; (v) line maintenance data; (vi) airplane message data, (vii) scheduled maintenance data, and (viii) service bulletin incorporation.

[***], Boeing will provide to Customer through electronic access certain Materials to support the maintenance and operation of the Aircraft. Such Materials will, if applicable, be prepared generally in accordance with Air Transport Association of America (ATA) iSpec 2200, entitled "Information Standards for Aviation Maintenance." Materials not covered by iSpec 2200 will be provided in a structure suitable for the Material's intended use. Materials will be in English and in the units of measure used by Boeing to manufacture the Aircraft.

Materials Planning Conferences.

Customer and Boeing will conduct planning conferences approximately twelve (12) months before the scheduled delivery month of the First Customer Aircraft in order to mutually determine (i) the Materials to be furnished to Customer in support of the Aircraft, (ii) the Customer Information to be furnished by Customer to Boeing, (iii) the update cycles of the Materials to be furnished to Customer, (iv) the update cycles of the Customer Information to be furnished to Boeing, (v) any Customer preparations necessary for Customer's transmittal of Customer Information to Boeing, and (vi) any Customer preparations necessary for Customer's electronic access to the Materials.

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Technical Data and Maintenance Information.

Boeing will provide technical data and maintenance information equivalent to that traditionally provided in the following manuals and documents. The format for this data and information is not yet determined in all cases. Whenever possible Boeing will provide such data and information through electronic access.

a) Flight Operations Information.

Airplane Flight Manual

Operations Manual and Checklist

Weight and Balance Manual

Dispatch Deviation Procedures Guide and Master Minimum Equipment List

Flight Crew Training Manual

Fault Reporting Manual

Performance Engineer's Manual

Jet Transport Performance Methods

FMC Supplemental Data Document

Operational Performance Software

ETOPS Guide Vol. III

Flight Planning and Performance Manual

b) Maintenance Information.

Maintenance Manual

Wiring Diagram Manual

Systems Schematics Manual

Structural Repair Manual

Component Maintenance Manual

Standard Overhaul Practices Manual

Standard Wiring Practices Manual

Non-Destructive Test Manual

Service Bulletins and Index

Corrosion Prevention Manual

Fault Isolation Manual

Power Plant Buildup Manual (except Rolls Royce)

All Operators Letters

Service Letters

Structural Item Interim Advisory

Combined Index

Maintenance Tips

Configuration Data Base Generator User Guide

Production Management Data Base

Baggage/Cargo Loading Manual

c) <u>Maintenance Planning</u>.

Maintenance Review Board Report

Maintenance Planning Data Document

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Maintenance Task Cards and Index

Maintenance Inspection Intervals Report

ETOPS Guide Vol. II

Configuration Maintenance and Procedures for Extended Range Operations

d) Spares Information.

Illustrated Parts Catalog

Standards Books

e) Airplane & Airport Information.

Facilities and Equipment Planning Document

Special Tool & Ground Handling Equipment Drawings & Index

Supplementary Tooling Documentation

Illustrated Tool and Equipment List/Manual

Aircraft Recovery Document

Airplane Characteristics for Airport Planning Document

Airplane Rescue and Fire Fighting Document

Engine Ground Handling Document

ETOPS Guide Vol. I

f) Shop Maintenance.

Service Bulletins

Component Maintenance Manuals and Index

Publications Index

Product Support Supplier Directory

Supplier Product Support and Assurance Agreements

g) Fleet Statistical Data and Reporting.

Fleet Message and Fault Data views, charts, and reports

4. Advance Representative Materials.

Boeing will select all advance representative Materials from available sources and whenever possible will provide them through electronic access. Such advance Materials will be for advance planning purposes only.

Customized Materials.

All customized Materials will reflect the configuration of each Aircraft as delivered.

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6. Revisions.

- 6.1 The schedule for updating certain Materials will be identified in the planning conference. Such updates will reflect changes to Materials developed by Boeing.
- 6.2 If Boeing receives written notice that Customer intends to incorporate, or has incorporated, any Boeing service bulletin in an Aircraft, Boeing will update Materials reflecting the effects of such incorporation into such Aircraft.

Supplier Technical Data.

- 7.1 For supplier-manufactured programmed airborne avionics components and equipment classified as Seller Furnished Equipment (SFE) or Buyer Designated Equipment (BDE) which contain computer software designed and developed in accordance with Radio Technical Commission for Aeronautics Document No. RTCA/DO-178 dated January 1982, No. RTCA/DO-178A dated March 1985, or later as available, Boeing will provide, [***], the software documentation available to Customer.
 - 7.2 The provisions of this Article will not be applicable to items of BFE.
- 7.3 Boeing will furnish to Customer a document identifying the terms and conditions of the product support agreements between Boeing and its suppliers requiring the suppliers to fulfill Customer's requirements for information and services in support of the Aircraft.

8. <u>Buyer Furnished Equipment Data.</u>

Boeing will incorporate BFE line maintenance information into the customized Materials providing Customer makes the information available to Boeing at least six (6) months prior to the scheduled delivery month of each Aircraft. Boeing will incorporate such BFE line maintenance information into the Materials prior to delivery of each Aircraft reflecting the configuration of that Aircraft as delivered. Upon Customer's request, Boeing may provide update service after delivery to such information subject to the terms of Part 2, Article 2.3 relating to Additional Services. Customer agrees to furnish all BFE line maintenance information in Boeing's standard digital format.

9. <u>Customer's Shipping Addresses</u>.

From time to time Boeing may furnish certain Materials or updates to Materials by means other than electronic access. Customer will specify a maximum of two address and Customer shall promptly notify Boeing of any change to such addresses. Boeing will pay the reasonable shipping costs of the Materials. Customer is responsible for any customs clearance charges, duties, and taxes. The addresses for this purpose shall be:

LAN Airlines S.A.

LAN Airlines S.A.

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CS1 BOEING PROPRIETARY 3-4 Page 42 of 464 Aeropuerto C.A.M.B. Base de Mantenimiento Santiago Chile

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Miami International Airport Concourse A – Level 2 Miami, Florida 33122

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PART 4: ALLEVIATION OR CESSATION OF PERFORMANCE

Boeing will not be required to provide any services, training or other things at a facility designated by Customer if any of the following conditions exist:

- 1. a labor stoppage or dispute in progress involving Customer;
- 2. wars or warlike operations, riots or insurrections in the country where the facility is located;
- 3. any condition at the facility which, in the opinion of Boeing, is detrimental to the general health, welfare or safety of its personnel or their families;
- 4. the United States Government refuses permission to Boeing personnel or their families to enter into the country where the facility is located, or recommends that Boeing personnel or their families leave the country; or

After the location of Boeing personnel at the facility, Boeing further reserves the right, upon the occurrence of any of such events, to immediately and without prior notice to Customer relocate its personnel and their families.

Boeing will not be required to provide any Materials at a facility designated by Customer if the United States Government refuses permission to Boeing to deliver Materials to the country where the facility is located.

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PART 5: PROTECTION OF PROPRIETARY INFORMATION AND PROPRIETARY MATERIALS

General.

All Materials provided by Boeing to Customer and not covered by a Boeing CSGTA or other agreement between Boeing and Customer defining Customer's right to use and disclose the Materials and included information will be covered by and subject to the terms of the AGTA as amended by the terms of the Purchase Agreement. Title to all Materials containing, conveying or embodying confidential, proprietary or trade secret information (Proprietary Information) belonging to Boeing or a third party (Proprietary Materials), will at all times remain with Boeing or such third party. Customer will treat all Proprietary Materials and all Proprietary Information in confidence and use and disclose the same only as specifically authorized in the AGTA as amended by the terms of the Purchase Agreement.

2. License Grant.

- 2.1 Boeing grants to Customer a worldwide, non-exclusive, non-transferable license to use and disclose Proprietary Materials in accordance with the terms and conditions of the AGTA as amended by the terms of the Purchase Agreement. Customer is authorized to make copies of Materials (except for Materials bearing the copyright legend of a third party), and all copies of Proprietary Materials will belong to Boeing and be treated as Proprietary Materials under the AGTA as amended by the terms of the Purchase Agreement. Customer will preserve all proprietary legends, and all copyright notices on all Materials and insure the inclusion of those legends and notices on all copies. [***]
- 2.2 Customer grants to Boeing a perpetual, world-wide, non-exclusive license to use and disclose Customer Information or derivative works thereof in Boeing data and information products and services provided indicia identifying Customer Information as originating from Customer is removed from such Customer Information.

3. <u>Use of Proprietary Materials and Proprietary Information.</u>

Customer is authorized to use Proprietary Materials and Proprietary Information for the purpose of: (a) operation, maintenance, repair, or modification of Customer's Aircraft for which the Proprietary Materials and Proprietary Information have been specified by Boeing and (b) development and manufacture of training devices and maintenance tools for use by Customer.

Providing of Proprietary Materials to Contractors.

Customer is authorized to provide Proprietary Materials to Customer's contractors for the

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5-1 Page 45 of 464 sole purpose of maintenance, repair, or modification of Customer's Aircraft for which the Proprietary Materials have been specified by Boeing. In addition, Customer may provide Proprietary Materials to Customer's contractors for the sole purpose of developing and manufacturing training devices and maintenance tools for Customer's use. Before providing Proprietary Materials to its contractor, Customer will first obtain a written agreement from the contractor by which the contractor agrees (a) to use the Proprietary Materials only on behalf of Customer, (b) to be bound by all of the restrictions and limitations of this Part 5, and (c) that Boeing is a third party beneficiary under the written agreement. Customer agrees to provide copies of all such written agreements to Boeing upon request and be liable to Boeing for any breach of those agreements by a contractor. A sample agreement acceptable to Boeing is attached as Appendix VII to the AGTA.

5. Providing of Proprietary Materials and Proprietary Information to Regulatory Agencies.

5.1 When and to the extent required by a government regulatory agency having jurisdiction over Customer or an Aircraft, Customer is authorized to provide Proprietary Materials and to disclose Proprietary Information to the agency for use in connection with Customer's operation, maintenance, repair, or modification of such Aircraft. Customer agrees to take all reasonable steps to prevent the agency from making any distribution, disclosure, or additional use of the Proprietary Materials and Proprietary Information provided or disclosed. Customer further agrees to notify Boeing immediately upon learning of any (a) distribution, disclosure, or additional use by the agency, (b) request to the agency for distribution, disclosure, or additional use, or (c) intention on the part of the agency to distribute, disclose, or make additional use of Proprietary Materials or Proprietary Information.

5.2 In the event of a Customer Aircraft or aircraft systems-related incident, the Customer may suspend, or block access to Customer Information pertaining to its Customer Aircraft or fleet. Such suspension may be for an indefinite period of time.

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CS1 BOEING PROPRIETARY 5-2 Page 46 of 464 ATTACHMENT A ***
787 TRAINING POINTS MENU
(legend on next page)

[***]

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Attachment A, Page 1 of 2 Page 47 of 464 ATTACHMENT A ***
787 TRAINING POINTS MENU
(legend at bottom of this page)

[***]

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Attachment A, Page 2 of 2 Page 48 of 464

ENGINE ESCALATION AND ENGINE WARRANTY

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Supplemental Exhibit EE1 to Purchase Agreement Number 3256

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[***] ENGINE ESCALATION.

The Aircraft Basic Price of each Aircraft set forth in each Table 1 of the Purchase Agreement includes an aggregate price for Rolls-Royce plc Trent 1000 series engines and all accessories, equipment and parts provided by the engine manufacturer (Engines). The adjustment in Engine Price applicable to each Aircraft (Engine Price Adjustment) will be determined at the time of Aircraft delivery in accordance with the following formula:

$$P_a = (P) (L + M) - P$$

Where:

 $P_a =$ Engine Price Adjustment.

P = Engine Price per Aircraft (as set forth in each Table 1 of this Purchase Agreement).

 $L = .65 \times [(\underline{ECI} \times (\underline{ECI-R}_b) + \underline{ECI-R}_b)]$

Where:

 ECI_b is the base year engine escalation index ([***] as set forth in each Table 1 of this Purchase Agreement);

ECI is the three-month arithmetic average value of [***] for October, November, and December [***], using ECI MFG (BLS Series ID ECU124021);

ECI- R_b is the three-month arithmetic average value of 100.0 for October, November, and December [***], using the ECI – NAICS Manufacturing (BLS Series ID CIU2013000000000I); and

ECI-R is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics, Employment Cost Index for NAICS Manufacturing – Total Compensation (Series ID CIU2013000000000I), calculated by establishing a three-month arithmetic average value (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th, and 13th months prior to the month of scheduled delivery of the applicable

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EE1 - 1 BOEING PROPRIETARY Page 50 of 464 Aircraft. As the Employment Cost Index values are only released on a quarterly basis, the value released for the first quarter will be used for the months of January, February, and March; the value released for the second quarter will be used for the months of April, May, and June; the value released for the third quarter will be used for the months of July, August, and September; the value released for the fourth quarter will be used for the months of October, November, and December.

$$M = .35 \times (\underline{CPI}_{b})$$

Where:

 CPI_b is the base year engine escalation index ([***] as set forth in each Table 1 of this Purchase Agreement); and

CPI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers (BLS Series ID CUUR0000SA0), calculated as a 3-month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th, and 13th months prior to the month of scheduled delivery of the applicable Aircraft.

As an example, for an Aircraft scheduled to be delivered in the month of July, the months June, July and August of the preceding year will be utilized in determining the value of ECI-R and CPI.

Note: i. In determining the values of L and M, all calculations and resulting values will be expressed as a decimal rounded to the nearest ten-thousandth.

- ii. .65 is the numeric ratio attributed to labor in the Engine Price Adjustment formula.
- iii. .35 is the numeric ratio attributed to materials in the Engine Price Adjustment formula.
- iv. The denominators (base year indices) are the actual average values reported by the U.S. Department of Labor, Bureau of Labor Statistics. The actual average values are calculated as a 3-month arithmetic average of the

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EE1 - 2 **BOEING PROPRIETARY** Page 51 of 464 released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th, and 13th months prior to the Engine Price base year. The applicable base year and corresponding denominator is provided by Boeing in each Table 1 of this Purchase Agreement.

- v. The final value of P_a will be rounded to the nearest dollar.
- vi. The Engine Price Adjustment will not be made if it will result in a decrease in the Engine Price.

2. Values to be Utilized in the Event of Unavailability.

- 2.1 If the Bureau of Labor Statistics substantially revises the methodology used for the determination of the values to be used to determine the ECI-R and CPI values (in contrast to benchmark adjustments or other corrections of previously released values), or for any reason has not released values needed to determine the applicable Engine Price Adjustment, Rolls-Royce plc agrees to meet jointly with Boeing and the Customer (to the extent such parties may lawfully do so) prior to the delivery of any such Aircraft, to select a substitute from other Bureau of Labor Statistics data or similar data reported by non-governmental organizations. Such substitute will result in the same adjustment, insofar as possible, as would have been calculated utilizing the original values adjusted for fluctuation during the applicable time period. However, if within 24 months after delivery of the Aircraft, the Bureau of Labor Statistics should resume releasing values for the months needed to determine the Engine Price Adjustment; such values will be used to determine any increase or decrease in the Engine Price Adjustment for the Engine from that determined at the time of delivery of the Aircraft.
- 2.2 Notwithstanding Article 2.1 above, if prior to the scheduled delivery month of an Aircraft the Bureau of Labor Statistics changes the base year for determination of the ECI-R and CPI values as defined above, such re-based values will be incorporated in the Engine Price Adjustment calculation.
- 2.3 In the event escalation provisions are made non-enforceable or otherwise rendered void by any agency of the United States Government, the parties agree, to the extent they may lawfully do so, to equitably adjust the Engine Price of any affected Aircraft to reflect an allowance for increases or decreases consistent with the applicable provisions of paragraph 1 of this Supplemental Exhibit EE1 in labor compensation and material costs occurring since August of the year prior to the price base year shown in the Purchase Agreement.
- 2.4 If within 12 months of Aircraft delivery, the published index values are revised due to an acknowledged error by the Bureau of Labor Statistics, the Engine Price Adjustment will be re-calculated using the revised index values (this does not include those values noted as preliminary by the Bureau of Labor Statistics). A credit memorandum or supplemental invoice will be issued for the Engine Price Adjustment

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EE1 - 3 BOEING PROPRIETARY Page 52 of 464 difference. Interest charges will not apply for the period of original invoice to issuance of credit memorandum or supplemental invoice.

Note:

- i. The values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to the first day of the scheduled delivery month of an Aircraft will be used to determine the ECI-R and CPI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Engine Price Adjustment for the Aircraft invoice at the time of delivery. The values will be considered final and no Engine Price Adjustments will be made after Aircraft delivery for any subsequent changes in published Index values, subject always to paragraph 2.4 above.
- ii. The maximum number of digits to the right of the decimal after rounding utilized in any part of the Engine Price Adjustment equation will be 4, where rounding of the fourth digit will be increased to the next highest digit when the 5th digit is equal to 5 or greater.

3. Engine Warranty.

Boeing has obtained from Rolls-Royce plc the right to extend to Customer the provisions of Rolls-Royce plc's warranty agreement (herein referred to as the "Warranty"); subject, however, to Customer's acceptance of the conditions set forth therein. Accordingly, Boeing hereby extends to Customer and Customer hereby accepts the provisions of the Warranty, and such Warranty shall apply to all Trent 1000 type engine(s), including all Modules and Parts thereof as such terms are defined in the Warranty, installed in the Aircraft at the time of delivery or purchased from Boeing by Customer for support of the Aircraft (Engine(s)) except that, if Customer and Rolls-Royce plc have executed an Engine general terms agreement (Engine GTA), then the terms of that Engine GTA shall be substituted for and supersede the provisions of the Warranty and the Warranty shall be of no force or effect and neither Boeing nor Rolls-Royce plc shall have any obligation arising therefrom. In consideration for Boeing's extension of the Warranty to Customer, Customer hereby releases and discharges Boeing from any and all claims, obligations and liabilities whatsoever arising out of the purchase or use of such Engines and Customer hereby waives, releases and renounces all its rights in all such claims, obligations and liabilities. In addition, Customer hereby releases and renounces all its rights in all such claims, obligations and liabilities.

The Rolls-Royce plc Warranty is set forth in Exhibit C to the applicable Engine purchase contract between Rolls-Royce plc and Boeing. Copies of the Rolls-Royce plc Warranty shall be provided to Customer by Boeing upon request.

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ENGINE ESCALATION AND ENGINE WARRANTY

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Supplemental Exhibit EE 1 to Purchase Agreement Number 3256

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[***] ENGINE ESCALATION.

The Aircraft Basic Price of each Aircraft set forth in each Table 1 of the Purchase Agreement includes an aggregate price for General Electric Aircraft GEnx series engines and all accessories, equipment and parts provided by the engine manufacturer (Engines). The adjustment in Engine Price applicable to each Aircraft (Engine Price Adjustment) will be determined at the time of Aircraft delivery in accordance with the following formula:

$$P_a = (P) (L + M) - P$$

Where:

P_a = Engine Price Adjustment.

P = Engine Price per Aircraft (as set forth in each Table 1 of this Purchase Agreement).

 $L = .65 \times [(\underline{ECI} \times (\underline{ECI-R} \\ \underline{ECI_b}) \quad \underline{ECI-R_b})]$

Where:

 ECI_b is the base year engine escalation index ([***] as set forth in each Table 1 of this Purchase Agreement);

ECI is the three-month arithmetic average value of [***] for October, November, and December [***], using ECI,MFG (BLS Series ID ECU12402I);

ECI- R_b is the three-month arithmetic average value of 100.0 for October, November, and December [***], using the ECI – NAICS Manufacturing (BLS Series ID CIU2013000000000I); and

ECI-R is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics, Employment Cost Index for NAICS Manufacturing – Total Compensation (BLS Series ID CIU2013000000001), calculated by establishing a three-month arithmetic average value (expressed as a decimal and rounded to the nearest tenth) using the values for the 11^{th} , 12^{th} , and 13^{th} months prior to the month of scheduled

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EE1 - 1 BOEING PROPRIETARY Page 55 of 464 delivery of the applicable Aircraft. As the Employment Cost Index values are only released on a quarterly basis, the value released for the first quarter will be used for the months of January, February, and March; the value released for the second quarter will be used for the months of April, May, and June; the value released for the third quarter will be used for the months of July, August, and September; the value released for the fourth quarter will be used for the months of October, November, and December.

$$M = .35 \times (\underline{CPI}_{b})$$

Where:

CPI_b is the base year index [***] as set forth in each Table 1 of this Purchase Agreement); and

CPI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index - All Urban Consumers (BLS Series ID CUUR0000SA0), calculated as a 3-month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th, and 13th months prior to the month of scheduled delivery of the applicable Aircraft.

As an example, for an Aircraft scheduled to be delivered in the month of July, the months June, July and August of the preceding year will be utilized in determining the value of ECI-R and CPI.

Note: i. In determining the values of L and M, all calculations and resulting values will be expressed as a decimal rounded to the nearest ten-thousandth.

- ii. .65 is the numeric ratio attributed to labor in the Engine Price Adjustment formula.
- iii. .35 is the numeric ratio attributed to materials in the Engine Price Adjustment formula.

iv. The denominators (base year indices) are the actual average values reported by the U.S. Department of Labor, Bureau of Labor Statistics. The actual average values are calculated as a 3-month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th, and 13th months prior to the Engine Price base year.

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BOEING PROPRIETARY Page 56 of 464 The applicable base year and corresponding denominator is provided by Boeing in each Table 1 of this Purchase Agreement.

- v. The final value of P_a will be rounded to the nearest dollar.
- vi. The Engine Price Adjustment will not be made if it will result in a decrease in the Engine Price.

2. <u>Values to be Utilized in the Event of Unavailability.</u>

- 2.1 If the Bureau of Labor Statistics substantially revises the methodology used for the determination of the values to be used to determine the ECI-R and CPI values (in contrast to benchmark adjustments or other corrections of previously released values), or for any reason has not released values needed to determine the applicable Engine Price Adjustment, General Electric Aircraft agrees to meet jointly with Boeing and the Customer (to the extent such parties may lawfully do so) prior to the delivery of any such Aircraft, to select a substitute from other Bureau of Labor Statistics data or similar data reported by nongovernmental organizations. Such substitute will result in the same adjustment, insofar as possible, as would have been calculated utilizing the original values adjusted for fluctuation during the applicable time period. However, if within 24 months after delivery of the Aircraft, the Bureau of Labor Statistics should resume releasing values for the months needed to determine the Engine Price Adjustment; such values will be used to determine any increase or decrease in the Engine Price Adjustment for the Engine from that determined at the time of delivery of the Aircraft.
- 2.2 Notwithstanding Article 2.1 above, if prior to the scheduled delivery month of an Aircraft the Bureau of Labor Statistics changes the base year for determination of the ECIR and CPI values as defined above, such re-based values will be incorporated in the Engine Price Adjustment calculation.
- 2.3 In the event escalation provisions are made non-enforceable or otherwise rendered void by any agency of the United States Government, the parties agree, to the extent they may lawfully do so, to equitably adjust the Engine Price of any affected Aircraft to reflect an allowance for increases or decreases consistent with the applicable provisions of paragraph 1 of this Supplemental Exhibit EEI in labor compensation and material costs occurring since August of the year prior to the price base year shown in the Purchase Agreement.
- 2.4 If within 12 months of Aircraft delivery, the published index values are revised due to an acknowledged error by the Bureau of Labor Statistics, the Engine Price Adjustment will be re-calculated using the revised index values (this does not include those values noted as preliminary by the Bureau of Labor Statistics). A credit memorandum or supplemental invoice will be issued for the Engine Price Adjustment difference. Interest charges will not apply for the period of original invoice to issuance of credit memorandum or supplemental invoice.

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Note:

- i. The values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to the first day of the scheduled delivery month of an Aircraft will be used to determine the ECI-R and CPI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Engine Price Adjustment for the Aircraft invoice at the time of delivery. The values will be considered final and no Engine Price Adjustments will be made after Aircraft delivery for any subsequent changes in published Index values, subject always to paragraph 2.4 above.
- ii. The maximum number of digits to the right of the decimal after rounding utilized in any part of the Engine Price Adjustment equation will be 4, where rounding of the fourth digit will be increased to the next highest digit when the 5th digit is equal to 5 or greater.

3. Engine Warranty

Boeing has obtained from General Electric Company (GE) the right to extend to Customer the provisions of GE's warranty and GE's product support plan ([***] the "Warranty"); subject, however, to Customer's acceptance of the conditions set forth herein. Accordingly, Boeing hereby extends to Customer and Customer hereby accepts the provisions of GE's Warranty as hereinafter set forth, and such Warranty shall apply to all GEnx type engines (including all Modules and Parts thereof), as such terms are defined in the Warranty (GEnx type Engines) installed in the Aircraft at the time of delivery or purchased from Boeing by Customer for support of the Aircraft except that, if Customer and GE have executed, or hereinafter execute, a general terms agreement (Engine GTA), then the terms of the Engine GTA shall be substituted for and supersede the provisions of the Warranty and the Warranty shall be of no force or effect and neither Boeing nor GE shall have any obligation arising there from. In consideration for Boeing's extension of the GE Warranty to Customer, Customer hereby releases and discharges Boeing from any and all claims, obligations and liabilities whatsoever arising out of the purchase or use of such GEnx type Engines and Customer hereby waives, releases and renounces all its rights in all such claims, obligations and liabilities.

The [***] set forth in Exhibit C to the applicable purchase contract between GE and Boeing. Copies of the Warranty and the Product Support Plan shall [***] be provided to Customer by Boeing upon request.

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SERVICE LIFE POLICY COMPONENTS

between

THE BOEING COMPANY

and

LAN AIRLINES S.A.

Supplemental Exhibit SLP1 to Purchase Agreement Number 3256 $\,$

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[***] SERVICE LIFE POLICY COMPONENTS

relating to

BOEING MODEL 787 AIRCRAFT

This is the listing of [***] Components for the Aircraft which relate to Part 3, <u>Boeing Service Life Policy</u> of Exhibit C, <u>Product Assurance Document</u> to the AGTA and is a part of Purchase Agreement No. 3256.

Wing.

- (a) Upper and lower wing skins and stiffeners between the forward and rear wing spars.
- (b) Wing spar webs, chords and stiffeners.
- (c) Inspar wing ribs.
- (d) Inspar splice plates and fittings.
- (e) [***].
- (f) Main landing gear support structure.
- (g) Wing center section lower beams, spanwise beams and floor beams, [***]
- (h) Wing-to-body structural attachments.
- (i) Engine [***] fittings attached directly to wing primary structure.
- (j) Support structure in the wing for spoilers and spoiler actuators; for aileron hinges and reaction links; and for leading edge devices and trailing edge flaps/flapperon.
- (k) Leading edge device, [***] and trailing edge flap support system.
- (l) Aileron leading edge device and trailing edge flap internal, fixed attachment and actuator support structure.

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Body.

- (a) External surface skins and doublers, longitudinal stiffeners, longerons and circumferential rings and frames between the forward pressure bulkhead and the vertical stabilizer rear spar bulkhead, and structural support and enclosure for the APU but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.
- (b) Window and windshield structure but excluding the windows and windshields.
- (c) Fixed attachment structure of the passenger doors, cargo doors and emergency exits, excluding door mechanisms and movable hinge components. Sills and frames around the body openings for the passenger doors, cargo doors and emergency exits, excluding scuff plates and pressure seals.
- (d) Nose wheel well structure, including the wheel well walls, pressure deck, forward and aft bulkheads, and the gear support structure.
- (e) Main gear wheel well [***] pressure deck, bulkheads and landing gear beam [***] structure.
- (f) Floor beams and support posts in the control cab and passenger cabin area, but excluding seat tracks.
- (g) Forward and aft pressure bulkheads.
- (h) Keel structure between the wing front spar bulkhead and the main gear wheel well aft bulkhead, including splices.
- (i) Wing front and rear spar support bulkheads, and vertical and horizontal stabilizer front and rear spar support bulkheads including terminal fittings but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.
- (j) Support structure in the body for the stabilizer pivot and stabilizer screw.

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3. <u>Vertical Stabilizer</u>.

- (a) External skins between front and rear spars.
- (b) Front, rear and auxiliary spars including stiffeners.
- (c) Attachment fittings between vertical stabilizer and body.
- (d) Inspar ribs.
- (e) Support structure in the vertical stabilizer for rudder hinges, reaction links and actuators.
- (f) Rudder internal, fixed attachment and actuator support structure.
- (g) [***]

4. <u>Horizontal Stabilizer</u>.

- (a) External skins between front and rear spars.
- (b) Horizontal stabilizer main torque box spars
- (c) Stabilizer splice fittings, rib, pivot and screw support structure.
- (d) Support structure in the horizontal stabilizer for the elevator hinges, reaction links and actuators.
- (e) Elevator internal, fixed attachment and actuator support structure.
- (f) Elevator hinges and supporting ribs, excluding bearings.

Engine [***].

- (a) [***] doublers and stiffeners.
- (b) Internal [***] chords, frames and bulkheads.
- (c) [***]
- (d) Engine mount support attached directly to [***] structure.

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6.	Main Landing Gear.		
	(a)	Outer cylinder.	
	(b)	Inner cylinder.	
	(c)	[***]	
	(d)	[***]	
	(e)	Orifice support tube.	
	(f)	Downlock links including spindles [***]	

[***] Axles.

(g)

(h)

Nose Landing Gear. Outer cylinder.

Torsion links.

- (b) Inner cylinder, including axles.
- [***] (c)
- [***] (d)
- [***] (e)
- Torsion links.

NOTE: The Service Life Policy does not cover any bearings, bolts, bushings, clamps, brackets, actuating mechanisms or latching mechanisms used in or on the [***] Components.

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3256-01

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: Spare Parts Initial Provisioning

Reference:

- a) Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (Customer) relating to Boeing Model 787-916/-816 aircraft (the <u>Aircraft</u>)
- b) Customer Services General Terms Agreement No. 16-1 (CSGTA) between Boeing and Customer

This letter agreement (<u>Letter Agreement</u>) is entered into on the date below and amends and supplements the CSGTA. All capitalized terms used but not defined in this Letter Agreement have the same meaning as in the CSGTA, except for "Aircraft" which will have the meaning as defined in the Purchase Agreement.

In order to define the process by which Boeing and Customer will (i) identify those Spare Parts and Standards critical to Customer's successful introduction of the Aircraft into service and its continued operation, (ii) place Orders under the provisions of the CSGTA as supplemented by the provisions of this Letter Agreement for those Spare Parts and Standards, and (iii) manage, the return of certain of those Spare Parts which Customer does not use, the parties agree as follows.

1. <u>Definitions</u>.

"Provisioning Data" means the documentation provided by Boeing to Customer, including but not limited to the Recommended Spare Parts List (<u>RSPL</u>), identifying all Boeing initial provisioning requirements for the Aircraft.

"Provisioning Items" means the Spare Parts and Standards identified by Boeing as initial provisioning requirements in support of the Aircraft, excluding special tools, ground support equipment (<u>GSE</u>), quick engine change (QEC) kits engines and engine parts.

"Provisioning Products Guide" means the Boeing Manual D6-81834 entitled "Spares Provisioning Products Guide".

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2. Phased Provisioning

- 2.1 Provisioning Products Guide. Prior to the initial provisioning meeting Boeing will furnish to Customer a copy of the Provisioning Products Guide.
- 2.2 <u>Initial Provisioning Meeting</u>. On or about [***] months prior to delivery of the first Aircraft the parties will conduct an initial provisioning meeting where the procedures, schedules, and requirements for training will be established to accomplish phased provisioning of Spare Parts and Standards for the Aircraft in accordance with the Provisioning Products Guide. If the lead time from execution of the Purchase Agreement until delivery of the first Aircraft is less than [***], the initial provisioning meeting will be established as soon as reasonably possible after execution of the Purchase Agreement.
- 2.3 <u>Provisioning Data</u>. During the initial provisioning meeting Customer will provide to Boeing the operational parameter information described in Chapter 6 of the Provisioning Products Guide. After review and acceptance by Boeing of such Customer information, Boeing will prepare the Provisioning Data. Such Provisioning Data will be furnished to Customer on or about ninety (90) days after Boeing finalizes the engineering drawings for the Aircraft. The Provisioning Data will be as complete as possible and will cover Provisioning Items selected by Boeing for review by Customer for initial provisioning of Spare Parts and Standards for the Aircraft. Boeing will furnish to Customer revisions to the Provisioning Data until approximately ninety (90) days following delivery of the last Aircraft or until the delivery configuration of each of the Aircraft is reflected in the Provisioning Data, whichever is later.
- 2.4 <u>Buyer Furnished Equipment (BFE) Provisioning Data</u>. Unless otherwise advised by Boeing, Customer will provide or insure its BFE suppliers provide to Boeing the BFE data in scope and format acceptable to Boeing, in accordance with the schedule established during the initial provisioning meeting.
- 3. Purchase from Boeing of Spare Parts and Standards as Initial Provisioning for the Aircraft.
- 3.1 <u>Schedule</u>. In accordance with schedules established during the initial provisioning meeting, Customer may place Orders for Provisioning Items and any GSE, special tools, QEC kits, or engine spare parts which Customer determines it will initially require for maintenance, overhaul and servicing of the Aircraft and/or engines.

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3.2 Prices of Initial Provisioning Spare Parts.

- 3.2.1 <u>Boeing Spare Parts</u>. The Provisioning Data will set forth the prices for those Provisioning Items other than items listed in Article 3.3, below, that are Boeing Spare Parts, and such prices will be firm and remain in effect for ninety (90) days from the date the price is first quoted to Customer in the Provisioning Data.
- 3.2.2 <u>Supplier Spare Parts</u>. Boeing will provide estimated prices in the Provisioning Data for Provisioning Items other than items listed in Article 3.3, below, that are Supplier Spare Parts. The price to Customer for any Supplier Spare Parts that are Provisioning Items or for any items ordered for initial provisioning of GSE, special tools manufactured by suppliers, QEC kits, or engine spare parts will be one hundred twelve percent (112%) of the supplier's list price for such items.
- 3.3 <u>Standards Kits, Raw Material Kits, Bulk Materials Kits and Service Bulletin Kits</u>. In accordance with schedules established during the initial provisioning meeting, Boeing will furnish to Customer a listing of all components which could be included in the Standards kits, raw material kits, bulk materials kits and service bulletin kits which may be purchased by Customer from Boeing. Customer will select, and provide to Boeing its desired content for the kits. Boeing will furnish to Customer as soon as practicable thereafter a statement setting forth a firm price for such kits. Customer will place Orders with Boeing for the kits in accordance with schedules established during the initial provisioning meeting.

4. <u>Delivery</u>.

For Spare Parts and Standards ordered by Customer in accordance with Article 3 of this Letter Agreement, Boeing will, insofar as reasonably possible, deliver to Customer such Spare Parts and Standards on dates reasonably calculated to conform to Customer's anticipated needs in view of the scheduled deliveries of the Aircraft. Customer and Boeing will agree upon the date to begin delivery of the provisioning Spare Parts and Standards ordered in accordance with this Letter Agreement. Where appropriate, Boeing will arrange for shipment of such Spare Parts and Standards which are manufactured by suppliers directly to Customer from the applicable supplier's facility. The routing and method of shipment for initial deliveries and all subsequent deliveries of such Spare Parts and Standards will be as established at the initial provisioning meeting and thereafter by mutual agreement.

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Substitution for Obsolete Spare Parts.

- 5.1 <u>Obligation to Substitute</u>. In the event that, [***] of the first Aircraft, any Spare Part purchased by Customer from Boeing in accordance with this Letter Agreement as initial provisioning for the Aircraft is rendered obsolete or unusable due to the redesign of the Aircraft or of any accessory, equipment or part thereof (other than a redesign at Customer's request) Boeing will deliver to Customer at no charge new and usable Spare Parts in substitution for such obsolete or unusable Spare Parts and, upon such delivery, Customer will return the obsolete or unusable Spare Parts to Boeing.
- 5.2 <u>Delivery of Obsolete Spare Parts and Substitutes</u>. Obsolete or unusable Spare Parts returned by Customer pursuant to this Article 5 will be delivered to Boeing [***] at its Seattle Distribution Center or such other destination as Boeing may reasonably designate. Spare Parts substituted for such returned obsolete or unusable Spare Parts will be delivered to Customer in accordance with the CSGTA. Boeing will pay the freight charges for the shipment from Customer to Boeing of any such obsolete or unusable Spare Part and for the shipment from Boeing to Customer of any such substitute Spare Part.

6. <u>Repurchase of Provisioning Items</u>.

- 6.1 <u>Obligation to Repurchase</u>. During a period commencing [***], and ending five (5) years after such delivery, Boeing will, upon receipt of Customer's written request and subject to the exceptions in Article 6.2, repurchase unused and undamaged Provisioning Items which (i) were recommended by Boeing in the Provisioning Data as initial provisioning for the Aircraft, (ii) were purchased by Customer from Boeing, and (iii) are surplus to Customer's needs.
- 6.2 Exceptions. Boeing will not be obligated under Article 6.1 to repurchase any of the following: (i) quantities of Provisioning Items in excess of those quantities recommended by Boeing in the Provisioning Data for the Aircraft, (ii) QEC kits, bulk material kits, raw material kits, service bulletin kits, Standards kits and components thereof (except those components listed separately in the Provisioning Data), (iii) Provisioning Items for which an Order was received by Boeing more than five (5) months after delivery of the last Aircraft, (iv) Provisioning Items which have become obsolete or have been replaced by other Provisioning Items as a result of Customer's modification of the Aircraft, and (v) Provisioning Items which become excess as a result of a change in Customer's operating parameters, as provided to Boeing pursuant to the initial provisioning meeting and which were the basis of Boeing's initial provisioning recommendations for the Aircraft.

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- 6.3 <u>Notification and Format</u>. Customer will notify Boeing, in writing when Customer desires to return Provisioning Items under the provisions of this Article 6. Customer's notification will include a detailed summary, in part number sequence, of the Provisioning Items Customer desires to return. Such summary will be in the form of listings, tapes, diskettes or other media as may be mutually agreed between Boeing and Customer and will include part number, nomenclature, purchase order number, purchase order date and quantity to be returned. Within five (5) business days after receipt of Customer's notification, Boeing will advise Customer in writing when Boeing's review of such summary will be completed.
- 6.4 <u>Review and Acceptance by Boeing</u>. Upon completion of Boeing's review of any detailed summary submitted by Customer pursuant to Article 6.3, Boeing will issue to Customer a Material Return Authorization (<u>MRA</u>) for those Provisioning Items Boeing agrees are eligible for repurchase in accordance with this Article 6. Boeing will advise Customer of the reason that any Provisioning Item included in Customer's detailed summary is not eligible for return. Boeing's MRA will state the date by which Provisioning Items listed in the MRA must be redelivered to Boeing, and Customer will arrange for shipment of such Provisioning Items accordingly.
- 6.5 <u>Price and Payment</u>. The price of each Provisioning Item repurchased by Boeing pursuant to this Article 6 will be an amount equal to 100% of the original invoice price thereof except that the repurchase price of Provisioning Items purchased pursuant to Article 3.2.2 will not include Boeing's 12% handling charge. Boeing will pay the repurchase price by issuing a credit memorandum in favor of Customer which may be applied against amounts due Boeing for the purchase of Spare Parts or Standards.
- 6.6 <u>Delivery of Repurchased Provisioning Items</u>. Provisioning Items repurchased by Boeing pursuant to this Article 6 will be delivered to Boeing F.O.B. at its Seattle Distribution Center or such other destination as Boeing may reasonably designate.

7. <u>Title and Risk of Loss</u>.

Title and risk of loss of any Spare Parts or Standards delivered to Customer by Boeing in accordance with this Letter Agreement will pass from Boeing to Customer in accordance with the applicable provisions of the CSGTA. Title to and risk of loss of any Spare Parts or Standards returned to Boeing by Customer in accordance with this Letter Agreement will pass to Boeing upon delivery of such Spare Parts or Standards to Boeing in accordance with the provisions of Article 5.2 or Article 6.6, herein, as appropriate.

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8. <u>Termination for Excusable Delay.</u>

In the event of termination of the Purchase Agreement pursuant to Article 7 of the AGTA with respect to any Aircraft, such termination will, if Customer so requests by written notice received by Boeing within fifteen (15) days after such termination, also discharge and terminate all obligations and liabilities of the parties as to any Spare Parts or Standards which Customer had ordered pursuant to the provisions of this Letter Agreement as initial provisioning for such Aircraft and which are undelivered on the date Boeing receives such written notice.

Order of Precedence.

In the event of any inconsistency between the terms of this Letter Agreement and the terms of any other provisions of the CSGTA, the terms of this Letter Agreement will control.

Very truly yours,			
THE BOEING COMPANY			
Ву:			
	[***]		
Its:	Attorney-In-Fact		
	1 tttofficy-fil-1 det		
P.A. 1	No. 3256		

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ACC	CEPTED AND AGREED TO this 29th day of October of 200
LAN	AIRLINES S.A.
By:	Mr. Carlos Prado C.
Its:	Senior VP Corporate Investments
By:	
	Mr. Marco Jofré M.
Its:	Senior VP Operations, Engineering &

LAN Airlines S.A.

Maintenance

Spare_Parts_Initial_Provisioning

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If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval

3256-02

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: Boeing Model 787 Open Configuration Matters

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to

Boeing Model 787-916/-816 aircraft (Aircraft)

This letter agreement (<u>Letter Agreement</u>) amends the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Definitions

[***]

P.A. No. 3256 787_Open_Configuration_Matters **BOEING PROPRIETARY** Page 71 of 464 LAN Airlines S.A. 3256-02 Page 2
[***]

1. <u>Aircraft Configuration</u>.

1.1. <u>Initial Configuration</u>. The initial configuration of the Aircraft has been defined by Boeing Model 787 Airplane Configuration Specification Number 787B1-4102 Revision B, dated July 9, 2007, [***]

1.1.1. [***] 1.1.2. [***]

- 1.2. <u>Final Configuration Schedule</u>. Given the long period of time between the Purchase Agreement signing and delivery of the Aircraft, the final configuration of the Aircraft have not yet been defined. Customer may have the desire to incorporate certain configuration changes (<u>Options</u>) into the Aircraft (for each Boeing 787 Model) using the then current Boeing Model 787 Airplane Configuration Specification document and selections from the then current 787 Airplane Descriptions and Selections document (<u>Final Configuration</u>) in accordance with the following schedule:
 - 1.2.1. Subject to the provisions of Article 1.2.2, below, Final Configuration shall be completed no later than [***] prior to delivery of the First 787-916 Aircraft and the First Customer 787-816 Aircraft. For avoidance of doubt, the dates corresponding to this deadline are set forth in Attachment 2 to this Letter Agreement.
 - 1.2.2. If Customer wishes to include installation of Customer's BFE premium class seats in the configuration of the Customer Aircraft, Customer shall give written notice to Boeing no later than [***] prior to delivery of the First 787-916 Aircraft and the First 787-816 Aircraft and Final Configuration shall be completed no later than [***] prior to delivery of the First 787-916 Aircraft and the First 787-816 Aircraft. For avoidance of doubt, the dates corresponding to this deadline are set forth in Attachment 2 to this Letter Agreement.

1.2.3. [***]

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LAN Airlines S.A. 3256-02 Page 3 [***] 1.2.4. [***] 1.2.5. [***]

2. <u>Amendment of the Purchase Agreement</u>.

Within [***] following Final Configuration of each Aircraft, Boeing and Customer will execute a separate written amendment to the Purchase Agreement for the (1) Boeing Model 787-916 aircraft and the (2) Boeing Model 787-816 aircraft applicable to the Aircraft which will reflect the following:

- 2.1. [***], the changes applicable to each Aircraft (for each Boeing 787 Model) which are developed by Boeing between the date of signing of the Purchase Agreement and date of Final Configuration (Baseline Changes);
- 2.2. Incorporation into each <u>Exhibit A</u> of the Purchase Agreement of those optional features which have been agreed to by Customer and Boeing (<u>Customer Configuration Changes</u>). [***]
- 2.3. Revisions to the Performance Guarantees to reflect the effects, if any, on Aircraft performance of the incorporation of the Customer Configuration Changes of the Aircraft [***]
 - 2.4. Changes to the optional features Price, Aircraft Basic Price and the Advance Payment Base Price of the Aircraft [***] to adjust for:

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[***]

- (i) The difference between
 - a) [***]
 - b) [***]
- (ii) The difference between
 - a) [***]
 - b) [***]
- 2.5. Changes to the Advance Payment Base Price of the Aircraft (for each Boeing 787 Model) to adjust for the difference between
 - (i) [***]
 - (ii) [***]

3. Other Letter Agreements.

Boeing and Customer acknowledge that as the definition of the Aircraft progresses, there may be a need to execute letter agreements addressing one or more of the following subjects:

- 3.1. [***]
- 3.2. [***]

P.A. No. 3256

 $787_Open_Configuration_Matters$

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4. <u>Confidential Treatment</u>				
	[***]			
Very truly yours,				
THE BOEING COMPANY				
By:	_			
[***] Its: Attorney-In-Fact				
P.A. No. 3256 787_Open_Configuration_Matters	BOEING PROPRIETARY Page 75 of 464			

LAN Airlines S.A.			
3256-02 Page 6			

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval below.

ACCEPTED AND AGREED TO this 29th day of October of 2007.

LAN AIRLINES S.A.		
By:		
	Mr. Carlos Prado C.	
Its:	Senior VP Corporate Investments	

By: Mr. Marco Jofré M.
Its: Senior VP Operations, Engineering & Maintenance

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Attachment 1, to 787 Open Configurations Matter, 3256-02 Page 1 of 2

Attachment 1, Page 1 of 2, to Open Configuration Matters Letter Agreement 3256-02

[***]

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Attachment 1, to 787 Open Configurations Matter, 3256-02 Page 2 of 2

Attachment 1, Page 2 of 2, to Open Configuration Matters Letter Agreement 3256-02

[***]

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LAN Airlines S.A. Attachment 2, to 787 Open Configurations Matter, 3256-02 Page 1 of 1

[***]

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The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

3256-03

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: Provision and Loading of Boeing Owned Software in the Electronic Flight Bag (EFB) System or Other Onboard Loadable Hardware System.

Reference: a) Purchase Agreement No. 3256 (the Purchase Agreement) between The Boeing Company (Boeing) and (Customer); and

b) Customer Services General Terms Agreement No. 16-1 (the <u>CSGTA</u>) between Boeing and Customer, including Supplemental Agreement for Electronic Access (the "SA-EA").

This letter agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

- 1. Customer's Aircraft is equipped with onboard loadable hardware, specifically the Class 3 EFB System and the Core Network Server (<u>CNS</u>). Boeing will install certain Boeing owned software, also referred to in the AGTA and the Purchase Agreement as "Materials" (and not "Aircraft Software"), on the EFBs and on the File Server Module (<u>FSM</u>) within the Core Network before fly away. These Materials to be installed on the EFBs include, but are not limited to, electronic documents (<u>e-Docs</u>), onboard performance tool (<u>OPT</u>), and the electronic logbook (<u>E-Logbook</u>). The Cabin Logbook will be installed on an FSM within the Core Network.
- 2. Boeing will license and install these Materials on the following conditions:
- (i) Notwithstanding any provision to the contrary, these. Materials are provided and licensed to Customer in accordance with the terms and conditions of the CSGTA, as supplemented by the SA-EA, Supplemental Agreement No. SA-eE ("the SA-eE") to the CSGTA, and applicable Software License Orders.
 - (ii) The DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions in Article 11 of Part 2

P.A. No. 3256 787 e-Enabling Letter Agreement

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Very truly yours,

787 e-Enabling Letter Agreement

of Exhibit C of the AGTA and the insurance provisions of Article 8.2 of the AGTA will apply to Boeing's installation of the Materials.

- 3. The technical data and maintenance information specified in Article 3 of Part 3 of Supplemental Exhibit CS 1 to the Purchase Agreement will be considered "Materials" as defined therein and not "Aircraft Software" even when such technical data and maintenance information is provided in software media and is used onboard the Aircraft or loaded into an onboard Aircraft system.
- 4. Notwithstanding anything to the contrary,
 - (i) the provision, license and access to the Materials specified in Article 3 of this Letter Agreement through the Maintenance Performance Toolbox,
 - (ii) the provision and license of the Software Developer Kits (SDKs) for the EFB and the Core Network, and
 - (iii) the provision and license of other software which may be identified by Boeing from time to time

shall be pursuant to the terms of the CSGTA, as supplemented by the SA-EA and the SA-eE, including applicable Software License Orders.

The SDK Contractor Confidentiality Agreement of the SA-eE shall apply to any provision of the SDKs to Customer's contractor.

5. [***]The Software License Orders must be executed between Boeing and Customer no later than ninety (90) days prior to delivery of Customer's first 787 Aircraft. All software applications and SDKs referenced in Articles 1, 3 and 4 of this Letter Agreement will be further described in the Software Licensed Order for that software application and SDK.

THE BOEING COMPANY			
Ву:			
	[***]		
Its: Attorney-In-Fac	it .		
P.A. No. 3256			

BOEING PROPRIETARY

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If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval
ACCEPTED AND AGREED TO this 29th day of October of 2007.
LAN AIRLINES S.A.
By: Mr. Carlos Prado C. Its: Senior VP Corporate Investments
By: Mr. Marco Jofré M.
Its: Senior VP Operations, Engineering & Maintenance

P.A. No. 3256

787 e-Enabling Letter Agreement

BOEING PROPRIETARY

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3256-04

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: Spare Parts Commitments

Reference: a) Purchase Agreement No. 3256 (the Purchase Agreement) between The Boeing Company (Boeing) and (Customer)

b) Customer Services General Terms Agreement No. 16-1 (the <u>CSGTA</u>) between Boeing and Customer, including Supplemental Agreement for Electronic Access (the "<u>SA-EA</u>")

This letter agreement (<u>Letter Agreement</u>) is entered into of the date set forth below, and amends and supplements the CSGTA. All capitalized terms used but not defined in this Letter Agreement have the same meaning as in the CSGTA, except for "Aircraft" which will have the meaning as defined in the Purchase Agreement. Unless otherwise stated all references in this Letter Agreement to Articles refer to the Articles contained this Letter Agreement. In consideration of Customer's purchase of the Aircraft, the commitments described in this Letter Agreement will continue for as long as Customer owns or operates the Aircraft.

1. Definitions.

- 1.1 "Customer's Demand Date" means the delivery date specified by Customer in its Order to Boeing for a Spare Part.
- 1.2 "Customer Hold Time" means the period of time between the date on which Boeing requests a decision, information or act from Customer and the date Customer provides such decision or information or performs such act. This includes, but is not limited to time expended (i) waiting for Customer's clarification of missing order data or Customer's approval of Boeing's quote for goods or services, (ii) resolving order discrepancies or technical discrepancies, (iii) obtaining engineering decisions from Customer, (iv) waiting for receipt of a part which has been shipped to a location other than the designated Boeing service center, and (v) resolving any Boeing constraints on processing an Order due to the status of Customer's credit with Boeing.

P.A. No. 3256 Spare Parts Commitments

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- 1.3 "Beyond Economic Repair" or "BER" is the term applied to a part whose repair or overhaul will exceed 65% of Boeing's then current price for a new such replacement part.
 - 1.4 "Order Date" means the date on which an Order is established in accordance with the provisions of the CSGTA.
- 1.5 "Shelf Stock Part" means at any time a Spares Prone Part that has been ordered two (2) or more times from Boeing within the most recent consecutive twelve (12) month period.
- 1.6 "Spares Prone Part" means a Boeing Spare Part that is identified and recommended by Boeing in its provisioning data as a part that for the life of the aircraft can be expected to be replaced during normal aircraft line maintenance or during overhaul of line replaceable units due to, failure, wear, deterioration, maintenance, damage, loss, corrosion, vibration, or temperature.

Delivery Commitment for New Spare Parts.

- 2.1. Boeing will deliver in accordance with the provisions of the CSGTA within the lead times specified below, Boeing Spare Parts other than (i) Boeing Spare Parts ordered as part of Customer's initial provisioning for an aircraft or (ii) kits; provided that such Boeing Spare Parts are Ordered after the execution of this Letter Agreement and are in continuous production for an aircraft model in production on the Order Date.
 - 2.1.1. A Shelf Stock Part will ship either (i) in not more than fifteen (15) calendar days from its Order Date, or (ii) prior to Customer's Demand Date, whichever is later.
 - 2.1.2. A Spares Prone Part that is not a Shelf Stock Part will ship either (i) in not more than ninety (90) calendar days from its Order Date, or (ii) prior to Customer's Demand Date, whichever is later.
 - 2.2 For Boeing Spare Parts not in continuous production on the Order Date, Boeing will expend reasonable efforts to meet Customer's Demand Date.

3. Remedies Regarding Delivery.

3.1 If Boeing anticipates it will be unable to ship a Boeing Spare Part [***] within the applicable commitment time described in Article 2.1, Boeing may take one or more of the following actions:

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- 3.1.1 Boeing may remove such Boeing Spare Part from a higher assembly in Boeing's inventory, if available, and ship to Customer; or
- 3.1.2 Boeing may provide to Customer a loaned Boeing Spare Part until a new Boeing Spare Part can be delivered; or
- 3.1.3 Boeing may provide to Customer reimbursement of Customer's reasonable lease charges for a replacement part.
- 3.2 If as a result of an action described in Article 3.1, Boeing provides to Customer the applicable Boeing Spare Part within the commitment period described in Article 2.1 or provides reimbursement in accordance with Article 3.1.3, and, in either case, thereafter completes the Order as soon as such Boeing Spare Part is available for shipment, Boeing shall be deemed to have satisfied the commitments described in Article 2.1.
- 3.3 [***], Boeing will provide a credit to the Customer in an amount of one half of one percent (0.5%) of Boeing's then current list price of the Boeing Spare Part for each calendar day the delivery of such Boeing Spare Part is delayed, but not to exceed Boeing's then current list price for such Boeing Spare Part.
- 3.4 The provisions of Article 3.3 will not apply to delay in delivery which is (i) due to the failure of Customer's carrier to take possession of the Boeing Spare Parts, or (ii) otherwise permitted by applicable law or contract, including without limitation any provisions relating to excusable delay.
- 3.5 The remedies described in this Article 3 are Customer's exclusive remedies for Boeing's failure to comply with the provisions of Articles 2.1 and are in lieu of all other damages, claims and remedies of Customer arising at law or otherwise for any failure to meet Customer's delivery requirements [***]. Customer hereby waives and remounces all other claims and remedies arising at law or otherwise for any such failure to meet Customer's delivery requirements [***].

Spare Part Price Escalation.

Beginning with the Spares Catalog in effect as of the execution date of this Letter Agreement and for each Spares Catalog released thereafter, (i) the aggregate price

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of the Spare Parts listed in both the then current Spares Catalog and the Spares Catalog in effect prior to the then current Spares Catalog will not be increased to a number greater than the Spares Adjusted Price as defined in Article 5, and (ii) the price of an individual Spare Part listed in both the then current Spares Catalog and the Spares Catalog in effect prior to the then current Spares Catalog will not be increased by a factor greater than two times the escalation factor (AE where AE = (Lq + Mq) - 1, as Lq and Mq are defined in Article 5.

5. Spare Part Price Formula.

5.1 The formula used to determine the annual aggregate price escalation for Spare Parts listed in both the then current Spares Catalog and the Spares Catalog in effect prior to the then current Spares Catalog (Spares Adjusted Price) is as follows:

AP = (P) (Lq + Mq)

Where:

AP = Spares Adjusted Price

P = Aggregate price of all Spare Parts listed in the Spares Catalog in effect prior to the then current Spares Catalog that are also listed in the then current Spares Catalog.

Lq = The labor index which will be equal to 80% of the quotient obtained from utilizing the Current Year Index Value (defined below) divided by the Base Year Index Value (defined below) for "Average Hourly Earnings – Other Aircraft Parts & Equipment" as published by the U.S. Department of Labor, Bureau of Labor Statistics including those noted as preliminary (NAICS Code = 336413, Series ID = ceu3133641306). The final value of Lq will be rounded to the nearest ten thousandth.

Mq = The material index which will be equal to 20% of the quotient obtained from utilizing the Current Year Index Value (defined below) divided by the Base Year Index Value (defined below) for "Producer Price Index —Industrial Commodities" as published by the U.S. Department of Labor, Bureau of Labor Statistics including those noted as preliminary (Series ID = WPUO3 through 15). The final value of Mq will be rounded to the nearest ten thousandth.

Current Year Index Value = Arithmetic average (rounded to the nearest thousandth) of the April, May and June index values of the applicable index for the year preceding the effective date of the then current Spares Catalog.

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Base Year Index Value = Arithmetic average (rounded to the nearest hundredth) of the April, May and June Index values of the applicable index for the year two (2) years preceding the effective date of the then current Spares Catalog.

The final value of AP will be rounded [***].

- 5.2. If the Bureau of Labor Statistics substantially revises the methodology used for the determination of the values to be used to determine the Lq and Mq values (in contrast to benchmark adjustments or other corrections of previously released values), or for any reason has not released values needed to determine the applicable Spares Adjusted Price, Boeing will select a substitute from other Bureau of Labor Statistics data or similar data reported by non-governmental organizations. Such substitute will result in the same adjustment, insofar as possible, as would have been calculated utilizing the original values adjusted for fluctuation during the applicable time period.
- 5.3 Any rounding of a number, as required under this Article 5 will be accomplished as follows: if the first digit of the portion to be dropped from the number to be rounded is five or greater, the preceding digit will be raised to the next highest number.

6. <u>Processing Time Commitment for Spare Prone Parts Returned for Repair or Overhaul.</u>

- 6.1 The processing time commitments in this Article 6 are for any Spares Prone Part which (i) is in continuous production for an aircraft model in production at the time such Spares Prone Part is returned to Boeing for repair or overhaul, (ii) is returned to Boeing for repair or overhaul after the execution of this Letter Agreement, (iii) has a new part list price of less than \$200,000 [***] and (iv) is not a BER Part. A Spares Prone Part meeting the criteria defined in this Article 6.1 shall be called a "Qualifying In-Production Spares Prone Part."
- 6.2 Boeing will repair or overhaul due to normal wear and tear any Qualifying In-Production Spares Prone Part in (i) twenty-eight (28) calendar days for 787 model aircraft and (ii) thirty-five (35) calendar days for all other models of Boeing aircraft, in each case calculated as specified in Article 6.3.
- 6.3 The number days expended by Boeing in processing the repair or overhaul, will be determined by calculating the number of days which elapse between the date Boeing takes delivery of the applicable Qualifying In-Production

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Spare Prone Part and the date of shipment of such repaired or overhauled Qualifying In-Production Spares Prone Part minus any

days during that period in which due to Customer Hold Time Boeing does not process the applicable overhaul or repair during either all or a portion of Boeing's standard eight hour work day.

6.4 Boeing will expend reasonable efforts to meet its quoted repair times for repairs or overhauls applicable to (i) parts other than any Qualifying In-Production Spares Prone Part, and (ii) repairs or overhauls that extend beyond normal wear and tear for any Qualifying In-Production Spares Prone Part.

7. <u>Remedies Regarding Processing Time</u>.

- 7.1 If Boeing anticipates it will be unable to meet the processing time commitments [***], will take one or more of the following actions:
 - 7.1.1 Boeing may provide to Customer a serviceable exchange part that has equal or greater service life of the part returned for repair or overhaul; or
 - 7.1.2 Boeing may provide to Customer a part as a loan until the repaired or overhauled part is returned to the Customer; or
 - 7.1.3 Boeing may provide to Customer reimbursement of Customer's reasonable lease charges for a replacement part.
- 7.2 If as a result of an action described in Article 7.1, Boeing provides to Customer a suitable repaired or overhauled Qualifying In-Production Spares Prone Part within the commitment periods described in Article 6.2, or provides reimbursement in accordance with Article 7.1.3, and in either case, thereafter completes the applicable contract as soon as such repaired or overhauled part is available for shipment, Boeing will be deemed to have satisfied the commitments described in Article 6.2.
- 7.3 [***], Boeing will provide a credit to the Customer in an amount of one half of one percent (0.5%) of the repair or overhaul price for the applicable Qualifying In-Production Spares Prone Part, for each calendar day the delivery of such part is delayed but not to exceed the repair or overhaul price for the applicable Qualifying In-Production Spares Prone Part.

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- 7.4 The provisions of Article 7.3 will not apply to delay in delivery which is due to (i) Customer Hold Time, (ii) the failure of Customer's carrier to take possession of the applicable Qualifying In-Production Spares Prone Part, or (iii) is otherwise permitted by applicable law or contract, including without limitation any provisions relating to excusable delay.
- 7.5 The remedies provided in this Article 7 are Customer's exclusive remedies for Boeing's failure to comply with the provisions of Article 6.2 and are in lieu of all other damages, claims and remedies of Customer arising at law or otherwise for any failure to meet Customer's delivery requirements. Customer hereby waives and remounces all other claims and remedies arising at law or otherwise for any such failure to meet Customer's delivery requirements [***].

8. <u>Substitution for Obsolete Spare Parts.</u>

After delivery of the first Aircraft, if any unused and undamaged Spare Part purchased by Customer from Boeing for the Aircraft, or other aircraft in Customer's fleet of the same model type, is rendered obsolete and unusable due to a Boeing initiated change that results in a redesign of the Aircraft or any accessory, equipment or part thereof, (other than a redesign at Customer's request), Boeing will make available to Customer a replacement part at the detail part level on a no charge substitution basis provided Customer requests such substitution from Boeing in writing within four (4) years of delivery of the affected Spare Part to Customer. [***]

9. Order of Precedence.

In the event of any inconsistency between the terms of this Letter Agreement and the terms of any other provisions of the CSGTA, the terms of this Letter Agreement shall control.

P.A. No. 3256 Spare Parts Commitments

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LAN Airlines S.A. 3256-04 Page 8				
Very truly yours,				
THE BOEING COMPANY				
By:				
Its: Attorney-In-Fact				
P.A. No. 3256				
Spare Parts Commitments				

BOEING PROPRIETARY

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If the foregoing corn	rectly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval.			
ACCEPTED AND AGREED TO this 29th day of October of 2007.				
LAN AIRLINES S.	A.			
By:	Mr. Carlos Prado C.			
Its: Senior VP Co.	rporate Investments			
By:	Mr. Marco Jofré M.			

P.A. No. 3256

By:

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Spare Parts Commitments

Its: Senior VP Operations, Engineering & Maintenance

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6-1162-ILK-0310

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: [***]

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to

Boeing Model 787-916/-816 aircraft (Aircraft)

This letter agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. <u>Definitions.</u>

1.1 [***]

1.2 [***]

2. [***]

P.A. No. 3256 [***]

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3. [***]

4. [***]

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6. [***]

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7. [***]

8. <u>Assignment</u>.

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10. [***]

11. Confidential Treatment.

[***]

P.A. No. 3256 [***]

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LAN Airlines S.A. 6-1162-ILK-0310 Page 7	
Very truly yours,	
THE BOEING COMPANY	
By:	
•	eement with respect to the matters treated herein, please indicate your acceptance and approval.
LAN AIRLINES S.A.	
By: Mr. Carlos Prado C. Its: Senior VP Corporate Investments	
By: Mr. Marco Jofré M. Its: Senior VP Operations, Engineering & Maintenance	
P.A. No. 3256 [***]	
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6-1162-ILK-0311 LAN Airlines S.A. Avenida Presidente Riesco 5711

Piso 19 Las Condes Santiago, Chile

Subject: [***]

Reference: Purchase Agreement No. 3194 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to Boeing Model 787-916/-816 aircraft (the <u>Aircraft</u>)

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

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1.0 [***]

1.1 [***]

1.2 [***]

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1.9 [***]

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2.1 [***]
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3.0 [***]

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LAN Airlines S.A. 6-1162-ILK-0311 Page 6	
Very truly yours,	
THE BOEING COMPANY	
By: [***] Its: Attorney-In-Fact	
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated below.	ated herein, please indicate your acceptance and approval
ACCEPTED AND AGREED TO this 29th day of October of 2007	
LAN AIRLINES S.A.	
By: Mr. Carlos Prado C. Its: Senior VP Corporate Investments	
By: Mr.Marco Jofre M. Its: Senior VP Operations, Engineering & Maintenance	
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BOEING PROPRIETARY Page 172 of 464 The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0312

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: Promotional Support Agreement

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating

to Boeing Model 787-916/-816 aircraft (Aircraft).

This letter agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Recitals.

Boeing and Customer wish to enter into an agreement pursuant to which Boeing and Customer will each contribute equally to promotional programs in support of the entry into service of the Aircraft as more specifically provided below.

1. <u>Definitions</u>.

- 1.1 "Covered Aircraft" shall mean those Aircraft identified in each Table 1 to the Purchase Agreement as of the date of signing of this Letter Agreement.
- 1.2 "<u>Promotional Support</u>" shall mean marketing and promotion programs in support of the entry into service of the Covered Aircraft such as marketing research, tourism development, corporate identity, direct marketing, video tape or still photography, planning, design and production of collateral materials, management of promotion programs, advertising campaigns or such other marketing and promotional activities as the parties may mutually agree.
 - 1.3 "Commitment Limit" shall have the meaning set forth in Article 2, below.
 - 1.4 "Performance Period" shall mean the period [***]

P.A. No. 3256 Promotional_Support_Agreement

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0312 Page 2

1.5 "Qualifying Third Party Fees" shall mean fees paid by Customer during the Performance Period to third party providers for Promotional Support provided to Customer during the Performance Period.

2. <u>Promotional Support Agreement Commitment.</u>

As more particularly set forth in this Letter Agreement Boeing agrees to provide Promotional Support to Customer in a value not to exceed \$100,000 (One Hundred Thousand Dollars) for the first Covered Aircraft delivered to Customer and not to exceed \$50,000 (Fifty Thousand Dollars) per Covered Aircraft for each Covered Aircraft delivered to Customer thereafter (<u>Promotional Support Commitment Limit</u>).

3. <u>Promotional Support Agreement Methods of Performance</u>.

Subject to the Promotional Support Commitment Limit, Customer may elect to receive the Promotional Support in either or any combination of the following ways:

- 3.1 At Customer's request and with respect to a mutually agreed project Boeing will provide Promotional Support during the Performance Period directly to Customer in value equivalent to Qualifying Third Party Fees.
- 3.2 Boeing will reimburse fifty percent (50%) of Customer's payments of Qualifying Third Party Fees provided that Customer provides Boeing copies of paid invoices for such Qualifying Third Party Fees no later than twenty four (24) months after the delivery of the first Covered Aircraft. There will be no cash payments or other support in lieu thereof.

4. Commencement Date.

Boeing's obligation to provide Promotional Support will commence when the purchase of the Covered Aircraft becomes firm (not subject to cancellation by either party).

Project Approval.

Following the execution of this Letter Agreement, a Boeing Airline Marketing Services representative will meet with Customer's designated representative to review and approve the extent, selection, scheduling, and funds disbursement process for the Promotional Support to be provided pursuant to this Letter Agreement.

6. Confidentiality.

[***]

P.A. No. 3256 Promotional_Support_Agreement

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0312 F	Page 3	
		[***]
Very truly yours,		
THE BOEING CO	MPANY	
Ву:		
	[***]	
Its:	Attorney-In-Fact	
P.A. No. 3256		
Promotional_Suppo	ort Agreement	

BOEING PROPRIETARY Page 175 of 464

LAN Airlines S.A.
6-1162-ILK-0312 Page 4

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval.

ACCEPTED AND AGREED TO this 29^{th} day of October of 2007

LAN AIRLINES S.A.

By:	
	Mr. Carlos Prado C.
Its:	Senior VP Corporate Investments
By:	
	Mr. Marco Jofré M.
Its:	Senior VP Operations, Engineering &

Maintenance

P.A. No. 3256 Promotional_Support_Agreement

BOEING PROPRIETARY

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The Boeing Company
P. O. Box 3707
Seattle, WA 98124-2207

6-1162-ILK-0313

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: Special Matters relating to COTS Software and End User License Agreements

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating

to Boeing Model 787-916/-816 aircraft (Aircraft)

This letter agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Recitals

A. Certain third party, commercial off-the-shelf software products are available to perform various functions required in the Aircraft (COTS Software).

- B. The industry practice with respect to COTS Software is to permit manufacturers to install the software in products. for sale to customers. The manufacturer is required to pass to the customer an End User License Agreement (<u>EULA</u>), which covers the right to use the COTS Software. The EULA's also require each user of the product to further license the software and pass the EULA to any user to whom he transfers the product.
- C. Because of the described industry practice with respect to COTS Software, Boeing does not acquire title to COTS Software and cannot pass title to COTS Software at the time of delivery of the Aircraft.
- D. Therefore, the parties desire to amend certain provisions of the Purchase Agreement to properly reflect the respective rights and obligations of the parties with respect to the COTS Software included in the Aircraft.

P.A. No. 3256 EULA_Special_Matters

Page 177 of 464

LAN Airlines S.A. 6-1162-ILK-0313 Page 2

Agreement

Very truly yours,

EULA_Special_Matters

- 1. At delivery of the Aircraft, Boeing will furnish to Customer copies of all EULA's applicable to the Aircraft, and Customer agrees to comply with all provisions of the applicable EULA's. [***]
- 2. Notwithstanding the provisions of Article 6.3 of the AGTA, at delivery of each Aircraft, Boeing will provide Customer an Aircraft bill of sale conveying good title, free of encumbrances except as provided in applicable EULA's [***]
- 3. In connection with any sale or other transfer of the Aircraft, Customer agrees to comply with all provisions of the applicable EULA's, including without limitation the re-licensing of the software to Customer's transferee and the flow down within such license of the further requirement that Customer's transferee comply with and flow to other transferees the obligations of the EULA.

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LAN Airlines S.A. 6-1162-ILK-0313 Page 3

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval below.

ACCEPTED AND AGREED TO this 29^{th} day of October of 2007

LAN AIRLINES S.A.

By:	
	Mr. Carlos Prado C.
Its:	Senior VP Corporate Investments
By:	
	Mr. Marco Jofré M.
Its:	Senior VP Operations, Engineering &

Maintenance

P.A. No. 3256 EULA_Special_Matters

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Boeing Commercial Airplanes P. O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0314

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: [***]

References: 1)

- Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to Boeing Model 787-916/-816 aircraft (<u>Aircraft</u>); and
- 2) Aircraft General Terms Agreement dated as of the 9th of May of 1997 between the parties, identified as AGTA-LAN (AGTA).

This letter agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Definition of Terms:

[***]

1. [***]

[***]

P.A. No. 3256 [***]

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LAN Airlines S.A.

[***] Letter Agreement: 6-1162-ILK-0314

Page 2

[***]

2. [***]

3. [***]

4. [***]

P.A. No. 3256 [***]

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LAN Airlines S.A.
[***] Letter Agreement: 6-1162-ILK-0314
Page 3
[***]

6. <u>Confidential Treatment</u>

[***]

P.A. No. 3256 [***]

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LAN Airlines S.A. [***] Letter Agreement: 6-1162-ILK-0314 Page 4
Very truly yours,
THE BOEING COMPANY
By:
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval.
ACCEPTED AND AGREED TO this 29th day of October of 2007
LAN AIRLINES S.A.
By: Mr. Carlos Prado C. Its: Senior VP Corporate Investments
By: Mr. Marco Jofré M. Its: Senior VP Operations, Engineering &
Maintenance
P.A. No. 3256 [***]
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Boeing Commercial Airplanes P. O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0315

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject:[***]

Reference:

Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to Boeing Model 787-916/-816 aircraft (<u>Aircraft</u>)

This letter agreement (<u>Letter Agreement</u>), when accepted by Customer, will amend the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

```
1. [***]

1.1 [***]

1.1.1 [***]

1.1.2 [***]

1.1.2.1. [***]

1.1.2.2. [***]

P.A. No. 3256
[***]
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LAN Airlines S.A.

[***]

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Page 2

[***]

1.1.2.3. [***]

1.1.2.4. [***]

1.1.3 [***]

1.1.3.1. [***]

1.1.3.2. [***]

1.1.4 [***]

P.A. No. 3256
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[***]

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LAN Airlines S.A.

[***]

Letter Agreement: 6-1162-ILK-0315

Page 3

[***]

1.3 [***]

1.4 [***]

1.4.1 [***]

1.4.1.2 [***]

2. Confidentiality.

[***]

P.A. No. 3256

[***]
```

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LAN Airlines S.A. [***] Letter Agreement: 6-1162-ILK-0315 Page 4		
]	[***]	
		Very truly yours,
		THE BOEING COMPANY
		By: [***] Its: Attorney-In-Fact
DA N. 2056		is. Auomey-ii-i act

P.A. No. 3256 [***]

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ACC	EPTED AND AGREED TO this 29th day of October of 2007
LAN AIRLINES S.A.	
By:	
	Mr. Carlos Prado C.
Its:	Senior VP Corporate Investments
By:	
	Mr. Marco Jofré M.
Its:	Senior VP Operations, Engineering &
	Maintenance
P.A.	No. 3256

LAN Airlines S.A.

Page 5

[***]

Letter Agreement: 6-1162-ILK-0315

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If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval.

LAN Airlines S.A. [***] Letter Agreement: 6-1162-ILK-0315 Page 6

[***]

P.A. No. 3256 [***]

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LAN Airlines S.A. [***] Letter Agreement: 6-1162-ILK-0315 Page 7

[***]

P.A. No. 3256 [***]

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The Boeing Company P. O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0316

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las condes Santiago, Chile

Subject: [***]

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating

to Boeing Model 787-916/-816 aircraft (the Aircraft)

This letter agreement (*Letter Agreement*) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

```
1. [***]

1.1. [***]

1.1.1 [***]

1.1.2 [***]

1.2. [***]

1.2.1. [***]

1.2.2. [***]

1.2.3. [***]

P.A. No. 3256
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BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0316 Page 2 1.2.4. [***] 2. [***] 3. [***] 3.1 [***] 3.2 [***] 3.3 [***]

4. [***]

P.A. No. 3256

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LAN Airlines S.A. 6-1162-ILK-0316 Page 3 5. [***] 5.1 [***]

5.2 [***]

Confidential Treatment.

[***]

P.A. No. 3256

BOEING PROPRIETARY Page 193 of 464

LAN Airlines S.A. 6-1162-ILK-0316 Page 4	
	[***]
Very truly yours,	
THE BOEING COMPANY	
By:	
Its: Attorney-In-Fact	
P.A. No. 3256	BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0316 Page 5
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approva
ACCEPTED AND AGREED TO this 29th day of October of 2007
LAN AIRLINES S.A.
By:
Mr. Carlos Prado C.
Its: Senior VP Corporate Investments

Its: Senior VP Operations, Engineering & Maintenance

Mr. Marco Jofré M.

P.A. No. 3256

By:

BOEING PROPRIETARY

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The Boeing Company
P. O. Box 3707
Seattle, WA 98124-2207

6-1162-ILK-0317

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: Option Aircraft

Reference: Purchase Agreement No. 3256 (the *Purchase Agreement*) between The Boeing Company (*Boeing*) and LAN Airlines S.A. (*Customer*) relating

to Boeing Model 787-916/-816 aircraft (the Aircraft)

This letter agreement (*Letter Agreement*) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Boeing agrees to manufacture and sell to Customer additional Boeing Model 787-816 aircraft as *Option Aircraft*. The delivery months, number of aircraft, Advance Payment Base Price per aircraft and advance payment schedule are listed in the Attachments to this Letter Agreement.

1. <u>Aircraft Description and Changes</u>

- 1.1. Aircraft Description: The Option Aircraft are described by the Detail Specification listed in the Attachments.
- 1.2. Changes: The Detail Specification will be revised to include:
 - (i) Changes applicable to the basic Boeing Model 787-816 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of the definitive agreement to purchase the Option Aircraft;
 - (ii) Changes required to obtain required regulatory certificates; and
 - (iii) Changes mutually agreed upon.

2. Price

2.1. The pricing elements of the Option Aircraft are listed in the Attachment.

P.A. No. 3256 Option_Aircraft

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0317 Page 2

2.2. Price Adjustments.

- 2.2.1. <u>Optional Features</u>. The price for Optional Features selected for the Option Aircraft will be adjusted to Boeing's current prices as of the date of execution of the definitive agreement for the Option Aircraft.
- 2.2.2. <u>Escalation Adjustments</u>. The Airframe Price and the price of Optional Features for Option Aircraft will be escalated on the same basis as the Aircraft, and will be adjusted to Boeing's current escalation provisions as of the date of execution of the definitive agreement for the Option Aircraft.
- 2.2.3 <u>Base Price Adjustments</u>. The Airframe Price and the Engine Price of the Option Aircraft will be adjusted to Boeing's and the engine manufacturer's current prices as of the date of execution of the definitive agreement for the Option Aircraft.

Payment

- 3.1 Customer will pay a deposit to Boeing in the amount shown in the Attachment for each Option Aircraft (<u>Deposit</u>), on the date of this Letter Agreement. If Customer exercises an option, the Deposit will be credited against the first advance payment due. If Customer does not exercise an option, Boeing will retain the Deposit for that Option Aircraft.
- 3.2 Following option exercise, advance payments in the amounts and at the times listed in the Attachment will be payable for the Option Aircraft. The remainder of the Aircraft Price for the Option Aircraft will be paid at the time of delivery.

4. Option Exercise.

- 4.1. Customer may exercise an option by giving written notice to Boeing on or before the date twenty-four (24) months prior to the delivery dates listed in the Attachment (*Option Exercise Date*).
- 4.2. If Boeing must make production decisions which are dependent on Customer's exercising an option earlier than the Option Exercise Date, Boeing may accelerate the Option Exercise Date subject to Customer's agreement. If Boeing and Customer fail to agree to a revised Option Exercise Date, either party may terminate the option and Boeing will refund to Customer, without interest, any Deposit and advance payments received by Boeing with respect to the terminated Option Aircraft.

Contract Terms.

Boeing and Customer will use their best efforts to reach a definitive agreement for the purchase of an Option Aircraft, including the terms and conditions contained in this Letter Agreement, in the Purchase Agreement, and other terms and conditions as may be agreed upon. In the event the parties have not entered into a

P.A. No. 3256 Option_Aircraft

BOEING PROPRIETARY

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definitive agreement within thirty (30) days following option exercise, either party may terminate the purchase of such Option Aircraft by giving written notice to the other within five (5) days. If Customer and Boeing fail to enter into such definitive agreement, Boeing will retain the Deposit for that Option Aircraft.
Very truly yours,
THE BOEING COMPANY
By:
Its: Attorney-In-Fact
Attachment 1

LAN Airlines S.A. 6-1162-ILK-0317 Page 3

P.A. No. 3256 Option_Aircraft

BOEING PROPRIETARY

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If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated begain please indicate your	
6-1162-ILK-0317 Page 4	
LAN Airlines S.A.	

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval.

ACCEPTED AND AGREED TO this 29th day of October of 2007

LAN AIRLINES S.A.

By:	
	Mr. Carlos Prado C.
Its:	Senior VP Corporate Investments
By:	
	Mr. Marco Jofré M.

Its: Senior VP Operations, Engineering &

Maintenance

P.A. No. 3256 Option_Aircraft

BOEING PROPRIETARY

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Attachment 1 to

Letter Agreement No. 6-1162-ILK-0317

[***]787-8 Option Aircraft Delivery, Description, Price and Advance Payments

Airframe Model/MTOW:	787-8 [***] Detail Specification: [***]
Engine Model/Thrust:	[***] [***] Airframe Price Base Year/Escalation Formula: [***] [***]
Airframe Price:	[***] Engine Price Base Year/Escalation Formula: [***]
Optional Features:	[***]
Sub-Total of Airframe and Features:	[***] <u>Airframe Escalation Data:</u>
Engine Price (Per Aircraft):	[***] Base Year Index (ECI): [***]
Aircraft Basic Price (Excluding BFE/SPE):	[***] Base Year Index (CPI): [***]
Buyer Furnished Equipment (BFE) Estimate:	[***] Engine Escalation Data:
Catalog Selected In Flight Entertainment (IFE) Estimate:	[***] Base Year Index (ECI): [***]
Non-Refundable Deposit/Aircraft at Def Agreemt:	[***] Base Year Index (CPI): [***]

	Number		Escalation	Escalation Estimate	Advance Pay	yment Per Aircraf	t (Amts. Due/Mos. Prior to I	Delivery):
Delivery Date	of <u>Aircraft</u>	3% Escalation Factor (Airframe)	Factor (Engine)	Adv Payment Base Price Per A/P	At Signing 1%	24 Mos. 4%	21/18/12/9/6 Mos. 5%	Total 30%
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]
Total:	15			[***]	[***]	[***]	[***]	[***]

P.A. No. 3256, APR 45875 Option_Aircraft

Page 1

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Attachment 1 to Letter Agreement No. 6-1162-ILK-0317

[***]787-8 Option Aircraft Delivery, Description, Price and Advance Payments

787-8 [***] Detail Specification:	[***]
[***] [***] Airframe Price Base Year/Escalation Formula:	[***] [***]
[***] Engine Price Base Year/Escalation Formula:	[***] [***]
[***]	
[***] Airframe Escalation Data:	
[***] Base Year Index (ECI):	[***]
[***] Base Year Index (CPI):	[***]
[***] Engine Escalation Data:	
[***] Base Year Index (ECI):	[***]
Base Year Index (CPI):	[***]
[***]	
	[***] [***] Airframe Price Base Year/Escalation Formula: [***] Engine Price Base Year/Escalation Formula: [***] [***] Airframe Escalation Data: [***] Base Year Index (ECI): [***] Base Year Index (CPI): [***] Engine Escalation Data: [***] Base Year Index (ECI): Base Year Index (CPI):

	Number		Escalation		Escalation Estimate	Advance Pay	ment Per Aircraf	t (Amts. Due/Mos. Prior to I	Delivery):
Delivery Date	of <u>Aircraft</u>	3% Escalation Factor (Airframe)	Factor (Engine)		Adv Payment Base Price Per A/P	At Signing 1%	24 Mos. 4%	21/18/12/9/6 Mos. 5%	Total 30%
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	1	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	2	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
Total:	15				[***]	[***]	[***]	[***]	[***]

P.A. No. 3256, APR 45875 Option_Aircraft

BOEING PROPRIETARY

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The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0318

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: Alternate Engine Selection

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to

Boeing Model 787-916/-816 aircraft (Aircraft)

This letter agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

[***], Customer has requested and Boeing has agreed that Customer may delay the selection of engines for the Aircraft beyond the signing date of the Purchase Agreement. [***]. The engine model and prices shown in Table 1 [***] and the Performance Guarantees attached to Letter Agreement Number 6-1162-ILK-0328 will be replaced with the relevant documents for Customer's chosen engine.

Customer shall notify Boeing of Customer's final engine selection on or before [***] and Boeing and Customer shall execute a Supplemental Agreement to the Purchase Agreement conforming Table 1, Supplemental Exhibit EE1 and the Performance Guarantees to Customer's engine selection.

Confidential Treatment.

[***]

P.A. No. 3256 ALTERNATE ENGINE SELECTION

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6-1162-ILK-0318 Page 3	
	[***]
Very truly yours,	
THE BOEING COMPANY	
By:	
Its: Attorney-In-Fact	
P.A. No. 3256	

LAN Airlines S.A.

ALTERNATE ENGINE SELECTION

Page 203 of 464

LAN Airlines S.A.
6-1162-ILK-0318 Page 3

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval.

ACCEPTED AND AGREED TO this $\mathbf{29}^{\text{th}}$ day of $\mathbf{October}$ of 2007

LAN AIRLINES S.A.

By:	
	Mr. Carlos Prado C.
Its:	Senior VP Corporate Investments
By:	
	Mr. Marco Jofré M.
Its:	Senior VP Operations, Engineering &

P.A. No. 3256 ALTERNATE ENGINE SELECTION

Maintenance

Page 204 of 464

The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0319

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: [***]

Reference:

- 1) Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to Boeing Model 787-916/-816 aircraft (Aircraft); and
- 2) Aircraft General Terms Agreement dated as of the 9th of May of 1997 between the parties, identified as AGTA-LAN (AGTA).

This letter agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. <u>Definitions</u>.

1.1 [***]

1.2 [***]

1.3 [***]

1.4 [***]

1.5 [***]

1.6 [***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

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6-1162-ILK-0319 Page 2 1.7 [***] 1.8 [***] 2.1 [***] 2.2 [***] 2.3 [***] 3.1 [***] 3.1.1 [***] P.A. No. 3256 [***]

LAN Airlines S.A.

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0319 Page 3 3.1.2 [***] 3.1.3 [***] 3.1.4 [***] 3.2 [***] 3.3 [***] P.A. No. 3256 [***]

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LAN Airlines S.A.
6-1162-ILK-0319 Page 4

[***]

3.3.1 [***]

3.3.2 [***]

3.3.3 [***]

9.A. No. 3256

[***]

BOEING PROPRIETARY

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[***]

3.4.1 [***]

3.4.2 [***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

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	Airlines S.A. 62-ILK-0319 Page 6	
		[***]
	3.5 [***]	
4. [**	**]	
5.	Confidential Treatment.	
		[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY Page 210 of 464

LAN Airlines S.A.	
6-1162-ILK-0319 Page 7	
	[***]
Very truly yours,	
THE BOEING COMPANY	
By:	
Its: Attorney-In-Fact	
If the foregoing correctly sets forth your understanding of our agreem	ent with respect to the matters treated herein, please indicate your acceptance and approval.
ACCEPTED AND AGREED TO this 29th day of October of 2007	
LAN AIRLINES S.A.	
By: Mr. Carlos Prado C.	
Mr. Carlos Prado C. Its: Senior VP Corporate Investments	
By: Mr. Marco Jofré M.	
Its: Senior VP Operations, Engineering &	
Maintenance	
P.A. No. 3256	
[***]	BOEING PROPRIETARY
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LAN Airlines S.A. [***] to 6-112-ILK-0319 Page 1 of 1

[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY Page 212 of 464

LAN Airlines S.A. 6-112-ILK-0319 Page 1 of 1, [***]

[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY Page 213 of 464

LAN Airlines S.A. Appendix 1, Attachment 1 to 6-1162-ILK-0319 Page 1 of 1

[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY Page 214 of 464

LAN Airlines S.A. Appendix 1, Attachment 3 to 6-1162-ILK-0319 Page 1 of 1

[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

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LAN Airlines S.A. Appendix 1, Attachment 3 to 6-1162-ILK-0319 Page 1 of 1

[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

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The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0320

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: [***]

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (Boeing) and LAN Airlines S.A. (<u>Customer</u>) relating to

Boeing Model 787-916/-816 aircraft (Aircraft)

This letter agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. [***]

1.1 [***]

1.1.1 [***]

1.1.2 [***]

1.2 [***]

P.A. No. 3256
[***]

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0320, Page 2 [***] 1.3 [***] 1.4 [***] 1.5 [***] 1.6 [***] 1.6.1 [***] 1.6.2 [***] Assignment. [***] Confidential Treatment. [***] P.A. No. 3256

[***]

2.

BOEING PROPRIETARY

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P.A. No. 3256 [***]

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0320, Page 4	
Very truly yours,	
THE BOEING COMPANY	
By: [***] Its: Attorney-In-Fact	
If the foregoing correctly sets forth your understanding of our agreen	nent with respect to the matters treated herein, please indicate your acceptance and approval.
ACCEPTED AND AGREED TO this 29th day of October of 2007	
LAN AIRLINES S.A.	
By: Mr. Carlos Prado C. Its: Senior VP Corporate Investments	
By: Mr. Marco Jofré M. Its: Senior VP Operations, Engineering & Maintenance	
P.A. No. 3256 [***]	BOEING PROPRIETARY

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The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0321

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: Demonstration Flight Waiver

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to

Boeing Model 787-916/-816 aircraft (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1.0 <u>Definition of Terms</u>

Correction Costs: Customer's direct labor costs and the cost of any material required to correct a Flight Discrepancy where direct labor costs are equal to the warranty labor rate in effect between the parties at the time such labor is expended.

Flight Discrepancy: A failure or malfunction of an Aircraft, or the accessories, equipment or parts installed on the Aircraft which results from a defect in the Aircraft, Boeing Product, engine or Supplier Product or a nonconformance to the Detail Specification for the Aircraft.

2.0 Fuel Entitlement in Event of Demonstration Flight Waiver by Customer

The AGTA provides that each aircraft will be test flown prior to delivery for the purpose of demonstrating the functioning of such aircraft and its equipment to Customer; however, Customer may elect to waive this test flight. For each Aircraft test flight waived, Boeing agrees to provide Customer an amount of jet fuel at delivery that, including the standard fuel entitlement, totals the following amount of fuel:

Aircraft Model 787 Total Fuel Entitlement (U.S. Gallons)
Full tanks

P.A. No. 3256 Demonstration_Flight_Waiver

BOEING PROPRIETARY Page 221 of 464

Very truly yours,

Demonstration_Flight_Waiver

3.0 Correction Costs: Reimbursement Requirements and Conditions

Further, Boeing agrees to reimburse Customer for any Correction Costs incurred as a result of the discovery of a Flight Discrepancy during the first flight of the Aircraft by Customer following delivery to the extent such Correction Costs are not covered under a warranty provided by Boeing, the engine manufacturer or any of Boeing's suppliers.

Should a Flight Discrepancy be detected by Customer which requires the return of the Aircraft to Boeing's facilities at Seattle, Washington, so that Boeing may correct such Flight Discrepancy, Boeing and Customer agree that title to and risk of loss of such Aircraft will remain with Customer. In addition, it is agreed that Boeing will have responsibility for the Aircraft while it is on the ground at Boeing's facilities in Seattle, Washington, as is chargeable by law to a bailee for mutual benefit, but Boeing shall not be chargeable for loss of use.

To be reimbursed for Correction Costs, Customer shall submit a written itemized statement describing any Flight Discrepancies and indicating the Correction Cost incurred by Customer for each such Flight Discrepancy. This request must be submitted to Boeing's Contracts Regional Director at Renton, Washington, within ninety (90) days after the first flight by Customer.

THE BOEING COMPANY

By:

[***]

Its: Attorney-In-Fact

P.A. No. 3256

BOEING PROPRIETARY

Page 222 of 464

LAN Airlines S.A. 6-1162-ILK-0321, Page 3
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval
ACCEPTED AND AGREED TO this 29th day of October of 2007

LAN AIRLINES S.A.		
By:		
	Mr. Carlos Prado C.	
Its:	Senior VP Corporate Investments	

Mr. Marco Jofré M.

Its: Senior VP Operations, Engineering & Maintenance

P.A. No. 3256

Demonstration_Flight_Waiver

BOEING PROPRIETARY

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The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0322

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: [***]

References: 1)

Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to Boeing Model 787-916/-816 aircraft (<u>Aircraft</u>)

P.A. No. 3256 [***]

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0322, Page 2
[***]
1. [***]
2. [***]
3. [***]
4. [***]
5. [***]
6. [***]
7. [***]
8. [***]
9. Confidential Treatment. [***]
P.A. No. 3256

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0322, Page 3		
		[***]
Very truly yours,		
THE BOEING COMPANY		
Ву:		
Its: Attorney-In-Fact	[***]	
P.A. No. 3256		

BOEING PROPRIETARY

Page 226 of 464

	Airlines S.A. 2-ILK-0322, Page 4
If the f	foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval
ACCE	EPTED AND AGREED TO this 29th day of October of 2007
LAN A	AIRLINES S.A.
By: _	Mr. Carlos Prado C. Senior VP Corporate Investments
Ву: _	Mr. Marco Jofré M.
Its: S	Senior VP Operations, Engineering & Maintenance

P.A. No. 3256 [***]

BOEING PROPRIETARY

[***]

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The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0323

LAN Airlines S.A. Av. Presidente Riesco 5711 Piso 19, Las Condes SANTIAGO CHILE

Subject: [***]

References: 1)

Purchase Agreement No. 3256 (the *Purchase Agreement*) between The Boeing Company (*Boeing*) and LAN Airlines S.A. (*Customer*) relating to Boeing Model 787-916/-816 Aircraft (*Aircraft*); and

[***]

This Letter Agreement (*Letter Agreement*) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement and as in [***].

Definitions.

[***]

2. [***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

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[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

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[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

Page 230 of 464

[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

Page 231 of 464

[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

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	[***]
3. <u>Confidential Treatment</u> .	[***]
P.A. No. 3256 [***]	

LAN Airlines S.A.

BOEING PROPRIETARY Page 233 of 464

LAN Airlines S.A. 6-1162-ILK-0323 Page 7		
		[***]
Very truly yours,		
THE BOEING COMPANY		
Ву:		
Its: Attorney-In-Fact	[***]	
P.A. No. 3256 [***]		

BOEING PROPRIETARY

Page 234 of 464

0-1102-1LR-0323 Fage 0
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval
ACCEPTED AND AGREED TO this 29th day of October of 2007
LAN AIRLINES S.A.
By: Mr. Carlos Prado C.
Its: Senior VP Corporate Investments
D _{vv}

P.A. No. 3256 [***] Mr. Marco Jofré M.

Its: Senior VP Operations, Engineering & Maintenance

LAN Airlines S.A.

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0323, Attachment A, Page 1 of 1

[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

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The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0324

LAN Airlines S.A. Av. Presidente Riesco 5711 Piso 19, Las Condes SANTIAGO CHILE

Subject:

[***]

References:

- Purchase Agreement No. 3256 (the *Purchase Agreement*) between The Boeing Company (*Boeing*) and LAN Airlines S.A. (*Customer*) relating to Boeing Model 787-916/-816 aircraft (*Aircraft*);
- 2) AGTA Terms Revisions Letter Agreement 6-1162-ILK-0311, (AGTA Letter); and
- 3) Aircraft General Terms Agreement AGTA-LAN between The Boeing Company And LAN Airlines S. A. (AGTA).

This Letter Agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. [***] 1.1 [***] 1.2 [***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

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	V Airlines S.A. 62-ILK-0324 Page 2	
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	1.3 [***]	
	1.4 [***]	
2.	Confidentiality.	
		[***]
P.A. No. 3256 [***]		

BOEING PROPRIETARY

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LAN Airlines S.A.				
6-1162-ILK-0324 Page 3				
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Very truly your	S,			
THE BOEING COMPANY				
Ву:				
· ·		[***]		
Its: Attorney	-In-Fact			
P.A. No. 3256				

BOEING PROPRIETARY Page 239 of 464

6-1162-ILK-0324 Page 4				
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval.				
ACCEPTED AND AGREED TO this 29th day of October of 2007				
LAN AIRLINES S.A.				
By: Mr. Carlos Prado C. Its: Senior VP Corporate Investments				
By: Mr. Marco Jofré M. Its: Senior VP Operations, Engineering & Maintenance				

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BOEING PROPRIETARY

LAN Airlines S.A.

P.A. No. 3256 [***] The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0326

LAN Airlines S.A. Av. Presidente Riesco 5711 Piso 19, Las Condes SANTIAGO CHILE

Subject: [***]

Reference: Purchase Agreement No. 3256 (the *Purchase Agreement*) between The Boeing Company (*Boeing*) and LAN Airlines S.A. (*Customer*) relating

to Boeing Model 787-916/-816 aircraft (*Aircraft*).

This Letter Agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

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6-1162-ILK-0326 Page 2
[***]
Very truly yours,
THE BOEING COMPANY
By: [***] Its: Attorney-In-Fact
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval.
ACCEPTED AND AGREED TO this 29th day of October of 2007
LAN AIRLINES S.A.
By: Mr. Carlos Prado C. Its: Senior VP Corporate Investments
By: Mr. Marco Jofré M. Its: Senior VP Operations, Engineering & Maintenance
P.A. No. 3256 [***] BOEING PROPRIETARY Page 242 of 464

LAN Airlines S.A.

LAN Airlines S.A. Attachment 1 to 6-1162-ILK-0326 Page 1

[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

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LAN Airlines S.A. Attachment 2 to 6-1162-ILK-0326 Page 1

[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

Page 244 of 464

The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0327A

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: [***] Engines Powered 787-916 Aircraft Performance Guarantees

Reference: Purchase Agreement No. 3256 (the *Purchase Agreement*) between The Boeing Company (*Boeing*) and LAN Airlines S.A. (*Customer*) relating to

Model 787-916/-816 aircraft (the Aircraft)

This letter agreement (*Letter Agreement*) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Boeing agrees to provide Customer with the performance guarantees in the Attachment. These guarantees are exclusive and expire upon delivery of the Aircraft to Customer.

Customer agrees not to disclose this Letter Agreement, attachments, or any other information related to this Letter Agreement without prior written consent by Boeing.

Very truly yours,

THE BOEING COMPANY

By:			
_		[***]	
Its:	Attorney-In-Fact		
P.A.	No. 3256		

Performance_Guarantees

BOEING PROPRIETARY

Page 245 of 464

Lan Airlines S.A. 6-1162-ILK-0327A Page 2
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval
ACCEPTED AND AGREED TO this 29th day of October of 2007
LAN AIRLINES S.A.
By:
Mr. Carlos Prado C.
Its: Senior VP Corporate Investments
D ₁₁₁

P.A. No. 3256 Performance_Guarantees

Maintenance

Its: Senior VP Operations, Engineering &

Mr. Marco Jofré M.

BOEING PROPRIETARY

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MODEL 787-9 PERFORMANCE GUARANTEES FOR LAN AIRLINES S.A.

[***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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Attachment to Letter Agreement
No. 6-1162-ILK-0327A
[***] Engines
Page 2

1 [***]

2. [***]

2.1 [***]

2.1.2 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

2.1.4 [***]

2.1.5 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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2.1.6 [***] 2.2 [***]

2.2.1 [***]

2.2.2 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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2.3 [***]

2.4 [***]

2.5 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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2.7 [***]

2.8 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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2.9 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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[***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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2.9.2 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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2.9.3 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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[***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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[***]

2.9.4 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893

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[***]

2.9.5 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893

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P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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[***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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[***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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2.9.6 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893

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[***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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[***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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2.9.7 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893

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[***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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[***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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2.9.8 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893

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[***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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[***]

2.9.9 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893

Page 272 of 464

[***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

Page 273 of 464

[***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893 SS07-0547

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[***]

2.9.10 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893

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2.9.11 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893

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2.9.12 [***]

P.A. No. 3256 AERO-B-BBA4-MO7-0893

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Attachment to Letter Agreement
No. 6-1162-ILK-0327A
[***] Engines
Page 32
3 [***]
3.1 [***]
4 [***]
4.1 [***]
4.2 [***]
P.A. No. 3256

AERO-B-BBA4-MO7-0893

Page 33

[***]

5 [***]

5.1 [***]

5.2 [***]

5.3 [***]

5.4 [***]

P.A. No. 3256

Attachment to Letter Agreement No. 6-1162-ILK-0327A [***] Engines

AERO-B-BBA4-MO7-0893

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Page 34

[***]

5.6 [***]

5.7 [***]

5.8 [***]

5.9 [***]

6.1 [***]

6.1 [***]

P.A. No. 3256

AERO-B-BBA4-MO7-0893

Attachment to Letter Agreement No. 6-1162-ILK-0327A [***] Engines

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Attachment to Letter Agreement No. 6-1162-ILK-0327A [***] Engines Page 35
6.3 [***]
6.4 [***]
6.5 [***]
6.6 [***]
6.7 [***]
6.8 [***]

7 EXCLUSIVE GUARANTEES

THE ONLY PERFORMANCE GUARANTEES APPLICABLE TO THE AIRCRAFT ARE THOSE SET FORTH IN THIS ATTACHMENT

P.A. No. 3256 SS07-0547 AERO-B-BBA4-MO7-0893

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The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0327B

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: [***] 787-916 Aircraft Performance Guarantees

Reference: Purchase Agreement No. 3256 (the *Purchase Agreement*) between The Boeing Company (*Boeing*) and LAN Airlines S.A. (*Customer*) relating

to Model 787-916/-816 aircraft (the Aircraft).

This letter agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Boeing agrees to provide Customer with the performance guarantees in the Attachment. These guarantees are exclusive and expire upon delivery of the Aircraft to Customer.

Customer agrees not to disclose this Letter Agreement, attachments, or any other information related to this Letter Agreement without prior written consent by Boeing.

Very truly yours,

THE BOEING COMPANY

sy: [***]

Its: Attorney-In-Fact

P.A. No. 3256

Performance_Guarantees

BOEING PROPRIETARY

Page 282 of 464

LAN Airlines S.A. 6-1162-ILK-0327B Page 2

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval.

ACCEPTED AND AGREED TO this 29^{th} day of October of 2007

LAN AIRLINES S.A.

By:	
	Mr. Carlos Prado C.
Its:	Senior VP Corporate Investments
By:	
	Mr. Marco Jofré M.

Its: Senior VP Operations, Engineering & Maintenance

P.A. No. 3256

Performance_Guarantees

Page 283 of 464

MODEL 787-9 PERFORMANCE GUARANTEES

FOR LAN AIRLINES S.A.

[***]

P.A. No. 3256 Performance_Guarantees

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Attachment to Letter Agreement
No. 6-1162-ILK-0327B
[***] Engines
Page 2

1 [***]
2 [***]
2.1 [***]
2.1.2 [***]
P.A. No. 3256

Performance_Guarantees

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2.1.4 [***]

2.1.5 [***]

P.A. No. 3256

Performance_Guarantees

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[***]

2.1.6 [***]

2.2 [***] 2.2.1 [***]

2.2.2 [***]

P.A. No. 3256

 $Performance_Guarantees$

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Attachment to Letter Agreement
No. 6-1162-ILK-0327B
[***] Engines
Page 5

2.2.3 [***]

2.3 [***]

2.4 [***]

2.5 [***]

P.A. No. 3256

Performance_Guarantees

Attachment to Letter Agreement No. 6-1162-ILK-0327B [***] Engines Page 6
2.6 [***]
2.7 [***]

P.A. No. 3256

Performance_Guarantees

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2.9 [***]

2.9.1 [***]

P.A. No. 3256 Performance_Guarantees

[***]

P.A. No. 3256 Performance_Guarantees

Page 291 of 464

[***]

P.A. No. 3256 Performance_Guarantees

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2.9.2 [***]

P.A. No. 3256 Performance_Guarantees

2.9.3 [***]

P.A. No. 3256 Performance_Guarantees

[***]

P.A. No. 3256 Performance_Guarantees

Page 295 of 464

[***]

2.9.4 [***]

P.A. No. 3256 Performance_Guarantees

Page 296 of 464

[***]

2.9.5 [***]

P.A. No. 3256 Performance_Guarantees

Page 297 of 464

[***]

P.A. No. 3256 Performance_Guarantees

Page 298 of 464

[***]

P.A. No. 3256 Performance_Guarantees

Page 299 of 464

[***]

P.A. No. 3256 Performance_Guarantees

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2.9.6 [***]

P.A. No. 3256 Performance_Guarantees

[***]

P.A. No. 3256 Performance_Guarantees

Page 302 of 464

[***]

P.A. No. 3256 Performance_Guarantees

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2.9.7 [***]

P.A. No. 3256 Performance_Guarantees

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[***]

P.A. No. 3256 Performance_Guarantees

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[***]

P.A. No. 3256 Performance_Guarantees

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2.9.8 [***]

P.A. No. 3256 Performance_Guarantees

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[***]

P.A. No. 3256 Performance_Guarantees

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[***]

2.9.9 [***]

P.A. No. 3256 Performance_Guarantees

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[***]

P.A. No. 3256 Performance_Guarantees

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[***]

P.A. No. 3256 Performance_Guarantees

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[***]

2.9.10 [***]

P.A. No. 3256 Performance_Guarantees

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2.9.11 [***]

P.A. No. 3256 Performance_Guarantees

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2.9.12 [***]

P.A. No. 3256 Performance_Guarantees

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No. 6-1162-ILK-0327B
[***] Engines
Page 32
3 [***]
3.1 [***]
4 [***]
4.1 [***]
P.A. No. 3256

Performance_Guarantees

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Attachment to Letter Agreement
No. 6-1162-ILK-0327B
[***] Engines
Page 33

4.2 [***]

5 [***]

5.1 [***]

5.2 [***]

5.3 [***]

P.A. No. 3256

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Attachment to Letter Agreement
No. 6-1162-ILK-0327B
[***] Engines
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5.5 [***]
5.6 [***]
5.7 [***]
5.8 [***]
5.9 [***]
5.10 [***]
6.1 [***]
6.2 [***]

P.A. No. 3256

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Attachment to Letter Agreement No. 6-1162-ILK-0327B [***] Engines Page 35
6.3 [***]
6.4 [***]
6.5 [***]
6.6 [***]
6.7 [***]

7 EXCLUSIVE GUARANTEES

The only performance guarantees applicable to the Aircraft are those set forth in this Attachment.

P.A. No. 3256 Performance_Guarantees

6.8 [***]

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The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santigago, Chile

Subject: [***] Engines Powered 787-816 Aircraft Performance Guarantees

Reference: Purchase Agreement No. 3256 (the *Purchase Agreement*) between The Boeing Company (*Boeing*) and LAN Airlines S.A. (*Customer*) relating to

Model 787-916/-816 aircraft (the Aircraft).

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Boeing agrees to provide Customer with the performance guarantees in the Attachment. These guarantees are exclusive and expire upon delivery of the Aircraft to Customer.

Customer agrees not to disclose this Letter Agreement, attachments, or any other information related to this Letter Agreement without prior written consent by Boeing.

Very	truly yours,
THE BOEING COMPANY	
By:	
	[***]
Its:	Attorney-In-Fact

P.A. No. 3256

Performance_Guarantees

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0327C Page 2

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval.

ACCEPTED AND AGREED TO this 29th day of October of 2007

By: LAN AIRLINES S.A.

Mr. Carlos Prado C.

Its: Senior VP Corporate Investments

By:

Mr. Marco Jofré M.

Its: Senior VP Operations, Engineering & Maintenance

P.A. No. 3256

Performance_Guarantees

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MODEL 787-816 PERFORMANCE GUARANTEES

FOR LAN AIRLINES S.A.

[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

SS07-0547

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Attachment to Letter Agreement
No. 6-1162-ILK-0327C
[***] Engines
Page 2
1 [***]
2 [***]
2.1 [***]

2.1.2 [***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

SS07-0547

2.1.3 [***]

2.1.4 [***]

2.1.5 [***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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Attachment to Letter Agreement
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[***] Engines
Page 4

[***]
2.1.6 [***]
2.2 [***]

2.2.2 [***]

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2.4 [***] 2.5 [***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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2.6 [***]

2.7 [***]

2.8 [***]

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2.9 [***]

2.9.1 [***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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2.9.2 [***]

[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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2.9.3 [***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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2.9.4 [***]

[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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2.9.5 [***]

[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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[***]

P.A. No. 3256 Performance_Guarantees

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[***]

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2.9.6 [***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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[***]

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[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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2.9.7 [***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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2.9.8 [***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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2.9.9 [***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

SS07-0547

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[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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[***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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2.9.10 [***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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2.9.11 [***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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2.9.12 [***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

Attachment to Letter Agreement No. 6-1162-ILK-0327C [***] Engines Page 33
3 [***]
3.1 [***]
3.2 [***]
4 [***]
4.1 [***]
4.2 [***]

P.A. No. 3256

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Attachment to Letter Agreement
No. 6-1162-ILK-0327C
[***] Engines
Page 34

5 [***]
5.1 [***]
5.2 [***]
5.3 [***]
5.4 [***]
5.5 [***]
P.A. No. 3256

AERO-B-BBA4-M07-0892

[***]

Attachment to Letter Agreement
No. 6-1162-ILK-0327C
[***] Engines
Page 35

5.6 [***]
5.7 [***]
5.8 [***]
5.9 [***]
5.10 [***]
6 [***]
6.1 [***]
6.2 [***]

P.A. No. 3256 AERO-B-BBA4-M07-0892

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Attachment to Letter Agreement
No. 6-1162-ILK-0327C
[***] Engines
Page 36
6.4 [***]
6.5 [***]
6.6 [***]
6.7 [***]

7 EXCLUSIVE GUARANTEES

The only performance guarantees applicable to the Aircraft are those set forth in this Attachment.

P.A. No. 3256 AERO-B-BBA4-M07-0892

6.9 [***]

Boeing Commercial Airplanes P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0327D

LAN AIRLINES S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes

Santiago, Chile

[***] Powered 787-816 Aircraft Performance Guarantees

Reference:

Subject:

Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to

Model 787-916/-816 aircraft (the Aircraft)

This letter agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Boeing agrees to provide Customer with the performance guarantees in the Attachment. These guarantees are exclusive and expire upon delivery of the Aircraft to Customer.

Customer agrees not to disclose this Letter Agreement, attachments, or any other information related to this Letter Agreement without prior written consent by Boeing.

Very truly yours,

THE BOEING COMPANY

By:	
•	[***]
Its: Attorney-In-Fact	
P.A. No. 3256	
Performance_Guarantees	

BOEING PROPRIETARY

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LAN Airlines S.A. 5-1162-ILK-0327D
Page 2
f the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval
ACCEPTED AND AGREED TO this 29th day of October of 2007
LAN AIRLINES S.A.
Зу:
Mr. Carlos Prado C.
ts: Senior VP Corporate Investments
By:

Mr. Marco Jofré M.

Its: Senior VP Operations, Engineering & Maintenance

P.A. No. 3256

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MODEL 787-816 PERFORMANCE GUARANTEES FOR LAN AIRLINES S.A.

[***]

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2.1.3 [***]
2.1.4 [***]
2.1.5 [***]

P.A. No. 3256

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[***]

2.2 [***]

2.2.1 [***]

2.2.2 [***]

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No. 6-1162-ILK-0327D
[***] Engines
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2.2.3 [***]
2.3 [***]
2.4 [***]
2.5 [***]
P.A. No. 3256

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Attachment to Letter Agreement No. 6-1162-ILK-0327D [***] Engines Page 6
2.6 [***]
2.7 [***]

P.A. No. 3256

 $Performance_Guarantees$

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2.9 [***]

2.9.1 [***]

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2.9.2 [***]

P.A. No. 3256 Performance_Guarantees

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2.9.3 [***]

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P.A. No. 3256 $Performance_Guarantees$

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2.9.4 [***]

P.A. No. 3256 Performance_Guarantees

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2.9.5 [***]

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2.9.6 [***]

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2.9.7 [***]

P.A. No. 3256 Performance_Guarantees

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P.A. No. 3256 Performance_Guarantees

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2.9.8 [***]

P.A. No. 3256 Performance_Guarantees

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P.A. No. 3256 Performance_Guarantees

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2.9.9 [***]

P.A. No. 3256 Performance_Guarantees

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P.A. No. 3256 Performance_Guarantees

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P.A. No. 3256 Performance_Guarantees

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2.9.10 [***]

P.A. No. 3256 Performance_Guarantees

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2.9.11 [***]

P.A. No. 3256 Performance_Guarantees

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2.9.12 [***]

P.A. No. 3256 Performance_Guarantees

BOEING PROPRIETARY

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Attachment to Letter Agreement
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[***] Engines
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3 [***]
3.1 [***]
4 [***]
4.1 [***]
P.A. No. 3256
Performance_Guarantees

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Attachment to Letter Agreement
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[***] Engines
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4.2 [***]
5 [***]
5.1 [***]
5.2 [***]
5.3 [***]
P.A. No. 3256

Performance_Guarantees

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Attachment to Letter Agreement No. 6-1162-ILK-0327D [***] Engines Page 35
5.5 [***]
5.6 [***]
5.7 [***]
5.8 [***]
5.9 [***]
5.10 [***]
6 [***]
6.1 [***]
6.2 [***]

P.A. No. 3256

Performance_Guarantees

BOEING PROPRIETARY

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Attachment to Letter Agreement No. 6-1162-ILK-0327D [***] Engines Page 36
6.3 [***]
6.4 [***]
6.5 [***]
6.6 [***]
6.7 [***]
6.8 [***]

7 EXCLUSIVE GUARANTEES

 $The \ only \ performance \ guarantees \ applicable \ to \ the \ Aircraft \ are \ those \ set \ for th \ in \ this \ Attachment.$

P.A. No. 3256 Performance_Guarantees

6.9 [***]

BOEING PROPRIETARY

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The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0328A

LAN Airlines S.A. Av. Presidente Riesco 5711 Piso 19, Las Condes SANTIAGO CHILE

Subject: [***]

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to

Boeing Model 787-916/-816 Aircraft (Aircraft).

This Letter Agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

[***]

1. [***]

P.A. No. 3256

[***]

787-916

BOEING PROPRIETARY

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LAN Airlines S.A.
No. 6-1162-ILK-0328A
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[***]
2. [***]
2.1 [***]
2.2 [***]

P.A. No. 3256

[***]

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No. 6-1162-ILK-0328A
Page 3
3. [***]
3.1 [***]
3.2 [***]
3.3 [***]
4. [***]
P.A. No. 3256
[***]

LAN Airlines S.A.
No. 6-1162-ILK-0328A
Page 4

5. [***]
6. [***]
6.1 [***]
6.2 [***]
6.3 [***]

P.A. No. 3256
[***]

LAN Airlines S.A.
No. 6-1162-ILK-0328A
Page 5
6.4 [***]
6.5 [***]
P.A. No. 3256
[***]

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7. [***]
7.1 [***]
7.2 [***]
P.A. No. 3256
[***]

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No. 6-1162-ILK-0328A
Page 7

[***]

7.3 [***]

7.4. [***]

7.5 [***]

8. [***]

P.A. No. 3256
[***]

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LAN Airlines S.A. No. 6-1162-ILK-0328A Page 8 9. [***]

9. [· ·]

10. [***]11. <u>Confidential Treatment</u>.

[***]

P.A. No. 3256 [***]

787-916

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[***]
Very truly yours, THE BOEING COMPANY
By: [***] Its: Attorney-In-Fact
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval. ACCEPTED AND AGREED TO this 29th day of October of 2007
LAN AIRLINES S.A.
By: Mr. Carlos Prado C. Its: Senior VP Corporate Investments
By: Mr. Marco Jofré M. Its: Senior VP Operations, Engineering & Maintenance
P.A. No. 3256 [***] 787-916

LAN Airlines S.A. No. 6-1162-ILK-0328A

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[***]

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Attachment A to Letter Agreement 6-1162-ILK-0328A Page 2

[***]

P.A. No. 3256 [***]

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Attachment B to Letter Agreement 6-1162-ILK-0328A Page 1

[***]

P.A. No. 3256 [***]

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[***]

P.A. No. 3256 [***]

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Attachment C to Letter Agreement 6-1162-ILK-0328A Page 2

[***]

P.A. No. 3256 [***]

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Boeing Commercial Airplanes P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0328B

LAN Airlines S.A. Av. Presidente Riesco 5711 Piso 19, Las Condes SANTIAGO CHILE

Subject: [***]

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to

Boeing Model 787-916/-816 Aircraft (Aircraft).

This Letter Agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

[***]

1. [***]

P.A. No. 3256

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Page 2

[***]

2. [***]

2.1 [***]

2.2 [***]

P.A. No. 3256
[***]

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Page 3

[***]

3. [***]

3.1 [***]

3.2 [***]

4. [***]

P.A. No. 3256

[***]

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Page 4

[***]

5. [***]

6. [***]

6.1 [***]

7. No. 3256

[***]

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LAN Airlines S.A.
No. 6-1162-ILK-0328B
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6.3 [***]
6.4 [***]
6.5 [***]
P.A. No. 3256
[***]

No. 6-1162-ILK-0328B
Page 6

[***]

7. [***]

7.1 [***]

7.2 [***]

P.A. No. 3256
[***]

LAN Airlines S.A.

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Page 7

[***]

7.3 [***]

7.4. [***]

7.5 [***]

P.A. No. 3256
[***]

LAN Airlines S.A.

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LAN Airlines S.A.
No. 6-1162-ILK-0328B
Page 8
8. [***]
9. [***]

11. <u>Confidential Treatment</u>.

[***]

P.A. No. 3256 [***]

787-816

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[***]	
Very truly yours,	
THE BOEING COMPANY	
By:	
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval.	
ACCEPTED AND AGREED TO this 29th day of October of 2007	
LAN AIRLINES S.A.	
By: Mr. Carlos Prado C. Its: Senior VP Corporate Investments	
By: Mr. Marco Jofré M.	
Its: Senior VP Operations, Engineering & Maintenance	
P.A. No. 3256 [***] 787-816	

LAN Airlines S.A. No. 6-1162-ILK-0328B

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P.A. No. 3256 [***]

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[***]

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Attachment C to Letter Agreement 6-1162-ILK-0328B Page 1

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P.A. No. 3256 [***]

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[***]

P.A. No. 3256 [***]

787-816 Page 422 of 464

Boeing Commercial Airplanes P.O. Box 3707 Seattle, WA 98124-2207 6-1162-ILK-0328C

LAN Airlines S.A. Av. Presidente Riesco 5711 Piso 19, Las Condes SANTIAGO CHILE

Subject: [***]

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to

Boeing Model 787-916/-816 Aircraft (Aircraft).

This Letter Agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

[***]

1. [***]

P.A. No. 3256

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2. [***]
2.1 [***]
2.2 [***]

P.A. No. 3256

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Page 4
6. [***]
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6.3 [***]
6.4 [***]

P.A. No. 3256
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LAN Airlines S.A.
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[***]

6.5 [***]

7. [***]
P.A. No. 3256
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7.1 [***]

7.2 [***]

P.A. No. 3256
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787-916

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7.3 [***]

7.4. [***]

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P.A. No. 3256

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LAN Airlines S.A. 6-1162-ILK-0328C Page 8 9 [***] 10 [***]

11 <u>Confidential Treatment</u>.

[***]

P.A. No. 3256 [***]

787-916

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****J	
Very truly yours,	
THE BOEING COMPANY	
By:	
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval.	
ACCEPTED AND AGREED TO this 29th day of October of 2007	
LAN AIRLINES S.A.	
By: Mr. Carlos Prado C.	
Its: Senior VP Corporate Investments	
By: Mr. Marco Jofré M.	
Its: Senior VP Operations, Engineering & Maintenance	
P.A. No. 3256 [***] 787-916	

LAN Airlines S.A. 6-1162-ILK-0328C

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Attachment A to Letter Agreement 6-1162-ILK-0328C Page 1

[***]

P.A. No. 3256 [***]

Attachment A to Letter Agreement 6-1162-ILK-0328C Page 2

[***]

P.A. No. 3256

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Attachment B to Letter Agreement 6-1162-ILK-0328C Page 1

[***]

P.A. No. 3256 [***]

Attachment C to Letter Agreement 6-1162-ILK-0328C Page 1

[***]

P.A. No. 3256

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Attachment C to Letter Agreement 6-1162-ILK-0328C Page 2

[***]

P.A. No. 3256 [***]

Boeing Commercial Airplanes P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0328C

LAN Airlines S.A. Av. Presidente Riesco 5711 Piso 19, Las Condes SANTIAGO CHILE

Subject: [***]

Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to Boeing Model 787-916/-816 Aircraft (<u>Aircraft</u>).

This Letter Agreement (<u>Letter Agreement</u>) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

[***]

1. [***]

Reference:

P.A. No. 3256

[***]
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[***]
2. [***]
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P.A. No. 3256

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LAN Airlines S.A. 6-1162-ILK-0328C Page 3 3. [***] 3.1 [***] 3.2 [***] 3.3 [***]

4. [***]

5. [***]

P.A. No. 3256 [***]

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6. [***]
6.1 [***]
6.2 [***]
6.3 [***]
6.4 [***]

P.A. No. 3256
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LAN Airlines S.A.
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6.5 [***]

7. [***]
P.A. No. 3256

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LAN Airlines S.A. 6-1162-ILK-0328C Page 6 7.1 [***] 7.2 [***] P.A. No. 3256

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7.3 [***]

7.4 [***]

7.5 [***]

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P.A. No. 3256
[***]

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[***]

P.A. No. 3256 [***]

Confidential Treatment.

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P.A. No. 3256 [***]	787-816
Its: Senior VP Operations, Engineering & Maintenance	
By: Mr. Marco Jofré M.	
Its: Senior VP Corporate Investments	
By: Mr. Carlos Prado C.	
LAN AIRLINES S.A.	
ACCEPTED AND AGREED TO this 29th day of October of 200	7
If the foregoing correctly sets forth your understanding of our agree	eement with respect to the matters treated herein, please indicate your acceptance and approval.
Its: Attorney-In-Fact	
By:	
THE BOEING COMPANY	
Very truly yours,	
LAN Airlines S.A. 6-1162-ILK-0328C Page 9	

Attachment A to Letter Agreement 6-1162-ILK-0328D Page 1

[***]

P.A. No. 3256

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Attachment A to Letter Agreement 6-1162-ILK-0328D Page 2

[***]

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Attachment B to Letter Agreement 6-1162-ILK-0328D Page 1

[***]

P.A. No. 3256 [***]

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Attachment C to Letter Agreement 6-1162-ILK-0328C Page 1

[***]

P.A. No. 3256 [***]

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Attachment C to Letter Agreement 6-1162-ILK-0328C Page 2

[***]

P.A. No. 3256 [***]

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The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0329

LAN Airlines S.A. Avenida Presidente Riesco 5711 Piso 19 Las Condes Santiago, Chile

Subject: [***]

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to

Boeing Model 787-916/-816 aircraft (the Aircraft)

[***]

P.A. No. 3256

[***]

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0329 Page 2	
Very truly yours,	
THE BOEING COMPANY	
By: [***] Its: Attorney-In-Fact	
If the foregoing correctly sets forth your understanding of our agree below.	ement with respect to the matters treated herein, please indicate your acceptance and approval
ACCEPTED AND AGREED TO this 29th day of October of 2007.	
LAN AIRLINES S.A.	
By: Mr. Carlos Prado C.	
Mr. Carlos Prado C. Its: Senior VP Corporate Investments	
By:	
By: Mr. Marco Jofre M. Its: Senior VP Operations, Engineering & Maintenance	
P.A. No. 3256	
[***]	BOEING PROPRIETARY Page 452 of 464

The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0330

LAN Airlines S.A. Av. Presidente Riesco 5711 Piso 19, Las Condes SANTIAGO CHILE

Subject: [***]

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to

Boeing Model 787-916/-816 aircraft.

This letter agreement (Letter Agreement) is entered into on the date below and amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

[***]

1. [***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

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2. [***]
2.1 [***]
2.2 [***]
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P.A. No. 3256
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LAN Airlines S.A. 6-1162-ILK-0330 Page 4 3.2 [***] 3.3 [***] 3.4 [***] 4. [***] 5. [***] P.A. No. 3256 [***] BOEING

BOEING PROPRIETARY

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LAN Airlines S.A. 6-1162-ILK-0330 Page 5	
7. <u>Confidential Treatment</u> .	[***]
Very truly yours,	
THE BOEING COMPANY	
By: [***] Its: Attorney-In-Fact	_
P.A. No. 3256 [***]	BOEING PROPRIETARY Page 457 of 464

Page 6
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval below.
ACCEPTED AND AGREED TO this 29 th day of October of 2007.
LAN AIRLINES S.A.
By: Mr. Carlos Prado C. Its: Senior VP Corporate Investments
By: Mr. Marco Jofre M.
Its: Senior VP Operations, Engineering & Maintenance

P.A. No. 3256 [***]

LAN Airlines S.A. 6-1162-ILK-0330

BOEING PROPRIETARY Page 458 of 464 The Boeing Company P.O. Box 3707 Seattle, WA 98124-2207

6-1162-ILK-0331

LAN Airlines S.A. Av. Presidente Riesco 5711 Piso 19, Las Condes SANTIAGO CHILE

Subject: [***]

Reference: Purchase Agreement No. 3256 (the <u>Purchase Agreement</u>) between The Boeing Company (<u>Boeing</u>) and LAN Airlines S.A. (<u>Customer</u>) relating to

Boeing Model 787-916/-816 aircraft.

This letter agreement (Letter Agreement) is entered into on the date below and amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

[***]

1. [***]

P.A. No. 3256

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LAN Airlines S.A.
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2.2.4 [***]

3. [***]

3.1 [***]
P.A. No. 3256

[***]

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LAN Airlines S.A.
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[***]

3.2 [***]

3.3. [***]

3.4 [***]

4. [***]

5. [***]

P.A. No. 3256
[***]

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7. <u>Confidential Treatment</u>.

[***]

P.A. No. 3256 [***]

BOEING PROPRIETARY

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Page 6
Very truly yours,
THE BOEING COMPANY
By: [***] Its: Attorney-In-Fact
If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated herein, please indicate your acceptance and approval below.
ACCEPTED AND AGREED TO this 29th day of October of 2007.
LAN AIRLINES S.A.
By: Mr. Carlos Prado C. Its: Senior VP Corporate Investments By: Mr. Marco Jofre M. Its: Senior VP Operations, Engineering & Maintenance
P.A. No. 3256 [***] BOEING PROPRIETARY Page 464 of 464

LAN Airlines S.A.

Subsidiaries

Legal Name	Place of Incorporation	Doing Business As	Ownership % ¹
Lan Argentina S.A.	Argentina	Lan Argentina	90%
Aircraft International Leasing Limited	Bahamas	AILL	99.98%
Lan Cargo Overseas Services Limited	Bahamas	Lan Cargo Overseas	100%
Aerolinhas Brasileras S.A.	Brazil	ABSA	73.3%
Perdiz Leasing Ltd.	Cayman Islands	Perdiz	100%
Inmobiliaria Aeronáutica S.A.	Chile	Inmobiliaria Aeronáutica	99.01%
Inversiones Lan S.A.	Chile	Inverlan	99.7%
Lan Cargo S.A.	Chile	Lan Chile Cargo	99.85%
Lan Pax Group S.A.	Chile	Lan Pax Group	99.83%
Transporte Aéreo S.A.	Chile	LanExpress	99.99%
Lan Logistics Corp.	Delaware, USA	Lanlogistics	100%
Aerolane, Líneas Aéreas Nacionales del Ecuador S.A.	Ecuador	Lan Ecuador	71.95%
South Florida Air Cargo	Florida, USA	Southflorida	100%
Aerotransporte Mas de Carga S.A.	Mexico	Mas Air	39.51%
Lan Perú S.A.	Peru	Lan Perú	70%

Percentage of equity owned by Lan Airlines S.A. directly or indirectly through subsidiaries or affiliates

CEO Certification

I, Enrique Cueto Plaza, certify that:

- 1. I have reviewed this annual report on Form 20-F of Lan Airlines 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(s) 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(s) 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 functions):
 - (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: June 25, 2008

/s/ Enrique Cueto Plaza

Name: Enrique Cueto Plaza Title: Chief Executive Officer

CFO Certification

I, Alejandro de la Fuente Goic, certify that:

- 1. I have reviewed this annual report on Form 20-F of Lan Airlines 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(s) 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(s) 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 functions):
 - (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: June 25, 2008

/s/ Alejandro de la Fuente Goic
Alejandro de la Fuente Goic

Chief Financial Officer

Officer Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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), each of the undersigned officers of Lan Airlines S.A. (the "Company"), does hereby certify to such officer's knowledge that:

The annual report on Form 20-F for the year ended December 31, 2007 (the "Form 20-F") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 25, 2008 /s/ Enrique Cueto Plaza

Name: Enrique Cueto Plaza Title: Chief Executive Officer

Dated: June 25, 2008 /s/ Alejandro de la Fuente Goic

Name: Alejandro de la Fuente Goic Title: Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Valuation and Qualifying Accounts

Valuation an Qualifying Accounts Deferred tax valuations allowance	Opening balance ThUS\$	Charged to Expenses ThUS\$	Deductions ThUS\$	Closing balance ThUS\$
December 31, 2007	15,302	4,482	_	19,784
December 31, 2006	10,988	4,314	_	15,302
December 31, 2005	10,803	185		10,988
Allowance for bad debts				
December 31, 2007	28,364	7,244	(13,662)	21,946
December 31, 2006	25,800	6,424	(3,860)	28,364
December 31, 2005	25,250	5,763	(5,213)	25,800

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form F-3ASR (No. 333-142665) of Lan Airlines S.A. of our report dated February 29, 2008 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers Santiago, Chile June 20, 2008